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DIFFER GROUP AUTO LIMITED

鼎豐集團汽車有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6878)

**UPDATE ON THE
DISCLOSEABLE TRANSACTION
IN RELATION TO
THE DISPOSAL OF 100% EQUITY INTEREST
AND SALE LOAN OF
DIFFER GROUP (CHINA) COMPANY LIMITED**

Reference is made to the announcement of the Company dated 23 December 2022 (the “**Announcement**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as used in the Announcement.

BACKGROUND

As set out in the Announcement, the Purchaser (an Independent Third Party) entered into the Agreement with the Vendor, which is a wholly-owned subsidiary of the Company, pursuant to which (i) the Purchaser has agreed to acquire and the Vendor has agreed to sell the Sale Shares and Sale Loan; and (ii) the Purchaser has agreed to acquire and the Vendor has agreed to procure Xiamen Differ to sell the Target Shares to the Purchaser in aggregate for the Consideration on 23 December 2022.

Pursuant to the Agreement, the Purchaser shall pay the Consideration of RMB1,067,769,219 (equivalent to approximately HK\$1,186,410,243) (comprising RMB850,000,000 (equivalent to approximately HK\$944,444,444) being the consideration for the Sale Shares and Target Shares and RMB217,769,219 (equivalent to approximately HK\$241,965,799) being the consideration of the Sale Loan) in the manner as specified in the Agreement. The Purchaser has not paid certain part of the Share Consideration in accordance with the provisions of the Agreement.

To rectify the position and for the interest of the Company and its Shareholders as a whole, on 13 October 2023, the Purchaser and the Vendor entered into the Supplemental Deed, pursuant to which the parties agreed to offset the Outstanding Consideration A and Outstanding Consideration B by, among others, enforcing the Share Charges by the Vendor. After the completion of the enforcement of Share Charges, the Purchaser shall cease to own any interest in the Company I, Company J and Company K.

This announcement is made by the Company pursuant to Rule 14.36 of the Listing Rules to provide its shareholders and investors with updates on the Disposal.

BACKGROUND

As set out in the Announcement, the Purchaser (an Independent Third Party) entered into the Agreement with the Vendor, which is a wholly-owned subsidiary of the Company, pursuant to which (i) the Purchaser has agreed to acquire and the Vendor has agreed to sell the Sale Shares and Sale Loan; and (ii) the Purchaser has agreed to acquire and the Vendor has agreed to procure Xiamen Differ to sell the Target Shares to the Purchaser in aggregate for the Consideration on 23 December 2022.

Pursuant to the Agreement, the Purchaser shall pay the Consideration of RMB1,067,769,219 (equivalent to approximately HK\$1,186,410,243) (comprising RMB850,000,000 (equivalent to approximately HK\$944,444,444) being the consideration for the Sale Shares and Target Shares and RMB217,769,219 (equivalent to approximately HK\$241,965,799) being the consideration of the Sale Loan) in the manner as specified in the Agreement. For details, please refer to the section headed “Share Consideration” of page 5 of the Announcement and section headed “Loan Consideration” of page 6 of the Announcement. The Purchaser has not paid certain part of the Share Consideration in accordance with the provisions of the Agreement. As at the date of this announcement, the payment of the Outstanding Consideration A of an amount of RMB150,000,000 (equivalent to approximately HK\$166,666,667) of the Share Consideration was still outstanding and lag behind of the payment due date.

To rectify the position and for the interest of the Company and its Shareholders as a whole, on 13 October 2023, the Purchaser and the Vendor entered into the Supplemental Deed, pursuant to which the parties agreed to offset the Outstanding Consideration A and Outstanding Consideration B by, among others, enforcing the Share Charges. After the completion of the enforcement of Share Charges, the Purchaser shall cease to own any interest in the Target Shares.

SUPPLEMENTAL DEED

Set out below are the key terms of the Supplemental Deed:

Date: 13 October 2023

Parties: (1) Purchaser : Hon Yin Company Limited (瀚然有限公司), which is an Independent Third Party.

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

(2) Vendor : Differ Hub Company Limited (鼎奐有限公司), a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company.

Enforcement of Share Charges

Pursuant to the Agreement, in order to secure the payment obligation of the Share Consideration and Loan Consideration by the Purchaser, the Purchaser shall, at its own cost, procure the Pledged Shares to be pledged to the Vendor and/or company designated by the Vendor as security for payment. For details, please refer to the section headed "Pledged Shares" of page 6 of the Announcement which 100% of the entire equity interest in Company I was included in the Pledged Shares. Subsequently, on 4 April 2023, the Purchaser has further pledged the 100% of the entire equity interest in Company J to company designated by the Vendor to secure the Purchaser's payment obligation.

