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Eternity Technology Holdings Limited

恒達科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1725)

DISCLOSEABLE TRANSACTION — CONSTRUCTION CONTRACT AND CHANGE IN USE OF PROCEEDS FROM THE SHARE OFFER

CONSTRUCTION CONTRACT

The Board hereby announces that on 16 July 2020, Huizhou Eternity, an indirect wholly owned subsidiary of the Company, entered into the Construction Contract with the Contractor pursuant to which the Contractor agreed to undertake the Construction Works at the Contract Price of approximately RMB79.9 million (subject to adjustments).

LISTING RULES IMPLICATIONS

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

CHANGE IN USE OF PROCEEDS FROM THE SHARE OFFER

Having considered the reasons for and benefit of entering into the Construction Contract, the Board hereby announces that it resolved to re-allocate approximately HK\$40.6 million, representing approximately 42.0% of the Net Proceeds, for the purpose of construction of a production base in Huizhou.

CONSTRUCTION CONTRACT

The Board hereby announces that on 16 July 2020, Huizhou Eternity, an indirect wholly owned subsidiary of the Company, entered into the Construction Contract with the Contractor pursuant to which the Contractor agreed to undertake the Construction Works at the Contract Price of approximately RMB79.9 million (subject to adjustments). A summary of the principal terms of the Construction Contract are as follows:

Date : 16 July 2020

Parties : (1) Huizhou Eternity, an indirect wholly owned subsidiary of the Company which principal business is provision of EMS; and

(2) the Contractor, a company established in the PRC with limited liability which principal business is construction of industrial and civil construction projects and sale of construction materials and equipment and plastic products. To the knowledge of the Directors, the ultimate beneficial owners of the Contractor are Lu Chunlin and Lu Jianzhong. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Contractor and its ultimate beneficial owner(s) are Independent Third Parties.

Construction Works

Pursuant to the Construction Contract, the Contractor agreed to undertake the Construction Works which included earthwork, foundation pit support works, foundation works, main structural engineering works, building decoration works and conventional water and electricity works, fire safety works, aluminum alloy doors and windows (including curtain walls) works, etc in Shuikou, Huizhou City for the purpose of constructing a production base for the internal use of the Group.

Contract Price

The Contract Price was approximately RMB79.9 million, subject to adjustments in accordance to the Construction Contract including in the event that the price of reinforcing bar, concrete, cement, ceramic tiles, river sand or aluminum alloy at the time when the materials are actually utilised fluctuates by more than 10% from the market price at the time of signing of the Construction Contract. The Contract Price was determined after arm's length negotiations between Huizhou Eternity and the Contractor via a tender process and with reference to the then prevailing market price and the complexity and expected scope of the Construction Works to be carried out. The Contract Price will be funded partly by the proceeds from the Share Offer as set out in the paragraph headed "Change in Use of Proceeds of the Share Offer" below and partly by internal resources and bank facilities of the Group.

A breakdown of the Contract Price based on the Construction Works is as follows:

Premises / rooms / works	Price (RMB million) approximately
Factory premises	35.6
Dormitory premises	28.7
Roads works	3.6
Fire safety works	3.5
Electricity works	2.9
Drainage works	2.9
Ventilation and smoke extraction works	1.4
Fences works	0.4
Security room 1	0.4
Security room 2	0.3
Gaseous fire suppression works	0.2
Total	<u><u>79.9</u></u>

Payment terms

Huizhou Eternity shall pay the Contract Price based on completion of milestones in the following manner:

Factory and dormitory premises

Milestone	Percentage of payment
Completion of foundation	10% of the contract price of the premises
Completion of concrete pouring for the roof of each floor	20% of the contract price of the premises
Completion of topping out	20% of the contract price of the premises
Completion of removal of outer frame	20% of the contract price of the premises
Completion, inspection and acceptance of the construction works	20% of the contract price of the premises
Within 0.5 year from completion, inspection and acceptance of the construction works	7% of the contract price of the premises
Within one year from the end of the defect liability period	3% of the contract price of the premises

Security rooms

Milestone	Percentage of payment
Completion of foundation	10% of the contract price of the room
Completion of topping out	30% of the contract price of the room
Completion of removal of outer frame	30% of the contract price of the room
Completion, inspection and acceptance of the construction works	20% of the contract price of the room
Within 0.5 year from completion, inspection and acceptance of the construction works	7% of the contract price of the room
Within one year from the end of the defect liability period	3% of the contract price of the room

Works related to fences, roads, electricity, drainage, fire safety, ventilation and smoke extraction and gaseous fire suppression works

Milestone	Percentage of payment
Completion, inspection and acceptance of the construction works	90% of the contract price of the works
Within 0.5 year from completion, inspection and acceptance of the construction works	7% of the contract price of the works
Within one year from the end of the defect liability period	3% of the contract price of the works

Defect liability period and retention money

Pursuant to the Construction Contract, 3% of the Contract Price shall be withheld by Huizhou Eternity as retention money. The defect liability period for the Construction Works shall be 12 months from the date of completion, inspection and acceptance of the Construction Works. The retention money shall be paid by Huizhou Eternity to the Contractor after the end of the defect liability period.

