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EvDynamics

Ev Dynamics (Holdings) Limited

科軒動力(控股)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 476)

**DISCLOSEABLE TRANSACTION
IN RELATION TO
DISPOSAL OF LAND USE RIGHTS**

INTRODUCTION

The Board is pleased to announce that on 2 November 2022 (after trading hours), Chongqing Suitong, a non-wholly owned subsidiary of the Company, entered into a Settlement Agreement with CQ Planning and Natural Resources Bureau, pursuant to which Chongqing Suitong has agreed to (i) terminate the Land Use Rights Agreement; and (ii) return the Land Use Rights to the CQ Planning and Natural Resources Bureau, where CQ Planning and Natural Resources Bureau will not hold Chongqing Suitong accountable for the breaches of the contracts by Chongqing Suitong under the Land Use Rights Agreement.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio for the Company in respect of the Disposal exceeds 5% but less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

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BACKGROUND OF THE DISPOSAL

The new production plant project in Qijiang

As disclosed in the annual report of the Company for the year ended 31 March 2016, in May 2016, the Company entered into a non-legally binding investment agreement with the local authority in Qijiang District of Chongqing to acquire the Land Use Rights with a size of approximately 800 mu, pursuant to which (i) a construction plan of a new production facility for the manufacture of new energy vehicles and buses was outlined (the “**Qijiang Project**”); (ii) a subsidy equivalent to the consideration of the Land Use Rights will be provided by CQ Planning and Natural Resources Bureau for Chongqing Suitong’s acquisition of the Land Use Rights (the “**Land Subsidies**”); and (iii) the local authority will provide subsidies to Chongqing Suitong for the construction cost of the Qijiang Project (the “**Construction Subsidies**”).

On 27 February 2017 and 26 July 2017, Chongqing Suitong entered into the Land Use Rights Agreement with CQ Planning and Natural Resources Bureau for the acquisition of the Land Use Rights for three parcels of land of approximately 502.77 mu, pursuant to which the parties agreed that Qijiang Project shall be completed on or before 26 January 2021.

As disclosed in the annual report of the Company for the year ended 31 March 2018, the acquisition of approximately 502.77 mu of the Land Use Rights for the first phase construction was completed, accordingly the Group commenced the construction of the Qijiang Project. In October 2017, the Group entered into a construction contract with the Contractor for the construction of the first phase of the Qijiang Project at a consideration of RMB55,780,000, which shall be payable in phases.

During the year ended 31 March 2020, the main building blocks of the first phase of the Qijiang Project have been completed. Accordingly, the Group shall settle the construction cost incurred by the Contractor. However, with the outbreak of COVID-19 in early 2020, the Construction Subsidies were yet to materialise. Accordingly, the Group did not proceed to continue with the remaining phases of the Qijiang Project.

The Litigation

As disclosed in the annual report of the Company for the year ended 31 March 2022, the Contractor initiated a litigation against Chongqing Suitong claiming outstanding construction fees, together with the late penalties, totalling approximately RMB45,477,000 (the “**Claimed Amount**”). The Group received a civil judgement made by the Fifth Intermediate People’s Court of Chongqing (the “**Chongqing Court**”) on the Claimed Amount payable to the Contractor. In addition, the Land Use Rights together with the buildings on it were frozen under a preservation order applied by the Contractor.

On 7 July 2021, an appeal has been lodged against such judgement and the court hearing was held on 15 December 2021. On 20 January 2022, the Group received a second judgement from Chongqing Higher People’s Court, pursuant to which the Group was ordered to make immediate repayment of the Claimed Amount. Accordingly, the Group has recorded the Claimed Amount as other payables in its consolidated financial statements as at 31 March 2022.

