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TONGDA GROUP HOLDINGS LIMITED

通達集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 698)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION TERMINATION OF THE MAJOR TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL IN A SUBSIDIARY

Reference are made to (i) the announcement of the Company dated 29 March 2023 in relation to, among others, the Disposal; (ii) the announcement of the Company dated 24 April 2023 in relation to the delay in despatch of circular; (iii) the announcement of the Company dated 31 August 2023 in relation to the extension of long stop date and further delay in despatch of circular; and (iv) the announcement of the Company dated 13 October 2023 in relation to the termination of the Disposal (collectively, the “**Announcements**”). Capitalised terms used in this announcement shall have the same meanings as defined in the Announcements unless the context otherwise requires.

As disclosed by the announcement of the Company dated 13 October 2023, the Vendor, a direct wholly owned subsidiary of the Company, and the Purchaser entered into the Termination Agreement on 13 October 2023 to terminate the Sale and Purchase Agreement in relation to the Disposal and the Vendor shall pay the Termination Fee in the amount of HK\$120,000,000 to the Purchaser within ten days from the date of the Termination Agreement.

The Company wishes to provide the following supplemental information regarding the Termination Agreement:

After the Vendor and the Purchaser (the “**Parties**”) entered into the Sale and Purchase Agreement on 29 March 2023, the Parties had been working towards fulfilling the conditions precedent therein, including the due diligence review being conducted on the Target Group by the Purchaser and the Group began to negotiate with customers and arrange for the asset transfer to effect the Reorganisation.

In April 2023, the Company received a proposal from a potential purchaser in relation to the acquisition (the “**High Precision Business Disposal**”) of the high precision components segment of the Group (the “**High Precision Segment**”), and the potential purchaser began its due diligence investigation on the High Precision Segment.

On 31 August 2023, the Group had not decided whether to proceed with the High Precision Business Disposal as the due diligence investigation for it was still in progress. The deal size for the High Precision Business Disposal is large and the purchaser for the High Precision Business Disposal required all-round due diligence exercise, including commercial, legal, tax, financial and ESG aspects. The Group was not certain whether the High Precision Business Disposal would still go ahead at that time and in order to buy time to make up the decision between the High Precision Business Disposal and the Disposal, the Parties extended the long stop date (the “**Long Stop Date**”) under the Sale and Purchase Agreement to 30 November 2023.

It was only until September 2023 that the due diligence investigation in relation to the High Precision Business Disposal was close to completion when there was more certainty to the High Precision Business Disposal and the parties have commenced preparation and drafting of the relevant documents, and the Group decided to proceed with the High Precision Business Disposal instead of the Disposal, and at that point, the Long Stop Date has already been extended.

As the Group had decided to proceed with the High Precision Business Disposal, there is no reason for the Group to hold on to the Sale and Purchase Agreement, which may result in higher loss for the Purchaser and ultimately higher liability and damages on part of the Vendor in the event that the Purchaser resorts to legal means. As such, in early October 2023, the Vendor initiated the negotiation with the Purchaser in relation to the termination of the Sale and Purchase Agreement prior to the expiration of the Long Stop Date. On 13 October 2023, the Parties entered into the Termination Agreement.

The Termination Fee was paid in order to reach a smooth termination with the Purchaser in relation to the Disposal and to ensure that there will be no interruption to the High Precision Business Disposal. As the Group has not proceeded with the Reorganisation, which is a condition precedent under the Sale and Purchase Agreement, with its best endeavours since April 2023 when the Company has received the proposal for the High Precision Business Disposal, the Board was concerned that the Purchaser may resort to legal means and commence legal actions against the Vendor, which may potentially affect the negotiation and ultimately completion of the High Precision Business Disposal. The deal size for the High Precision Business Disposal is large and involves complicated due diligence exercise and prolonged commercial negotiations, which necessitates a lot of resources and efforts from key management on behalf of the Group to be committed. The Group could not afford to risk the commencement of a litigation against it, which would also require a lot of resources for the Group to handle, and coupled with the normal business operations of the Group (the second half of the year is usually peak season for the Group's operations), and jeopardise the High Precision Business Disposal.

The quantum of the termination fee of HK\$60,000,000 is calculated on a fair assessment as agreed between the Parties of the Purchaser's opportunity cost and losses and expenses incurred as a result of entering into and subsequently terminating the Sale and Purchase Agreement. Based on the arm's length negotiation between the Parties, the Deposit initially paid under the Sale and Purchase Agreement in the amount of HK\$60,000,000, an additional cost of funding for the Deposit, the loss of the deal for the Purchaser and the effort and resources invested by the Purchaser in conducting due diligence review on the Target Group, the Parties consider that the amount of HK\$60,000,000 as termination fee is adequate and reasonable to compensate the Purchaser. As a result of the negotiation between the Parties, as consideration for the early release of the Vendor of its obligations under the Sale and Purchase Agreement, the Purchaser has requested that it shall be compensated in this regard.

