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HENGDELI HOLDINGS LIMITED

亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION WITH CONNECTED PERSONS AT SUBSIDIARY LEVEL DISPOSAL OF 80% INTEREST IN JING GUANG TANG COMPANY LIMITED*

THE DISPOSAL

The Board is pleased to announce that on 23 October 2020 (after trading hours), the Vendor, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser, pursuant to which the Vendor has agreed to sell, and the Purchasers have agreed to purchase, the Sale Shares at a total consideration of approximately NTD93.7 million (equivalent to approximately HKD25 million).

IMPLICATIONS UNDER LISTING RULES

As one or more applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal exceed 5% but is less than 25%, the Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements.

As at the date of this announcement and prior to the Completion, the Target Company, was an indirect non-wholly owned subsidiary of the Company, which was indirectly held as to 80% by the Company and 20% in aggregate by the Purchasers. The Purchaser A is a substantial shareholder of the Target Company. The Purchaser B is a brother of the Purchaser A. And, the Purchaser C is the wife of the Purchaser B. Therefore, the Purchasers are connected persons of the Company at the subsidiary level according to Rule 14A.07(1) of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, since (1) the Purchasers are connected persons at the subsidiary level, (2) the Board has approved the Disposal; and (3) the independent non-executive Directors have confirmed that the terms of the Disposal are fair and reasonable and the Disposal is on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole. Accordingly, the Disposal is only subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

THE DISPOSAL

The Board is pleased to announce that on 23 October 2020 (after trading hours), the Vendor, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with the Purchasers, pursuant to which the Vendor has agreed to sell, and the Purchasers have agreed to purchase, the Sale Shares for a total consideration of approximately NTD93.7 million (equivalent to approximately HKD25 million).

THE AGREEMENT

Principal terms of the Agreement are set out as follows:

Date : 23 October 2020

Parties : Vendor: Taiwan Hengdeli Company Limited* (台灣亨得利有限公司)

As at the date of this announcement, the Vendor is an indirect wholly-owned subsidiary of the Company.

Purchasers:

- (1) Purchaser A;
- (2) Purchaser B; and
- (3) Purchaser C.

As at the date of this announcement, prior to the Completion, the Target Company, is an indirect non-wholly owned subsidiary of the Company, which is held as to 80%, 10%, 5% and 5% by the Vendor, the Purchaser A, Purchaser B and Purchaser C respectively.

As advised by the Purchasers that the Purchaser A and the Purchaser B, in aggregate, hold less than 5% interest in the Company. The Purchaser A is a substantial shareholder of the Target Company and therefore, the Purchaser A is a connected person of the Company at the subsidiary level according to Rule 14A.07(1) of the Listing Rules. In addition, the Purchaser A and the Purchaser B are brothers. Furthermore, the Purchaser C is the wife of the Purchaser B. Accordingly, the Purchaser B and the Purchaser C are also connected persons at the subsidiary level under the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, save as disclosed above, the Purchasers are Independent Third Parties.

Assets to be disposed of by the Vendor

Pursuant to the Agreement, the Vendor has agreed to sell and the Purchasers have agreed to purchase the Sale Shares, representing 80% of the entire issued share capital of the Target Company.

The Sale Shares representing 80% of the entire equity interest of Target Company which is a limited liability company incorporated in Taiwan. The Purchaser A, Purchaser B and Purchaser C will acquire 71.2%, 14.4% and 14.4% of the Sale Shares from the Vendor respectively.

Consideration

Pursuant to the Agreement, the Consideration for the Sale Shares of approximately NTD93.7 million (equivalent to approximately HKD25 million) shall be settled by the Purchasers in the following manner:

- (i) Approximately NTD4.7 million (equivalent to approximately HKD1.3 million) of the Consideration, as deposit, shall be payable by the Purchasers to the Vendor on or before the date of the Agreement; and
- (ii) the remaining balance of the Consideration in the sum of approximately NTD89 million (equivalent to approximately HKD23.7 million), shall be payable by the Purchasers to the Vendor on or before the Completion Date.

Basis of the Consideration

The Consideration was determined after arm's length negotiation between the Vendor and the Purchasers on normal commercial terms after taking into account a number of factors including (i) the net book value of the assets of the Target Company as at 31 July 2020, (ii) the preliminary valuation by using net asset method and the market approach, of the 100% equity interest of the Target Company prepared by an independent valuer of a range from NTD106 million to NTD139 million, and (iii) the business development plans and prospects of the Target Company.

