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Hong Kong Aerospace Technology Group Limited

香港航天科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1725)

DISCLOSEABLE TRANSACTION IN RESPECT OF THE DISPOSAL

SHARE SALE AND PURCHASE AGREEMENT

The Board hereby announces that, on 30 December 2022 (after trading hours), the Vendor (a wholly-owned subsidiary of the Company) entered into the Share Sale and Purchase Agreement with the Purchaser, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, representing the entire equity interest of the Target Company, for a Consideration of HK\$75 million.

As at the date of this announcement, the Target Company is wholly-owned by the Vendor. Upon Completion, the Vendor will no longer hold any equity interest in the Target Company, and the Target Group will cease to be subsidiaries of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposal exceed 5% but are less than 25%, the Disposal constitutes a discloseable transaction of the Company, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Completion is subject to fulfillment of the conditions precedent set out in the Share Sale and Purchase Agreement and therefore the Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

THE DISPOSAL

The Board hereby announces that, on 30 December 2022 (after trading hours), the Vendor (a wholly-owned subsidiary of the Company) entered into the Share Sale and Purchase Agreement with the Purchaser, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, representing the entire equity interest of the Target Company, for a Consideration of HK\$75 million.

Details of the Share Sale and Purchase Agreement are summarized as follow:

Date : 30 December 2022

Parties : (i) the Vendor, a wholly-owned subsidiary of the Company and
(ii) the Purchaser

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are Independent Third Parties.

Asset to be disposed of

Pursuant to the terms and conditions of the Share Sale and Purchase Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, being 50,000 ordinary shares of US\$1 each of the Target Company, representing the entire issued share capital of the Target Company.

Consideration and Payment

The Consideration of HK\$75 million shall be satisfied by the Purchaser in the following manner:

- (i) 30% of the Consideration (i.e. HK\$22.5 million) (the “**First Instalment of the Consideration**”) will be paid by the Purchaser to the Vendor by way of cash on the day after the completion of due diligence review of the Target Group by the Purchaser with the results of the due diligence review being reasonably satisfactory to the Purchaser; and
- (ii) 70% of the Consideration (i.e. HK\$52.5 million) (the “**Second Instalment of the Consideration**”) will be paid by the Purchaser to the Vendor by way of cash within 30 working days after the completion of due diligence review of the Target Group by the Purchaser with the results of the due diligence review being reasonably satisfactory to the Purchaser;

The Consideration was determined after arm's length negotiation between the Vendor and the Purchaser with reference to, among other things, (i) the equity valuation report of the PRC Company adopting asset-based method issued by an independent professional valuer with an appraisal value of RMB68 million (equivalent to approximately HK\$74.12 million based on the prevailing exchange rate of HK\$1.09 per RMB) as at 31 August 2022 which has taken into account of the fair market value of the Land and a production plant which is currently under construction (the “**Daya Bay Plant**”) as well as the estimated valuation surplus of RMB3.7 million; (ii) the unaudited net asset value of the PRC Company as at 31 August 2022 of approximately RMB64 million; and (iii) other factors as set out in the section headed “Reasons for and benefits of the Disposal” in this announcement.

Conditions Precedent

The Completion is conditional upon the following conditions having been fulfilled or waived as the case may be:

- (i) the Purchaser having completed due diligence review of the Target Group, with the results of the due diligence review being reasonably satisfactory to the Purchaser;
- (ii) the Purchaser has fully settled the First Instalment of the Consideration and the Second Instalment of the Consideration;
- (iii) the Vendor provides certified true copies of (a) the approval from the shareholders of the Target Company, the Hong Kong Company and the PRC Company in relation to the Share Sale and Purchase Agreement; and (b) the board resolutions of the Target Company, the Hong Kong Company and the PRC Company in relation to the Share Sale and Purchase Agreement, in accordance with the laws of the British Virgin Islands, Hong Kong and the PRC;
- (iv) there is no occurrence of any material adverse change in the financial conditions of the Target Group from the date of the Share Sale and Purchase Agreement; and
- (v) there is no occurrence of any breach of terms of the Share Sale and Purchase Agreement (including the representations and warranties under the Share Sale and Purchase Agreement remain true, accurate and not misleading in any material respect).

