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Yongsheng Advanced Materials Company Limited
永盛新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3608)

**DISCLOSEABLE TRANSACTION
IN RELATION TO
THE DISPOSAL OF ENTIRE ISSUED SHARE CAPITAL
OF THE TARGET COMPANY**

THE SALE AND PURCHASE AGREEMENT

The Board is pleased to announce that on 21 June 2022 (after trading hours), the Company and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Shares, representing the entire issued share capital of the Target Company, at the Consideration of HK\$34.5 million (equivalent to approximately RMB29.24 million), which shall be fully satisfied in cash.

Upon Completion, the Group will cease to hold any interest in the Target Company. Accordingly, the Target Company will cease to be a subsidiary of the Company and the assets and liabilities as well as the results of operation of the Target Group will no longer be consolidated into the consolidated financial statements of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the Disposal exceeds 5% and all of such ratios are below 25%, the Disposal constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Shareholders and potential investors should note that the Disposal is subject to satisfaction of certain conditions precedent pursuant to the Sale and Purchase Agreement and it may or may not be completed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the shares of the Company.

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Principal terms of the Sale and Purchase Agreement are summarised below:

Date : 21 June 2022 (after trading hours)

Parties : (i) Company (as vendor); and
(ii) the Purchaser

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Purchaser and its ultimate beneficial owner is a third party independent of the Company and its connected persons (as defined under the Listing Rules).

Assets to be disposed of : the Sale Shares

- Conditions precedent** : The Disposal is subject to fulfillment of the conditions precedent on or before Completion, including:
- (i) the Target Company, the Company and the Purchaser shall have obtained all necessary approvals and consents in respect of the Sale and Purchase Agreement and the transaction contemplated, including but not limited to all necessary consents from the Board, the Stock Exchange, any third party, government and/or regulatory authorities;
 - (ii) since the date of the Sale and Purchase Agreement, there shall not exist or have occurred any event, state of fact or circumstance which constitutes or is likely to constitute a material breach of the Company's warranties under the Sale and Purchase Agreement; and the Company has fully complied with all of its obligations under the Sale and Purchase Agreement;
 - (iii) the passing of the required resolution by the Shareholders at the general meeting of the Company in respect of the Sale and Purchase Agreement (if required);
 - (iv) the Purchaser being satisfied at its absolute discretion with the results of the due diligence review on the assets, debt, operation and business of the Target Company to be conducted pursuant to the Sale and Purchase Agreement; and
 - (v) full payment of the Consideration.

Pursuant to the Sale and Purchase Agreement, the Purchaser may at any time waive in writing any of the conditions precedent as set out in (ii) and (iv) with the consent of the Purchaser and the Company. If the conditions precedent have not been satisfied or, as the case may be, waived (in respect of (ii) and (iv) only) by the Company on or before 6:00p.m. on 15 July 2022 or such later date as the Company and the Purchaser may agree in writing (the “**Long Stop Date**”), the Sale and Purchase Agreement shall cease and terminate, and no party shall have any claim against or liability to the other parties with respect to any matter referred thereto, save for any antecedent breaches. The Company shall then return the Consideration (if already paid, without any interests thereon) to the Purchaser within five (5) Business Days after the Long Stop Date. Save for conditions set out in (ii) and (iv) abovementioned, none of other conditions is capable of being waived by any parties.

Consideration : HK\$34.5 million (equivalent to approximately RMB29.24 million), payable to the Company in cash within 15 days after the date of the Sale and Purchase Agreement.

The Consideration was determined based on arm’s length negotiations between the Company and the Purchaser with reference to (i) the audited net asset value of the Target Group in the amount of approximately RMB14.37 million (equivalent to approximately HK\$16.95 million) as of 31 December 2021; (ii) the price-to-book ratio of industry peers; (iii) the business development and future prospects of the RMAA business in Hong Kong; and (iv) the reasons and benefits as set out in the paragraph headed “Reasons for and benefits of the Disposal” herein.