Accordingly, the Directors (including the independent non-executive Directors) consider that the Consideration and the terms and conditions of the Agreement are fair and reasonable and are in the interest of the Company and its Shareholders as a whole.

Completion

The Completion shall take place on or before 23 November 2020 or such other day as the parties to the Agreement may agree in writing.

INFORMATION OF THE GROUP

The Group is engaged in the distribution of mid-to-high-end consumer goods including internationally renowned-brand watches, related customer services and manufacturing of related accessory products.

INFORMATION OF THE VENDOR

The Vendor is a company established in Taiwan and an indirect wholly-owned subsidiary of the Company. The principal activity of the Vendor is retailing of watches.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company established in Taiwan with limited liability. As at the date of this announcement, the Target Company is principally engaged in retail of watches.

Set out below is the audited financial information of the Target Company for each of the two financial years ended 31 December 2018, 31 December 2019 and the seven months ended 31 July 2020, as extracted from its unaudited management accounts of the Target Company (for illustration purposes only):

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the seven months ended 31 July 2020
	<i>NTD'000</i>	<i>NTD'000</i>	<i>NTD'000</i> (unaudited)
Revenue	531,529	535,366	259,248
Profit/(Loss) before tax	1,159	(16,405)	(86,992)
Profit/(Loss) after tax	1,266	(13,134)	(86,992)

The audited net asset value and total asset value of the Target Company as at 31 December 2019 were approximately NTD308.1 million (equivalent to approximately HKD82.4 million) and NTD529.6 million (equivalent to approximately HKD141.6 million) respectively.

FINANCIAL EFFECT OF THE DISPOSAL AND THE PROPOSED USE OF PROCEEDS

Immediately after the Completion, the Target Company will cease to be an indirectly non-wholly owned subsidiary of the Company, accordingly, the Target Company's financial results will no longer be consolidated into the Group's consolidated financial statements.

The net proceeds (after deducting expenses in relation thereto) arising from the Disposal will be of approximately NTD93.7 million (equivalent to approximately HKD25 million). Based on, among other things, the Consideration and the related expenses for the Disposal, the Group currently expects to record a loss arising from the Disposal of approximately NTD86.2 million (equivalent to approximately HKD23 million) upon Completion, subject to review by the auditors of the Company.

The said loss on Disposal of approximately NTD86.2 million (equivalent to approximately HKD23 million), is calculated based on (i) the Consideration of NTD93.7 million, net of transaction costs and expenses directly attributable to the Disposal, of approximately NTD3 million (equivalent to approximately HKD0.8 million); and (ii) the unaudited carrying value of the Target Company attributable to the Shareholders of approximately NTD176.9 million (equivalent to approximately HKD47.3 million) as at 31 July 2020.

Shareholders should note that the actual amount of the loss from the Disposal to be recognised in the consolidated financial statements of the Company depends on the then exchange rate for converting the proceeds from the Proposed Disposal denominated in NTD into HK\$ on or after the date of the Completion, and therefore may be different from the amount mentioned above.

The Company intends to apply the net proceeds from the Disposal for general working capital of the group.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Target Company's contribution to the Group's distribution of mid-to-high-end consumer goods has been decreasing for the past few years. As a retailer of mid-to-high-end products, the business of the Target Company has always been very sensitive to changes in economic conditions (e.g. depreciation of Renminbi and the rising of unemployment rate in Taiwan) and consumer confidence. Due to the PRC restriction on the grant of travel visa since August 2019, the numbers of PRC tourists visiting Taiwan has dropped sharply which in effect caused an impact on the sales figures of the Target Company. In addition, the outbreak of Covid-19 in this year has caused disruptions to retail industry in the world. Although global governments and international organisations have implemented a series of measures to contain the epidemic, the time duration and scope of these disruptions cannot be accurately assessed at this point in time. The Directors are not optimistic about the future of the luxury watch market.

The Board considers that the Disposal will revitalise the funding of the Group and represents a good opportunity for the Group to devote more resources and efforts to focus on other core business segments which might relatively have promising revenue-generating potential. Furthermore, the Directors are of the view that the Disposal will improve the liquidity and financial position of the Group.

