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亞東

Yadong Group Holdings Limited

亞東集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1795)

**(1) DISCLOSEABLE TRANSACTION
IN RELATION TO
ACQUISITION OF 100% EQUITY INTEREST IN THE TARGET COMPANY
AND
(2) CHANGE IN USE OF PROCEEDS FROM THE SHARE OFFER**

INTRODUCTION

The Board is pleased to announce that on 14 January 2022 (after trading hours), the Purchaser (being an indirect wholly-owned subsidiary of the Company) and the Vendor entered into the Equity Transfer Agreement, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, 100% equity interest in the Target Company at a consideration of RMB80.0 million.

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial information of the Target Company will be consolidated into the financial statements of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratio(s) under Rule 14.07 of the Listing Rules in respect of the Acquisition is/are 5% or more but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements but exempt from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

Completion is subject to the fulfillment or waiver (as the case may be) of the Conditions, and the Acquisition may or may not proceed to Completion. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

CHANGE IN USE OF PROCEEDS FROM THE SHARE OFFER

Having considered the reasons for change in use of proceeds from the Share Offer, the Board has resolved to change the proposed use of Net Proceeds.

(1) DISCLOSEABLE TRANSACTION

Introduction

The Board is pleased to announce that on 14 January 2022 (after trading hours), the Purchaser (being an indirect wholly-owned subsidiary of the Company) and the Vendor entered into the Equity Transfer Agreement, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, 100% equity interest in the Target Company at a consideration of RMB80.0 million.

Major terms of the Equity Transfer Agreement

Major terms of the Equity Transfer Agreement are set out below:

Date : 14 January 2022

Parties : (a) the Purchaser; and
(b) the Vendor.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, (i) the ultimate beneficial owner of the Vendor is Mr. Liu; and (ii) each of the Vendor and Mr. Liu is an Independent Third Party.

Equity interest to be acquired : 100% equity interest in the Target Company

Consideration and payment terms : Consideration is in the sum of RMB80.0 million and shall be paid in the following manners:

(i) RMB10.0 million, being the deposit (the “**Deposit**”), has been paid upon the date of signing of the Equity Transfer Agreement;

- (ii) RMB46.0 million shall be paid within 30 business days upon fulfillment of all the Conditions and completion of documentation in respect of the Acquisition in accordance with the articles of association of the Target Company and the applicable laws by the Vendor;
- (iii) RMB16.0 million shall be paid within six months after payment stated in clause (ii) above; and
- (iv) RMB8.0 million, being the balance of the Consideration, shall be paid within one year after payment stated in clause (ii) above.

Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor with reference to, among others, (i) the valuation of the market value of the Properties of approximately RMB80.0 million as at 20 December 2021 conducted by an independent property valuer; and (ii) the benefits that would be brought to the Group by the Acquisition as explained in more details in the paragraph headed "Reasons for and benefits of the Acquisition" in this announcement.

Consideration will be funded by internal resources, banking facilities available to the Group and the unutilised net proceeds raised from the Share Offer. The Directors consider that the Consideration is fair and reasonable and on normal commercial terms and is in the interest of the Company and the Shareholders as a whole.

Conditions : Completion is subject to the satisfactory fulfillment of Conditions set out below:

- (i) the broad resolutions of the Target Company to approve the Acquisition having been provided by the Vendor;
- (ii) written declaration by the director(s) of the Target Company to waive the pre-emptive rights in respect of the Acquisition in accordance with the articles of association of the Target Company having been issued;
- (iii) all leases and contracts in respect of the Properties having been terminated;
- (iv) vacant possession of the Property having been delivered;

- (v) all necessary approvals by the government and regulatory authorities for the Acquisition and the transactions contemplated thereunder having been obtained;
- (vi) all liabilities (including debts and guarantees) of the Target Company having been repaid or released; and
- (vii) all employment contracts and third party contracts of the Target Company having been terminated.

If the failure to fulfill the Conditions is caused by the Vendor, the Purchaser shall be entitled to terminate the Equity Transfer Agreement. If the Purchaser terminate the Equity Transfer Agreement accordingly, the Vendor shall (i) refund the Deposit and other money already paid by the Purchaser; and (ii) pay to the Purchaser a sum of RMB16.0 million as a default penalty.

Completion : Upon Completion, the Purchaser will hold the entire equity interest in the Target Company.

INFORMATION OF THE PARTIES

The Purchaser

The Purchaser is a company established in the PRC with limited liability on 27 March 2014 and an indirect wholly-owned subsidiary of the Company. The Group is principally engaged in the design, process and sale of textile fabric products.

The Vendor

The Vendor is a company incorporated in Hong Kong with limited liability on 16 July 1999 and wholly-owned by Mr. Liu.

The Target Company

The Target Company is a company established in the PRC with limited liability on 30 April 2000, which will become an indirect wholly-owned subsidiary of the Company after Completion. The Target Company was principally engaged in textile dyeing and finishing services and had ceased operations as at the date of this announcement. Its principal assets are the Properties located at No. 379, Laodong East Road, Tianning District, Changzhou city, Jiangsu province, the PRC (中國江蘇省常州市天寧區勞動東路379號).