Pursuant to the Agreement, the Purchaser shall pay the Outstanding Consideration A to the Vendor on or before 31 July 2023. On 31 July 2023, the Purchaser has defaulted the payment of the Outstanding Consideration A and the amount was still outstanding as at the date of this announcement.

Pursuant to the Agreement, the Purchaser shall pay an amount of RMB200,000,000 (equivalent to approximately HK\$222,222,222), being part of the Share Consideration, to the Vendor on or before 31 January 2024.

Pursuant to the Supplemental Deed, the parties agreed to offset the Outstanding Consideration in the aggregate amount of RMB310,000,000 (equivalent to approximately HK\$344,444,444) together with the default interest in the amount of RMB3,000,000 (equivalent to approximately HK\$3,333,333) by, among others, enforcing the Share Charges by the Vendor. The offsetting amount of RMB313,000,000 (equivalent to approximately HK\$347,777,778) was determined by the Vendor and the Purchaser after

arm's length negotiation with reference to the net asset value of Company I, Company J and Company K in the amount of approximately RMB313,073,000 (equivalent to approximately HK\$347,858,889) as at 31 August 2023.

Upon completion of the enforcement of the Share Charges, the Purchaser will no longer hold any equity interest in Company I and Company J. As Company K is a branch company of Company J, the Purchaser will no longer hold any equity interest in Company K. Xiamen Capital and/or the company designated by Xiamen Capital shall hold 100% of the entire equity interest in Company I, Company J and Company K.

Pursuant to the Supplemental Deed, the Vendor has the unilateral right to terminate the Supplemental Deed without payment of any compensation to the Purchaser.

Remaining Share Consideration

Except the aforementioned agreement in offsetting the Outstanding Consideration, all the other terms and conditions of the Agreement in relation to Share Consideration remain unchanged and are in full force and effect. The remaining Share Consideration for the sale and purchase of the Sale Shares shall continued to be paid by the Purchaser in the following manner:

1. RMB40,000,000 (equivalent to approximately HK\$44,444,444) on or before 31 January 2024;
2. RMB200,000,000 (equivalent to approximately HK\$222,222,222) on or before 31 July 2024; and
3. RMB250,000,000 (equivalent to approximately HK\$277,777,777) on or before 31 January 2025;

The Purchaser may elect to settle the entire Share Consideration prior to the said dates. If the Purchaser has not fully settled the relevant part of the Share Consideration on or before the aforementioned respective payment dates, the Purchaser shall pay interest, at the rate of 10% per annum, on the outstanding amount of the relevant part of the Share Consideration, to the Vendor without prejudice to the right of the Vendor to demand the Purchaser to repay all or any part of the outstanding Share Consideration at any time after the aforementioned payment dates.

Revised Loan Consideration

Pursuant to the Agreement, the Loan Consideration of the Sale Loan is RMB217,769,219 (equivalent to approximately HK\$241,965,799) which shall be paid by the Purchaser on or before 31 January 2026.

Since after the enforcement of Share Charge A, the Purchaser shall cease to own any interest in the 100% of the entire equity interest in Company I. The portion of the Sale Loan relating to the balance Company I due from the Group which was previously acquired by the Purchaser under the Agreement shall be consolidated back to the Group. Accordingly, the amount of Sale Loan should be increased from RMB217,769,219 (equivalent to approximately HK\$241,965,799) to RMB313,474,329 (equivalent to approximately HK\$348,304,810) and the Loan Consideration shall be adjusted on dollar to dollar basis. Subject to the completion of the enforcement of the Share Charges in accordance with the Supplemental Deed, the Loan Consideration of the Sale Loan shall be RMB313,474,329 (equivalent to approximately HK\$348,304,810) (the “**Revised Loan Consideration**”) which shall be continued to be paid by the Purchaser on or before 31 January 2026. If the Purchaser has not fully settled the Revised Loan Consideration on or before 31 January 2025, the Purchaser shall pay interest, at the rate of 10% per annum, on the outstanding amount of the Revised Loan Consideration, to the Vendor without prejudice to the right of the Vendor to demand the Purchaser to repay all or any part of the outstanding Revised Loan Consideration at any time after 31 January 2026. For avoidance of doubt, the Purchaser may elect to settle the entire Revised Loan Consideration prior to 31 January 2026.

In order to secure the payment obligation of the Share Consideration and Revised Loan Consideration, the Purchaser shall, at its own cost, procure Mr. Huang to execute a personal guarantee, in the form to be satisfied by the Vendor, without any limit, in favour of the Vendor as security for payment.