CONFIRMATION OF THE BOARD

None of the Directors and the directors of the Vendor has a material interest in the Disposal and shall abstain from voting on the relevant board resolutions of the Company and the Vendor.

The Board (including the independent non-executive Directors) has confirmed that: (1) the terms of the Disposal are fair and reasonable; (2) the Disposal is on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (3) the Disposal is in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As one or more applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal exceed 5% but is less than 25%, the Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements.

As at the date of this announcement and prior to the Completion, the Target Company, is an indirect non-wholly owned subsidiary of the Company, which is indirectly held as to 80% by the Company and 20% in aggregate by the Purchasers. As advised by the Purchasers that the Purchaser A and the Purchaser B, in aggregate, hold less than 5% interest in the Company. Save and except disclosed above, as advised by the Purchasers, the Purchasers do not hold any other Shares in the Company. The Purchaser A is a substantial shareholder of the Target Company and therefore, the Purchaser A is a connected person of the Company at the subsidiary level according to Rule 14A.07(1) of the Listing Rules. In addition, the Purchaser A and the Purchaser B are brothers. Furthermore, the Purchaser C is the wife of the Purchaser B. Accordingly, the Purchaser B and the Purchaser C are also connected persons at the subsidiary level under the Listing Rules.

Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, since (1) the Purchasers are connected persons at the subsidiary level, (2) the Board has approved the Disposal and the transactions contemplated thereunder; and (3) the independent non-executive Directors have confirmed that the terms of the Disposal are fair and reasonable and the Disposal is on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole, the Disposal is only subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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 expressions shall have the following meanings:

“Agreement”	the sale and purchase agreement dated 23 October 2020 entered into between the Vendor and the Purchasers in respect of the Disposal
“Board”	the board of Directors
“Company”	Hengdeli Holdings Limited (亨得利控股有限公司), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 3389)
“Completion”	completion of the Disposal pursuant to the terms and conditions of the Agreement
“Consideration”	NTD93.7 million, being the aggregate consideration for the Disposal payable by the Purchasers to the Vendor pursuant to the Agreement
“Group”	the Company and its subsidiaries
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Shares by the Vendor to the Purchasers as contemplated under the Agreement
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, but for the purposes of this announcement shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Purchaser A”	Lee Shun-Lung (李順龍), businessman and resident of Taiwan, who is currently holding 10% interest in the Target Company and is a substantial shareholder of the Target Company
“Purchaser B”	Lee Shun-Fu (李順富) businessman and resident of Taiwan, who is currently holding 5% interest in the Target Company
“Purchaser C”	Chung Hsiao-Yun (鍾曉芸) businesswoman and resident of Taiwan, who is currently holding 5% interest in the Target Company
“Purchasers”	collectively, Purchaser A, Purchaser B and Purchaser C
“Sale Share(s)”	representing the 80% equity interest and the paid-up capital of the Target Company
“Share(s)”	the ordinary share(s) of the issued share capital of the Company
“Shareholders”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning as ascribed thereto under the Listing Rules
“Target Company”	Jing Guang Tang Company Limited* (精光堂國際股份有限公司), a company incorporated in Taiwan with limited liability and co-owned by the Vendor and the Purchasers

“NTD”	New Taiwan dollar, the lawful currency of Taiwan
“Vendor”	Taiwan Hengdeli Company Limited*(台灣亨得利有限公司), a company incorporated in Taiwan with limited liability and wholly-owned by Elegant Jewellery Holding Limited (三寶珠寶集團有限公司) which is a wholly-owned subsidiary of the Company
“%”	per cent

By Order of the Board
Hengdeli Holdings Limited
Zhang Yuping
Chairman

Hong Kong, 23 October 2020

In this announcement, translation of NTD into HK\$ is based on the exchange rate of HK\$1: NTD3.7411. No representation is made that any amounts in NTD and HK\$ can be or could have been converted at the above exchange rate or any other rates.

** In this announcement, translated English names of Chinese entities for which no official English translation exists are unofficial translations for identification purposes only, and in the event of any inconsistency between the Chinese names and their English translation, the Chinese names shall prevail.*

As at the date of this announcement, the executive Directors are Mr. Zhang Yuping (Chairman), Mr. Huang Yonghua and Mr. Lee Shu Chung, Stan; the non-executive Director is Mr. Shi Zhongyang; and the independent non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling.

If there is any inconsistency in this announcement between the Chinese and English versions, the English version shall prevail.