A preliminary legal advice was obtained by the Group to the effect that in case of breach of a sale and purchase agreement, as a party to a contract could not be permitted to take advantage of his own wrong against the other party, the Vendor should not be entitled to receive the benefit to forfeit the Deposit on the ground of non-fulfilment of a condition precedent that it was the Vendor's obligation to carry out, as such, it is likely that the court would order the Deposit paid to be returned to the Purchaser and potential damages to be paid with the quantum to be assessed based on factors such as change in market price and loss of benefit for a specific purpose.

The Directors, having considered the balance of the weight of the litigation risk and the quantum of the termination fee under the Termination Agreement, are of the opinion that the termination fee of HK\$60,000,000 was fair and reasonable to settle the dissolution of the Sale and Purchase Agreement with the Purchaser and to cover the risk that the Purchaser would resort to litigation, which may adversely affect the prospects of the High Precision Business Disposal.

The Sale and Purchase Agreement was terminated with the view of the Group proceeding with the High Precision Business Disposal instead of the Disposal.

The Group has been engaging in the Target Business for over 20 years with matured technology and competitive advantage over its industry peers. The Group has a long-established business relationship with Haier Group Corporation, a Chinese multinational home appliances and consumer electronics company and one of the largest electrical appliance providers in the PRC market. Prior to the interest received in relation to the High Precision Business Disposal in April 2023, the Group initially intended to dispose of the Target Business because at the time of entering into the Sale and Purchase Agreement, the Group intended to use the net proceeds from the Disposal for the repayment of the indebtedness of the Group to lower the finance costs and mitigate the interest rate risk in view of the upwards trend of the interest rate. Based on the commercial decision with the purchaser for the High Precision Business Disposal, the Group would receive higher consideration for the High Precision Business Disposal, compared to that for the Disposal, the Group would be able to use the net proceeds from the High Precision Business Disposal for settling more debts in order to reduce a greater portion of its finance cost expenditures and improve its gearing ratio.

The termination of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole for the following reasons:-

- a) the Group is expected to record a gain on disposal of approximately HK\$640 million from the High Precision Business Disposal (assuming completion of the High Precision Business Disposal takes place on 30 June 2023), while the Disposal is expected to generate no gain or loss for the Group, therefore, the High Precision Business Disposal is expected to have a more positive impact on the Group's financial results than the Disposal;

- b) as at 30 June 2023, the Group had total interest-bearing bank and other borrowings with floating interest rate amounting to approximately HK\$2,123 million and the finance cost amounting to approximately HK\$79.7 million and the Group expects the interest rate to remain high in the coming year. By terminating the Sale and Purchase Agreement and proceeding with the High Precision Business Disposal, which would generate a larger amount of net proceeds for the Group, the Group can actively deleverage by having more funds to lower its debt level and finance cost expenditures and therefore be more able to effectively enhance its liquidity and reduce its gearing ratio;
- c) the outlook of the industry of the Target Business (the “**EA Market**”) has improved significantly since the Sale and Purchase Agreement was entered into in March 2023. In the second half of 2023, the PRC government has implemented policies and provided subsidies that aim to stimulate the growth of the EA Market, such as “The Notice from 13 Departments including the Ministry of Commerce on Certain Measures to Promote Household Consumption (商務部等13部門關於促進家居消費若干措施的通知(商消費發號))”, which was released on 12 July 2023. With the PRC government’s incentivising policies, the Directors are confident in the business prospects of the Target Business and are of the view that the consideration to be received under the Sale and Purchase Agreement would no longer reflect the true value and potential of the Target Business. As such, it was in the best interest of the Company and its Shareholders as a whole to enter into the Termination Agreement to terminate the Disposal; and
- d) in view of the current policy environment (which is favourable to the EA Market), and the improving market conditions for the EA Market, the Group will actively solicit opportunities to acquire businesses that could potentially create synergy with the Target Business and expand the scale of the Target Business as well as its profitability. On the other hand, the Board is of the view that the market for the High Precision Segment is saturated and due to heightened geopolitical tensions, foreign-branded customers of the High Precision Segment are accelerating their plans to move their production bases from mainland China to overseas. Therefore, the Group is looking to dispose of the High Precision Segment it while there are still interests in such business.

In view of the above, the Directors consider that the termination of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

By order of the Board
Tongda Group Holdings Limited
Wang Ya Nan
Chairman

Hong Kong, 27 December 2023

As at the date of this announcement, the Board comprises Mr. Wang Ya Nan, Mr. Wang Hung Man, Mr. Wong Ming Sik, Mr. Wong Ming Yuet and Mr. Hui Wai Man as executive Directors; Ms. Chan Sze Man as non-executive Director; and Dr. Yu Sun Say, GBM, GBS, SBS, JP, Mr. Cheung Wah Fung, Christopher, GBS, SBS, JP, Mr. Ting Leung Huel Stephen and Mr. Sze Irons, BBS, JP as independent non-executive Directors.