Completion : Subject to the fulfillment (or, as the case may be, waiver) of all of the conditions precedent, Completion shall occur within five (5) Business Days after the fulfilment (or, as the case may be, waiver) of all the conditions precedent or such other date as the Company and the Purchaser may agree.

Termination : The Sales and Purchase Agreement shall be immediately terminated if Completion does not occur by the Long Stop Date for whatever reason.

Governing law : Hong Kong law

FINANCIAL EFFECT OF THE DISPOSAL

Upon Completion, the Group will cease to hold any interest in the Target Company. Accordingly, the Target Company will cease to be a subsidiary of the Company and the assets and liabilities as well as the results of operation of the Target Group will no longer be consolidated into the consolidated financial statements of the Group.

As a result of the Disposal, the Company is expected to record an unaudited gain before tax from the Disposal of approximately RMB14.9 million (equivalent to HK\$17.58 million), which is calculated with reference to the Consideration and the audited net asset value of the Target Group as at 31 December 2021. The actual gain on the Disposal to be recorded is subject to audit and may be different from the estimated amount as it will depend on, amongst other factors, (i) the actual amounts of the assets and liabilities of the Target Group as at the date of Completion; and (ii) the actual transaction costs incurred.

INFORMATION ON THE TARGET GROUP

The Target Company is a company incorporated in the British Virgin Islands with limited liability, and a wholly-owned subsidiary of the Company as at the date of this announcement.

As at the date of this announcement, the Target Company is principally engaged in the investment holding which holds the entire issued share capital of Widely.

Widely is a company incorporated in Hong Kong in 2009 and is a main contractor for the provision of RMAA and fitting-out works services in Hong Kong. It mainly provides two categories of works, which are (i) renovation and maintenance works; and (ii) alteration and addition works and fitting-out works. In respect of renovation and maintenance works, the services encompass the general upkeep, restoration and improvement of existing facilities and components of the buildings and their surroundings. As for alteration and addition works and fitting-out works, the services mainly involve the alteration and addition of building layout and structural works and decoration works to the interior spaces to the existing premises.

Widely is registered under the minor works category (Class I, II & III with Type A, B, D, E, F & G) with the Buildings Department of Hong Kong to take on RMAA works and is also a Registered General Building Contractor with the Buildings Department of Hong Kong. Moreover, Widely is a Registered Electrical Contractor with the Electrical and Mechanical Services Department of Hong Kong.

The following is the key financial information of the Target Group extracted from its unaudited consolidated management accounts for the two financial years ended 31 December 2021, respectively:

	For the year ended	
	31 December	
	2020	2021
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Net profit (loss) before tax	52.1	(19.4)
Net profit (loss) after tax	43.7	(17.1)

As at 31 March 2022, the unaudited net asset value of the Target Group was approximately RMB13.66 million (equivalent to approximately HK\$16.12 million).

INFORMATION ON THE GROUP AND PARTIES TO THE SALE AND PURCHASE AGREEMENT

The Group

The Company is an investment holding company and the Group is principally engaged in (i) dyeing and processing of differentiated polyester filament fabric; (ii) provision of RMAA services; (iii) properties investment; and (iv) environmental waters project operation.

The Purchaser

The Purchaser is an investment holding company incorporated in the British Virgin Islands, which was ultimately wholly owned by Mr. Chan Chun Fai, who principally engages in property development in Hong Kong. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner is a third party independent of the Company and its connected persons (as defined under the Listing Rules).

REASONS FOR AND BENEFITS OF THE DISPOSAL

Reference is made to the 2021 annual results announcement of the Group dated 30 March 2022. In 2021, the resurgence of the COVID-19 pandemic in Hong Kong resulted in the postponement of redevelopment projects and building rehabilitation projects due to safety concerns and manpower shortage, and even cancellation of some projects. In addition, the government's implementation of strict COVID-19 pandemic prevention and control measures caused an overall depression in the RMAA market in Hong Kong. Coupled with the rise in construction costs, the financial performance of the Target Group was adversely affected. During the year ended 31 December 2021, the Target Group segment revenue declined by approximately 65.3% as compared to that of 2020. Due to the rapid deterioration of the business environment of RMAA in Hong Kong, the performance of the Target Group deviated from the management's prior expectation. After prudent consideration, the Group has made an impairment provision of RMB151.8 million for the goodwill and intangible assets during the year ended 31 December 2021.