FINANCIAL INFORMATION OF THE TARGET COMPANY

Unaudited financial information of the Target Company for the two years ended 31 December 2020 and 2021 is set out below:

	For the year ended 31 December 2020 (RMB'000)	For the year ended 31 December 2021 (RMB'000)
Loss before taxation	1,405	7,669
Loss after taxation	1,405	7,669

The unaudited net assets value of the Target Company as at 31 December 2020 and 2021 was approximately RMB12.5 million and RMB4.9 million, respectively.

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial information of the Target Company will be consolidated into the financial statements of the Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Target Company was principally engaged in textile dyeing and finishing services and had ceased operations as at the date of this announcement. Its principal assets are the Properties, comprising two parcels of land located at No. 379, Laodong East Road, Tianning District, Changzhou city, Jiangsu province, the PRC (中國江蘇省常州市天寧區勞動東路379號) with a total site area of approximately 46,905 sq.m. and four production plants and buildings with a total gross floor area of approximately 14,940 sq.m., which is adjacent to the principal place of business of the Group located at No. 381, Laodong East Road, Tianning District, Changzhou City, Jiangsu province, the PRC (中國江蘇省常州市天寧區勞動東路381號).

As disclosed in the sections headed “Business” and “Connected transaction” in the Prospectus, certain of the Group’s factory premises and dormitory buildings (with a total leased area of approximately 6,515.1 sq.m) located at No. 379, Laodong East Road, Tinaning District, Changzhou city, Jiangsu province, the PRC are currently subleased from Changzhou Dongxia, which has entered into a lease agreement with the Target Company for the abovementioned premises. In order to support the Group’s expansion plan and future growth in the PRC without interrupting its production and business operations, the Group intends to acquire the Target Company which owns the Properties with a view to utilise the idle land parcels and production plants and buildings for the expansion of the Group given that (i) the Properties are in close proximity to the principal place of business of the Group in the PRC; (ii) the Group is currently occupying part of the Properties for operational purposes under the subleasing arrangements; (iii) the Properties will help the Group’s expansion of production capacity and create synergy on the Group’s operations of business; (iv) the Acquisition is expected to improve the operating cash flow of the Group in the long run by eliminating rental expenses; and (v) the Acquisition would broaden the fixed assets base of the Group and provide an opportunity for the Group to benefit from the capital appreciation potential of the Properties. Upon Completion, the Company

intends to terminate the subleasing arrangements in respect of the abovementioned premises. The Company will make further announcement in accordance with the relevant requirements under the Listing Rules when and where appropriate and necessary.

The Directors are of the view that the terms of the Equity Transfer Agreement were arrived at after arm's length negotiations among the parties, on normal commercial terms and are in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratio(s) under Rule 14.07 of the Listing Rules in respect of the Acquisition is/are 5% or more but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements but exempt from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

Completion is conditional upon fulfilment of the conditions precedent set out in the Equity Transfer Agreement. There is no assurance that Completion will take place or as to when it may take place. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the securities of the Company.

(2) CHANGE IN USE OF PROCEEDS FROM THE SHARE OFFER

Reference is made to the Prospectus and announcement dated 17 November 2020 in relation to the allotment results of the Share Offer. The Net Proceeds amounted to approximately HK\$81.9 million. The Board has resolved to change the proposed use of Net Proceeds. Details of the original allocation and the revised allocation of the Net Proceeds are set out as follows:

	Planned use of Net Proceeds as set out in the Prospectus <i>HK\$ million</i>	Utilised or reserved net proceeds as at the date of this announcement <i>HK\$ million</i>	Unutilised or unplanned net proceeds as at the date of this announcement <i>HK\$ million</i>	Revised allocation <i>HK\$ million</i>
(i) For expansion of production capacity and product coverage by upgrading and improving our existing production lines and technical capabilities	51.7	Nil	51.7	18.9
(ii) For acquisition of the Target Company with the Properties	Nil	Nil	Nil	32.8
(iii) For acquisition of a company with existing production plant in Jiangsu province, the PRC	22.0	Nil	22.0	22.0
(iv) For general corporate purposes and working capital	8.2	Nil	8.2	8.2
	<u>81.9</u>	<u>Nil</u>	<u>81.9</u>	<u>81.9</u>

Reason for the Change in Use of Proceeds from the Share Offer

As disclosed in the Prospectus, the Group intended to implement its expansion plan by means of (i) acquisition of new machineries to upgrade and improve its existing production lines and technical capabilities; and (ii) acquisition of a company with existing production plant in Jiangsu province, the PRC. It was expected that the potential acquisition target would be engaging in a principal business similar to that of the Group with a scale of operations of not more than RMB50.0 million. Given that estimated acquisition cost and the key criterion for evaluation as set out in the Prospectus, the potential acquisition target would not be located in or around Changzhou, the city in which the Group's principal place of business in the PRC are located, but in other region of Jiangsu province, the PRC. In the second half of 2021, it had come to the knowledge of the Group that the Vendor intended to dispose of the Target Company with existing production plants and buildings, which are adjacent to the production facilities of the Group. In view of the benefits that would be brought to the Group by the Acquisition as explained in the paragraph headed "Reasons for and benefits of the Acquisition" above, the Group intends to adjust the scope of use and allocation proportion of the Net Proceeds to partially finance the Acquisition and utilise its internal resources and/or bank facilities to finance the remaining acquisition cost. Hence, the Net Proceeds to be allocated for the upgraded production facilities, including the costs for acquiring new machineries and equipment and the corresponding costs of training in relation to the safe and proper use and the maintenance of the machineries and equipment will also be adjusted and the Group will consider to procure some of the new machineries and equipment of the latest or updated models from domestic suppliers with more competitive prices.