Duration of the Construction Works

It is expected that the duration of the Construction Works will be 380 days commencing from 16 July 2020 to 31 July 2021.

REASONS FOR AND BENEFIT OF ENTERING INTO OF THE CONSTRUCTION CONTRACT

The Group is principally engaged in the business of EMS which includes provision of design enhancement and verification, offering of technical advice and engineering solutions, raw materials selection and procurement, quality control, logistic and delivery and after-sale services to the customers in respect of the assembling and production of printed circuit board assemblies and fully-assembled electronic products.

Reference is made to the announcement of the Company dated 22 July 2019, in which it was disclosed that Huizhou Eternity has acquired a piece of land which was located at Block JD-130-05-02, South District, Shuikou Private Industrial Park, Huicheng District, Huizhou City, the PRC* (中國惠州市惠城區水口民營工業園南區JD-130-05-02地塊) (the “**Land**”). As part of the business strategies of the Group to lower the impact from the trade friction between the United States of America and China and the outbreak of novel coronavirus (COVID-19) as disclosed in the “Reasons for and benefit of the change in use of proceeds” below, the Group plans to construct its own production base instead of renting one to increase the interest of the Shareholders in the long term. The Directors consider that it is commercially beneficial to the Group and an appropriate time to enter into the Construction Contract for constructing a production base on the Land because (i) the level of rentals in the Shenzhen continues to rise and it would be more cost efficient for the Group to construct its own production base on the Land than continuously leasing third party’s premises in Shenzhen for production purpose; (ii) the cost of operating a production base and the labour cost in Huizhou are relatively lower than in Shenzhen; (iii) the Land has been left idle since July 2019 and it would not be economical for and in the benefit of the Group to leave the Land unused for a long time; and (iv) the current lease of the premises in Shenzhen for production purpose will expire in 2021 and it is expected that it would take more than a year to complete the construction works of the production base and have the new production base to come into operation.

For the reasons above, the Directors consider that entering into of the Construction Contract is in the ordinary and usual course of business of the Group and on normal commercial terms which is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

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

CHANGE IN USE OF PROCEEDS OF THE SHARE OFFER

References are made to the Prospectus and the Interim/Annual Reports. The Net Proceeds received by the Company, after deducting related underwriting fees and estimated expenses payable by the Company in connection with the Share Offer, were approximately HK\$96.7 million. It was disclosed in the Prospectus and the Interim/Annual Reports that the Company intended to apply the Net Proceeds in the following manner:

- 1) approximately HK\$64.7 million, representing approximately 66.9% of the net proceeds, will be used for expanding the Group's production capacity and enhancing the Group's production efficiency;
- 2) approximately HK\$17.4 million, representing approximately 18.0% of the net proceeds, will be used for leasing new premises to align with the Group's production capacity expansion, converting the Group's existing warehouse into an intelligent warehouse and setting up an additional intelligent warehouse;
- 3) approximately HK\$4.5 million, representing approximately 4.7% of the net proceeds, will be used for strengthening the Group's research and development capabilities;
- 4) approximately HK\$3.4 million, representing approximately 3.5% of the net proceeds, will be used for upgrading the Group's ERP system and enhance the Group's capabilities in information technology; and
- 5) approximately HK\$6.7 million, representing approximately 6.9% of the net proceeds, will be used for general working capital.

As at the date of this announcement, approximately HK\$41.4 million of the Net Proceeds remained unutilised.

For reasons set out in the paragraph headed “Reasons for and Benefit of the Change in Use of Proceeds” of this announcement below, the Board has resolved to apply part of the Net Proceeds in the payment under the Construction Contract for constructing the new production base in Huizhou and change the use of the Net Proceeds as follows:

	Planned use of Net Proceeds <i>HK\$ million</i> <i>(approximately)</i>	Utilised Net Proceeds up to the date of this announcement <i>HK\$ million</i> <i>(approximately)</i>	Unutilised Net Proceeds <i>HK\$ million</i> <i>(approximately)</i>	Proposed application of the unutilised Net Proceeds <i>HK\$ million</i> <i>(approximately)</i>	Expected timeline for the proposed application of the unutilised Net Proceeds
Expanding the Group’s production capacity and enhancing the Group’s production efficiency	64.7	43.7	21.0	—	—
Leasing new premises to align with the Group’s production capacity expansion, converting the Group’s existing warehouse into an intelligent warehouse and setting up an additional intelligent warehouse	17.4	0.8	16.6	—	—
Strengthening the Group’s research and development capabilities	4.5	4.4	0.1	0.1	By June 2021
Upgrading the Group’s ERP system and enhance the Group’s capabilities in information technology	3.4	0.4	3.0	—	—
General working capital	6.7	6.0	0.7	0.7	By June 2021
Construction of a production base in Huizhou	—	—	—	40.6	By December 2021
Total	<u>96.7</u>	<u>55.3</u>	<u>41.4</u>	<u>41.4</u>	