On 23 March 2022, the Group received a notice from the Chongqing Court in respect of the application for execution of compulsory auction of the Land Use Rights and the buildings on it. On 19 May 2022, the Group received the valuation report of the Land Use Rights and the buildings on it, where Chongqing Suitong has then submitted an objection on the valuation report to the Chongqing Court. On 11 August 2022, the Company further received a notice from the Chongqing Court, that CQ Planning and Natural Resources Bureau initiated litigations against Chongqing Suitong for the breaches of the contracts by Chongqing Suitong under the Land Use Rights Agreement, as the Qijiang Project remain incomplete on or before 26 January 2021.

As further disclosed in the annual report of the Company for the year ended 31 March 2022, the Group targeted to dispose the Qijiang Project in order to settle the Claimed Amount in consideration of not affecting the liquidity position of the Group.

The Settlement

After several rounds of mediation by the Chongqing Court and CQ Planning and Natural Resources Bureau, on 27 September 2022, the Chongqing Court issued a civil mediation judgement, pursuant to which, among other things, (i) Chongqing Suitong shall return the Land Use Rights to CQ Planning and Natural Resources Bureau; (ii) CQ Planning and Natural Resources Bureau shall no longer be required to return the consideration of the Land Use Rights to Chongqing Suitong; (iii) Chongqing Suitong shall no longer be required to return the Land Subsidies to the local authority in Qijiang; (iv) the Contractor shall withdraw its litigation against Chongqing Suitong in relation to the Claimed Amount; and (v) the local authority in Qijiang shall reimburse to the Contractor as compensation of the Claimed Amount.

After assessing the above civil mediation judgement and the reasons as disclosed in the section headed “Reasons for the Disposal” below, on 2 November 2022, Chongqing Suitong entered into the Settlement Agreement with CQ Planning and Natural Resources Bureau.

THE SETTLEMENT AGREEMENT

The principal terms of the Settlement Sheet are summarized as follows.

Date

2 November 2022 (after trading hours)

Parties

- (1) Chongqing Suitong, a non-wholly owned subsidiary of the Company; and
- (2) CQ Planning and Natural Resources Bureau.

The Disposal

Chongqing Suitong and CQ Planning and Natural Resources Bureau agreed to terminate the Land Use Right Agreement, where the Land Use Rights, including all buildings and properties on the Land, shall be returned to CQ Planning and Natural Resources Bureau. No consideration will be paid by CQ Planning and Natural Resources Bureau to Chongqing Suitong in this regard, while CQ Planning and Natural Resources Bureau will not hold Chongqing Suitong accountable for the breaches of the contracts by Chongqing Suitong under the Land Use Rights Agreement.

Chongqing Suitong shall voluntarily apply for the withdrawal of any property licenses for any properties or buildings on the Land, and it shall allow the local authority to take over the Land Use Rights within 10 days of the entering of the Settlement Agreement.

The Land Use Rights to be disposed

The Land Use Rights to be returned to the CQ Planning and Natural Resources Bureau represented the land use rights for three parcels of land of approximately 502.77 mu for industrial purposes in the Qijiang District, Chongqing.

INFORMATION OF THE CQ PLANNING AND NATURAL RESOURCES BUREAU

CQ Planning and Natural Resources Bureau is the governmental authority for district planning and natural resources governance in Qijiang, Chongqing, which is established under the Ministry of Natural Resources of the PRC.

REASONS FOR THE DISPOSAL

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company consist of investment holding, development of new energy business and trading of metals and minerals. The Group also operates the Glauberite Mine located in the Guangxi Zhuang Autonomous Region of the PRC.

No impact on operation of the Company

At the material time of setting up the Qijiang Project, it was anticipated that the Group may require additional production capacity to cope with the demand of electric vehicle. However, with the outbreak of COVID-19 in early 2020, notwithstanding the Group has received increasing number of purchase orders from its customers, the growth in purchase orders have inevitably slowed down. As a result, despite the completion of the first phase of the Qijiang Project, the Group has yet to utilise the new production plant as the Group is currently utilising its existing production plant in the Wulong District of Chongqing, which has sufficient production capacity to cope with the latest increasing number of overseas orders of electric vehicles.