Completion

Completion shall take place within 60 days after the date on which the conditions precedent under the Share Sales and Purchase Agreement had been completely fulfilled or no later than 31 May 2023 (or such other date as the Vendor and Purchaser may agree in writing).

Termination

- (i) if either party to the Share Sale and Purchase Agreement fails or neglects to perform any of its obligations under the Share Sale and Purchase Agreement on or before 31 May 2023 (or such other date as the Vendor and Purchaser may agree in writing) or fails to fulfil any of the conditions precedent, the non-defaulting party has the right to notify the defaulting party the immediate termination of the Share Sale and Purchase Agreement by written notice to the defaulting party.
- (ii) if all or part of the obligations under the Share Sale and Purchase Agreement cannot be performed by any party due to Force Majeure Event, both parties shall not be liable to each other within the scope of Force Majeure Event under the Share Sale and Purchase Agreement. The Vendor shall refund the Consideration paid (if applicable) to the Purchaser and the Purchaser shall transfer the issued shares of the Target Company to the Vendor (if applicable).

INFORMATION OF THE VENDOR

The Vendor is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. It is wholly-owned by the Company.

INFORMATION OF THE PURCHASER

The Purchaser is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. The Purchaser is wholly-owned by Mr. Liu Hong (劉宏). To the best of the Directors' information, knowledge, belief, and having made all reasonable enquiries, Mr. Liu Hong has over two decades of experience in the electronic industry in the PRC.

INFORMATION OF THE TARGET GROUP

The Target Company is an investment holding company incorporated in the British Virgin Island on 14 October 2022 and is a direct wholly-owned subsidiary of the Vendor. As at the date of this announcement, the registered capital and net asset value of the Target Company is HK\$78,500 and HK\$70,300, respectively.

The Hong Kong Company is an investment holding company incorporated in Hong Kong on 27 October 2022 and is a direct wholly-owned subsidiary of the Target Company. The Hong Kong Company holds 100% equity interest of the PRC Company. As at the date of this announcement, the registered capital and net asset value of the Hong Kong Company is HK\$10,000 and HK\$6,500, respectively.

The PRC Company is a company established in the PRC with limited liability. It is principally engaged in trading business and investment holding. The major assets of the PRC Company are the Land and the Daya Bay Plant. The Daya Bay Plant is currently under construction as at the date of this Announcement and is estimated to be completed in 2023.

Financial information of the PRC Company

Based on the unaudited financial statements of the PRC Company, the major unaudited financial information of the PRC Company for the two years ended 31 December 2021 was as follows:

	Year ended 31 December	
	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Loss before and after income tax	798	804

The unaudited net asset value of the PRC Company as at 30 November 2022 was approximately RMB63.7 million.

REASONS AND BENEFITS FOR THE DISPOSAL

The Group is principally engaged in (1) electronics manufacturing services business; and (2) aerospace business (the “**Aerospace Business**”), which includes (a) satellite manufacturing; (b) satellite communication; (c) satellite measurement and controlling; and (d) satellite launching.

As disclosed in the circular of the Company dated 26 August 2021, the Company has been constructing the Daya Bay Plant since July 2021. The construction of the Daya Bay Plant is estimated to be completed in 2023. The Directors reviewed the current operation of the Group, and noticed that the existing production capacities of the Group’s production plants are sufficient to support the orders on hand and the estimated demand from the customers. In order to commence production activities in the Daya Bay Plant, additional capital investments from the Company is required.

From the macro-economic perspective, the manufacturing industry in the PRC remains uncertain. Although the PRC Government has recently taken several measures and actions with an aim to increase investors’ confidence in the PRC economy, there can be no assurance that those measures will be effective. In addition, the lack of fundamental relief of geopolitical conflicts could undermine the manufacturing industry in the PRC.

The Company is of the view that the Disposal is in line with the Group's development strategy which is to focus on the electronics manufacturing services business and the Aerospace Business, especially the expansion and development of satellite manufacturing, satellite communication and satellite measurement and controlling businesses which are carried out by Aspace Satellite Technology Limited, a key operating subsidiary of the Group. In the meantime, considering the overall market status in the PRC, the Company will effectively utilize the existing production plants rather than relocating to the Daya Bay Plant. The Disposal serves to realize the assets which is still under construction and free up the capital commitment and resources of the Group in supporting the Daya Bay Plant, and as such, the Company may better allocate its financial and other resources on the operation of other existing businesses and repayment of other liabilities. The Directors considers that it is not in the best interest of the Company to devote further capital in developing the Daya Bay Plant under the prevailing business environment and market status. Therefore, the Company decides to dispose these non-operating assets and realize the investment with immediate cash to support the other existing operation of the Group, and improve the liquidity of the Company at the same time. The Disposal will not have any material effect on the business and operation of the Group.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Disposal and the transaction contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

The net proceeds of the Disposal is approximately HK\$74 million which will be utilized for the repayment of bank and other borrowings and the general working capital of the Company.