REASONS FOR AND BENEFIT OF THE CHANGE IN USE OF PROCEEDS

As disclosed in the 2019 annual report of the Company, the year 2019 was full of challenges for China's and the world's economic. During the financial year ended 31 December 2019, trade friction between the United States of America and China has slowed down the economic growth of both China and the world. The continuous growth in the EMS industry has also slowed down and the trade friction became more tightened in 2020. Further, in 2020, the novel coronavirus (COVID-19) outbreak has brought about additional uncertainties in the Group's operating environment in China. As far as the Group's businesses are concerned, the outbreak caused operational delays.

The Group has put in place contingency measures to lower the impact from the outbreak, and the Group will strive to sustain long-term growth in its current business, strengthen its production capacity and enhance production efficiency to secure more business opportunities by implementing the following business strategies: (i) to continue to carefully review and extensively investigate into the current situation in relation to costs and resources deployment to enhance the Group's production efficiency; (ii) to continue to strengthen the Group's research and development capabilities so that the Group can explore more business opportunities and enlarge the Group's customer base; and (iii) to construct the Group's own production base instead of renting one to increase the interest of the Shareholders in the long term. Therefore, in view of the benefits of constructing the Group's own production base as disclosed in "Reasons for and benefit of entering into of the Construction Contract" above and in furtherance of one of the Group's contingency measures to lower the impact from the trade friction and the outbreak of COVID-19 by constructing its own production base instead of renting one to increase the interest of the Shareholders in the long term as disclosed in the 2019 annual report of the Company, the Directors are of the view that the aforesaid change of the unutilised Net Proceeds will be favourable to the Group's long term business development and will represent a more appropriate utilisation of the unutilised Net Proceeds. The Board will closely monitor the utilisation of the unutilised Net Proceeds with the interests of the Company and its Shareholders in mind. The Board confirms that there is no material change in the business nature of the Group as set out in the Prospectus and the Interim/Annual Reports. The Board considered that the proposed change in use of Net Proceeds will not have any material adverse impact on the operations of the Group and is in the best interests of the Company and its Shareholders as a whole.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following respective meanings.

“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Eternity Technology Holdings Limited (恒達科技控股有限公司), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1725)
“connected person”	has the same meaning ascribed to it under the Listing Rules
“Construction Contract”	the construction contract between Huizhou Eternity and the Contractor dated 16 July 2020 to carry out the Construction Works
“Construction Works”	construction works to be carried out by the Contractor in Shuikou, Huizhou City pursuant to the Construction Contract as further elaborated in the paragraph headed “Construction Works” in this announcement
“Contract Price”	the contract price payable by Huizhou Eternity under the Construction Contract
“Contractor”	Huizhou City Chunlin Construction Engineering Company Limited* (惠州市春林建築工程有限公司)
“Director(s)”	the director(s) of the Company
“EMS”	electronics manufacturing services
“Group”	the Company and its subsidiaries
“Huizhou Eternity”	Huizhou City Eternity Technology Company Limited (惠州市恒昌盛科技有限公司), a company established in the PRC with limited liability and an indirect wholly owned subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Third Party(ies)”	the independent third party(ies) who is/are, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, independent of and not connected with the Company and the connected person(s) (as defined in the Listing Rules) of the Company
“Interim/Annual Reports”	the interim report 2018 of the Company issued on 11 September 2018, the annual report 2018 of the Company issued on 16 April 2019, the interim report 2019 of the Company issued on 10 September 2019, and the annual report 2019 of the Company issued on 7 April 2020
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Net Proceeds”	net proceeds of the Share Offer
“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
“Prospectus”	the prospectus of the Company issued on 3 August 2018
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of the Company
“Share Offer”	the public offer and the placing of the Shares as set out in the Prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.
“sq.m”	square metre(s)

By order of the Board
Eternity Technology Holdings Limited
Ma Fujun
Chairman

Hong Kong, 16 July 2020

As at the date of this announcement, the Board comprises the following members:

Executive Directors

Mr. Ma Fujun (*Chairman*)

Ms. Chen Xiaoyuan

Mr. Cheng Bin

Independent Non-executive Directors

Mr. Chan Chung Kik Lewis

Mr. Wu Chi-luen

Mr. Chow Kit Ting

The English transliteration of the Chinese name(s) in this announcement, where indicated with “”, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*