As such, the Disposal of the Qijiang Project has no material impact on the Group's operation. Nevertheless, the Group will continue to explore investment opportunity to expand its electric vehicle production capacity should the need and opportunity arise.

No impact on the liquidity position of the Company

As disclosed above, with the Land Subsidies and the Construction Subsidies, it was not the intention or requirement for the Group to incur any material cash outflow for the construction of the Qijiang Project. Nevertheless, with the outbreak of COVID-19 in early 2020, the Construction Subsidies are yet to materialise.

In addition, after assessing the liquidity position of the Group, the Group intends to maintain a healthy cash balance as working capital for its electric vehicle business. As the Group has sufficient production capacity to cope with the purchase orders as discussed above, the Group is of the view that it is not in the interest of the Company to incur significant cash outflow to settle the Claimed Amount for the Qijiang Project at this stage.

Furthermore, save for the minimal administration costs incurred, the Group did not incur any material cash outflow for the Qijiang Project. As such, the entering of the Settlement Agreement will allow the Group to (i) settle the litigation without incurring any cash outflow; and (ii) withdraw from the Qijiang Project with an unaudited gain of approximately HK\$1.7 million as a result of the Disposal.

Conclusion

Taking into account of the above, the Board is of the view that the Disposal is a commercially sensible business decision of the Group. As such, the Board considers the terms and conditions of the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE DISPOSAL

The Group expects to recognise an unaudited gain of approximately HK\$1.7 million as a result of the Disposal, which is calculated based the reversal of (i) the construction cost payable to the Contractor as at 31 March 2022 of approximately HK\$56.2 million; and (ii) the government grant recorded as other payable of approximately HK\$67.4 million as at 31 March 2022, deducted by the net book value of the Land Use Rights and buildings on it recorded as construction in progress as at 31 March 2022 of approximately HK\$57.0 million and HK\$64.9 million, respectively.

The actual gain or loss as a result of the Disposal to be recorded by the Group is subject to audit and will be assessed after the Completion.

LISTING RULES IMPLICATIONS

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DEFINITIONS

“Board”	the board of Directors
“Chongqing Suitong”	Chongqing Suitong Vehicles Industrial Development Company Limited (重慶穗通汽車工業發展有限公司), a limited company incorporated in the PRC and a non-wholly owned subsidiary of the Company
“Company”	Ev Dynamics (Holdings) Limited, a company incorporated under the laws of Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 476)
“Completion”	completion of the Disposal subject to and upon the respective terms and conditions of the Settlement Agreement

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Contractor”	Chongqing Boda Construction Group Co., Ltd.* (重慶博達建設集團股份有限公司), a limited company incorporated in the PRC and an independent third party
“CQ Planning and Natural Resources Bureau”	Chongqing Qijiang District Bureau of Planning and Natural Resources* (重慶市綦江區規劃和自然資源局)
“Director(s)”	the director(s) of the Company
“Disposal”	the return of the Land Use Rights and the buildings on it by Chongqing Suitong to CQ Planning and Natural Resources Bureau pursuant to the Settlement Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Land Use Rights”	the land use rights for three parcels of land situated in Qijiang, Chongqing
“Land Use Rights Agreement”	the land use rights transfer agreements dated 27 February 2017 and 26 July 2017 entered into between Chongqing Suitong and CQ Planning and Natural Resources Bureau for the acquisition of the Land Use Rights
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Settlement Agreement”	the settlement agreement dated 2 November 2022 entered into between Chongqing Suitong and CQ Planning and Natural Resources Bureau for the Disposal
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

For and on behalf of the Board
Ev Dynamics (Holdings) Limited
Cheung Ngan
Chairman

Hong Kong, 2 November 2022

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Cheung Ngan, Mr. Miguel Valdecabres Polop and Ms. Chan Hoi Ying, and three independent non-executive Directors, namely Mr. Chan Francis Ping Kuen, Dato’ Tan Yee Boon and Mr. Lee Kwok Leung.

* *For identification purpose only*