Completion

As at the date of this announcement, Xiamen Capital has enforced the Share Charges and is in the process of completing the registration procedures for the transfer of the 100% of the entire equity interest of Company I and Company J to Xiamen Capital and/or the company designated by Xiamen Capital.

POSSIBLE FINANCIAL EFFECT OF THE SUPPLEMENTAL DEED

Upon completion of the enforcement of the Share Charges in accordance with the Supplemental Deed, the Purchaser will no longer hold any equity interest in Company I and Company J. As Company K is a branch company of Company J, the Purchaser will no longer hold any equity interest in Company K. Xiamen Capital and/or the company designated by Xiamen Capital shall hold 100% of the entire equity interest in Company I, Company J and Company K.

Company I, Company J and Company K will then become indirect wholly-owned subsidiaries of the Company. As a result, the financial results of the Company I, Company J and Company K will be consolidated with the Group’s financial statements.

As disclosed in the section headed “Guarantee provided by the Group to the Disposal Group” of page 7 of the Announcement. Xiamen Differ and Company D have executed the Guarantee A in favour of a bank for the interest of the Company I. As Company I will cease to be a part of the Disposal Group after the enforcement of Share Charge A, Guarantee A will no longer be a guarantee provided by the Group to the Disposal Group. Separately, Guarantee B has been discharged before the date of this announcement.

REASONS FOR AND BENEFITS OF THE SUPPLEMENTAL DEED

As at the date of this announcement, the Outstanding Consideration A of RMB150,000,000 together with the default interest remained payable by the Purchaser. Despite repeated demands made by the Vendor, the Purchaser has failed to indicate a definitive timetable for settlement of the outstanding payable for the Disposal to the Group. In order to protect the interest of the Company and its Shareholders as a whole, the Vendor has decided to enforce the Share Charges to minimize the risk.

The terms of the Supplemental Deed were negotiated on an arm’s length basis between the Vendor and the Purchaser. The Directors are of the view that taking into account (i) the current financial situation of the Purchaser, in particular, its ability to repay the Outstanding Consideration and the interests accrued thereon, have been adversely affected by the current economic condition worldwide; (ii) it may not be in the Group’s best interest to commence lengthy and costly legal proceedings against the Purchaser as it may be detrimental to the possibility of recovery of the outstanding amounts; and (iii) the entering into of the Supplemental Deed will provide the Group with an opportunity to acquire back its interests in the Target Shares, so as to minimize any further loss.

In view of the above, the Directors (including all independent non-executive Directors) are of the view that the Supplemental Deed is fair and reasonable and is in the interest of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATION

The transaction contemplated under the Agreement constituted a discloseable transaction for the Company under the Listing Rules and was announced by the Company on 23 December 2022. The Supplemental Deed constitutes a material variation to such discloseable transaction and this announcement is made in accordance with Rule 14.36 of the Listing Rules.

DEFINITIONS

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

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| “Outstanding Consideration” | collectively the Outstanding Consideration A and Outstanding Consideration B |
| “Outstanding Consideration A” | the outstanding amount of RMB150,000,000 (equivalent to approximately HK\$166,666,667), being part of the Share Consideration, which was due to be paid on 31 July 2023 |
| “Outstanding Consideration B” | the amount of RMB160,000,000 (equivalent to approximately HK\$177,777,778) of the Share Consideration, which shall be due to be paid on 31 January 2024 |
| “Share Charges” | collectively the Share Charge A and Share Charge B |
| “Share Charge A” | the share charge dated 30 December 2022 in favour of Xiamen Capital over the shares representing 100% of the entire equity interest in Company I |
| “Share Charge B” | the share charge dated 4 April 2023 in favour of Xiamen Capital over the shares representing 100% of the entire equity interest in Company J |
| “Supplemental Deed” | the supplemental deed dated 13 October 2023 entered into between the Purchaser and the Vendor in respect of the Agreement |

* *for identification purpose only.*

By order of the Board of
Differ Group Auto Limited
Ng Chi Chung
Chairman and Executive Director

Hong Kong, 13 October 2023

For the purpose of illustration in this announcement only, the translation of RMB into HK\$ is based on the rate of HK\$1: RMB0.9. The above conversion rates are for illustrative purpose only and do not constitute a representation that any amounts have been, could have been, or may be exchanged at the aforesaid or any other rates or at all.

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

As at the date of this announcement, the executive Directors are Mr. NG Chi Chung, Dr. FENG Xiaogang and Mr. TONG Lu; the non-executive Directors are Mr. KANG Fuming and Mr. XU Yiwei; and the independent non-executive Directors are Mr. CHAN Sing Nun, Mr. LAM Kit Lam and Ms. CHUANG Yin Lam.