Affected by the recurring COVID-19 pandemic in Hong Kong and rising raw materials cost, redevelopment and rehabilitation projects of certain buildings in Hong Kong were suspended or postponed. Due to the strictly enforced restrictions on public gatherings and social distance control, some projects were not opened to tendering and were failed to proceed to tender evaluation process. Following a loss-making year in 2021, the Target Group continued to operate at a loss in the first quarter of 2022. The Group predicts that the epidemic in Hong Kong will take more time to be contained, the influence of such postponement may last until the end of 2022 and, therefore, it is expected that it will be unlikely that the performance of the Target Group will improve substantially in the near future. The Directors conduct strategic review of the Group's assets and operations from time to time and interests of the Company and the Shareholders as a whole. Based on the above, in order to minimise the expected adverse impact of the Target Group on the overall financial performance of the Group, the Directors are of the view that the Disposal would enable the Group to focus its capital and management resources on further development of the Group's other business streams (e.g. the dyeing and processing of differentiated polyester filament fabric, property investments and environmental water project operation). The Disposal presents an opportunity for the Group to realise its investment in the Target Group and allow the Group to streamline its business direction, enhance the growth potential of the Group and maximise returns to the Shareholders.

The proceeds from the Disposal will be used for general working capital and future business opportunities of the Group.

In light of the above, despite the fact that the entering into of the Sale and Purchase Agreement is not in the ordinary and usual course of business of the Group, the Directors (including the independent non-executive Directors) are of the view that the Sale and Purchase Agreement is on normal commercial terms and the terms thereof are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

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DEFINITIONS

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

“Board”	the board of Directors
“Business Day(s)”	any day (other than Saturday, Sunday and public holiday) on which licensed banks in Hong Kong are generally open for business
“Company”	Yongsheng Advanced Materials Company Limited, a company incorporated in the Cayman Islands with limited liability

“Completion”	completion of the Disposal in accordance with the terms and conditions of the Sale and Purchase Agreement
“Consideration”	the total consideration of HK\$34.5 million (equivalent to approximately RMB29.24 million) payable by the Purchaser to the Company pursuant to the Sale and Purchase Agreement
“Disposal”	the disposal of the entire issued share capital of the Target Company pursuant to the Sale and Purchase Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Purchaser”	GLOW MEDIA LIMITED, a company incorporated in the British Virgin Islands with limited liability
“PRC”	the People’s Republic of China, for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMAA”	renovation, maintenance, alteration and addition works
“RMB”	Renminbi, the lawful currency in the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 21 June 2022 and entered into between the Company and the Purchaser in relation to the Disposal

“Sale Shares”	the entire issued share capital of the Target Company
“Shareholder(s)”	holder(s) of the ordinary share(s) of par value of HK\$0.01 each of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Summer Power International Inc., a company incorporated in the British Virgin Islands with limited liability
“Target Group”	collectively, the Target Company and its sole subsidiary, namely Widely
“Widely”	Widely Construction & Engineering Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company as at the date of this announcement
“%”	per cent.

In this announcement, for illustration purposes only, RMB has been converted into HK\$ at the rate of RMB1.00:HK\$1.18. No representation is made that any amount of RMB or HK\$ has been, could have been or could be converted at the above rate or at any other rate or at all.

By Order of the Board
Yongsheng Advanced Materials Company Limited
Li Cheng
Chairman and Executive Director

Hong Kong, 21 June 2022

As at the date of this announcement, the executive Directors are Mr. Li Cheng, Mr. Li Conghua, Mr. Ma Qinghai and Mr. Xu Wensheng; and the independent non-executive Directors are Ms. Wong Wai Ling, Mr. He Chengying and Dr. Wang Huaping.