It is expected that the Company will record a gain on the Disposal of approximately RMB3.3 million. Such gain is estimated based on the gross proceeds from the Disposal of RMB68.0 million (equivalent to approximately HK\$74.12 million) less the unaudited net asset value of the PRC Company of RMB64.7 million as at 30 June 2022. Such calculation is only an estimation for illustrative purpose only and the actual gain of the Disposal will be subject to further review by the auditors of the Company.

Upon Completion, the Vendor will no longer hold any equity interest in the Target Company, and the Target Group will cease to be subsidiaries of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposal exceed 5% but are less than 25%, the Disposal constitutes a disclosable transaction of the Company, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Completion is subject to fulfillment of the conditions precedent set out in the Share Sale and Purchase Agreement and therefore the Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“Board”	the board of Directors
“Company”	Hong Kong Aerospace Technology Group Limited (香港航天科技集團有限公司), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1725)
“Completion”	completion of the Disposal in accordance with the terms and conditions of the Share Sale and Purchase Agreement
“Consideration”	the consideration in the amount of HK\$75 million payable by the Purchaser to the Vendor for the Disposal under the Share Sale and Purchase Agreement
“Director(s)”	the director(s) of the Company
“Disposal”	the proposed disposal of the Sale Shares pursuant to the terms and conditions of the Share Sale and Purchase Agreement
“Force Majeure Event”	refers to unforeseen, unavoidable and insurmountable objective events, including but not limited to earthquakes, fires, floods, blizzards, wars, government actions and/or changes in laws, regulations and regulatory documents
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Company”	Value Heart Limited, a company incorporated in Hong Kong and is directly wholly-owned by the Target Company
“Independent Third Parties”	any person or company and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the Listing Rules
“Land”	a parcel of land which is located at Xinxing Industrial Park, Daya Bay Western District, Huizhou City, the PRC* (中國惠州市大亞灣西區新興產業園)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“RMB”	Renminbi, the lawful currency of the PRC
“PRC Company”	Eternity Technology (Huizhou) Company Limited * (恒達科技(惠州)有限公司), a company established in the PRC with limited liability and is a direct wholly-owned subsidiary of the Hong Kong Company
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, does not include Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	Vast Project Limited, a company incorporated in the British Virgin Islands with limited liability
“Sale Shares”	50,000 ordinary shares of US\$1 each of the Target Company, representing the entire issued share capital of the Target Company
“Share Sale and Purchase Agreement”	the share sale and purchase agreement dated 30 December 2022 entered into between the Vendor and the Purchaser in relation to the Disposal
“Share(s)”	ordinary share(s) of the Company

“Target Company”	Positive Expert Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by the Vendor
“Target Group”	collectively, the Target Company, Hong Kong company and the PRC company
“Vendor”	Total United Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by the Company
“%”	per cent

By order of the Board
Hong Kong Aerospace Technology Group Limited
Sun Fengquan
Co-Chairman and Chief Executive Officer

Hong Kong, 30 December 2022

As at the date of this announcement, the Board comprises Mr. Sun Fengquan (Co-Chairman and Chief Executive Officer), Dr. Lam Lee G. (Co-Chairman), Mr. Lam Kin Fung Jeffrey, Ms. Ku Ka Lee Clarie (Vice Chairman) and Mr. Ma Fujun as executive Directors; Dr. Mazlan Binti Othman, Mr. Niu Aimin and Dr. Yip Chung Yin as non-executive Directors; and Mr. Brooke Charles Nicholas, Professor Chan Ka Keung, Ceajer, Mr. Hung Ka Hai Clement, Dr. Yuen Kwok Keung and Mr. Juan de Dalmau-Mommertz as independent non-executive Directors.

* *For identification only*