Given the above considerations, in order to enhance the use efficiency of the funds raised, capture market opportunities for business development in a timely manner, and strike a more reasonable balance in the use of funds, the Board proposes to adjust the scope of use and allocation proportion of the Net Proceeds in the Prospectus as follows:

- (i) approximately HK\$18.9 million for expansion of production capacity and product coverage by upgrading and improving the existing production lines and technical capabilities;
- (ii) approximately HK\$32.8 million for acquisition of the Target Company with the Properties;
- (iii) approximately HK\$22.0 million for acquisition of a company with existing production plant in Jiangsu province, the PRC. As at the date of this announcement, the Group was still in the process of identifying potential target for acquisition; and
- (iv) approximately HK\$8.2 million for general corporate purposes and working capital.

The Board believes that there has not been any material change in its business and expansion plans as stated in its Prospectus. The revised allocation of the Net Proceeds would allow the Group to deploy the Net Proceeds more efficiently for its business operations. The revised allocation of the Net Proceeds is in line with the business strategy of the Group and will not materially affect the operations and business of the Group and is in the best interest of the Company and the Shareholders as a whole.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Acquisition”	acquisition of 100% equity interest in the Target Company as contemplated under the Equity Transfer Agreement;
“Board”	the board of Directors;
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business;
“Changzhou Dongxia”	Changzhou Dongxia Real Estate Agency Ltd. (常州市東霞房地產代理有限公司), a company established in the PRC with limited liability and wholly-owned by Mr. Xue;
“Company”	Yadong Group Holdings Limited (亞東集團控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 22 September 2016 and the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1795);
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Equity Transfer Agreement;
“Condition(s)”	the conditions precedent to Completion pursuant to the Equity Transfer Agreement, as further described under the paragraph headed “Major terms of the Equity Transfer Agreement — Conditions”;
“Consideration”	consideration for the Acquisition, being RMB80.0 million;
“Director(s)”	the director(s) of the Company;
“Equity Transfer Agreement”	the equity transfer agreement dated 14 January 2022 entered into between the Purchaser and the Vendor in respect of the Acquisition;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Third Party(ies)”	individual(s) or company(ies) who or which is/are independent of and not connected with any Director, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates within the meaning of the Listing Rules;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

“Mr. Liu”	Mr. Liu Pei Rong (劉培榮), being an Independent Third Party;
“Mr. Xue”	Mr. Xue Shidong (薛士東), the chairman of the Board, an executive Director and a controlling Shareholder;
“Net Proceeds”	the net proceeds raised from the Share Offer;
“PRC”	the People’s Republic of China which, in this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Prospectus”	the prospectus of the Company dated 30 October 2020;
“Properties”	two parcels of land located at No. 379, Laodong East Road, Tianning District, Changzhou city, Jiangsu province, the PRC (中國江蘇省常州市天寧區勞動東路379號) with a total site area of approximately 46,905 sq.m. and four production plants and buildings with a total gross floor area of approximately 14,940 sq.m.;
“Purchaser”	亞東(常州)科技有限公司 (Yadong (Changzhou) Science & Technology Co., Ltd.), a company established in the PRC with limited liability on 27 March 2014 and an indirect wholly-owned subsidiary of the Company;
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Share Offer”	has its meanings ascribed to it in the Prospectus;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“sq.m.”	square metre(s);
“Target Company”	雄聯(常州)紡織印染有限公司 (Lion Union (Changzhou) Textile Dyeing Company Limited), a company established in the PRC with limited liability on 30 April 2000, which will become an indirect wholly-owned subsidiary of the Company upon Completion;

“Vendor” HK Hua Hai Capital Investment Construction Management Limited (香港華海資本投資建設管理有限公司), a company incorporated in Hong Kong with limited liability on 16 July 1999 and wholly-owned by Mr. Liu as at the date of this announcement, being an Independent Third Party; and

“%” per cent

By order of the Board
Yadong Group Holdings Limited
Xue Shidong
Chairman

Hong Kong, 14 January 2022

As at the date of this announcement, the Company has five executive Directors, namely Mr. Xue Shidong, Mr. Wang Bin, Mr. Qiu Jianyu, Ms. Zhang Yeping and Mr. Jin Rongwei; and three independent non-executive Directors, namely Mr. Zhu Qi, Mr. Ho Kin Cheong Kelvin and Mr. Wang Hongliang.