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ZHONG FA ZHAN HOLDINGS LIMITED
中發展控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 475)

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
THE TARGET LAND PARCEL AND THE FACTORY**

THE SPA

On 24 April 2018 (after the Stock Exchange trading hours), the Company, the Purchaser, being a wholly-owned subsidiary of the Company, and the Vendor entered into the SPA, pursuant to which the Purchaser has conditionally agreed to purchase by itself or any wholly-owned subsidiary of the Company established in the PRC, and the Vendor has conditionally agreed to sell the Target Assets, at the Aggregate Consideration of RMB59,212,000 (equivalent to approximately HK\$73,908,000), subject to adjustment.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition is above 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules which is subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

As Mr. Hu Yishi, a Controlling Shareholder, is effectively the indirect beneficial owner of approximately 34.5% in the registered capital of the Vendor, under Rule 14A.12(1)(c) of the Listing Rules, the Vendor is an associate of Mr. Hu Yishi and therefore, under Rule 14A.07(4) of the Listing Rules, becomes a connected person of the Company. The transaction contemplated under the SPA constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules, which is subject to, among other things, the Independent Shareholders' approval at the EGM.

Save and except for Mr. Li Wei Qi, Jacky, a non-executive Director, in his capacity as a director of the Vendor, none of the other Directors has a material interest in the SPA and the transactions contemplated thereunder or is required to abstain from voting on the Board resolution approving the Acquisition.

Given Mr. Hu Yishi and Mr. Li Wei Qi, Jacky are connected persons of the Company and have material interest in the Acquisition, Mr. Hu Yishi and Mr. Li Wei Qi, Jacky (and their respective associates), who are respectively interested in 207,454,000 Shares and 2,736,000 Shares, representing approximately 62.85% and approximately 0.83% of the issued share capital of the Company as at the date of this announcement, will abstain from voting at the EGM to approve the SPA and the transactions contemplated thereunder.

An Independent Board Committee will be established to advise the Independent Shareholders regarding the terms of the SPA and the transactions contemplated thereunder. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the SPA and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. None of the members of the Independent Board Committee will have any material interest in the SPA and the transactions contemplated thereunder.

GENERAL

A circular containing, among other things, (a) further information of the SPA; (b) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (c) the letter of advice from the independent financial adviser to be appointed containing its advice and recommendations in respect of the entering into of the SPA and the transactions contemplated thereunder; (d) the valuation report on the Target Assets; and (e) a notice convening the EGM, will be despatched to the Shareholders on or before 1 June 2018, as additional time is required for preparation of the information therein.

BACKGROUND

References are made to the Previous Announcements. On 18 December 2015, the Company entered into the Framework Tenancy Agreement with the Vendor in relation to the Group's proposed lease of the Factory upon its construction by the Vendor, and the Leasing Deposit was paid by the Company to the Vendor. However, no Tenancy was signed between the Group and the Vendor because construction of the Factory had yet been completed, and no rent was paid to the Vendor. As set out in the announcement of the Company dated 30 August 2017, among other things, the Group was then under negotiations with the Vendor for the proposed acquisition of the Factory and/or renewal of the Framework Tenancy Agreement. On 13 November 2017, the Company, the Purchaser and the Vendor entered into the MOU in relation to the proposed acquisition as well as the interim use of the Factory.

The Board is pleased to announce that on 24 April 2018 (after the Stock Exchange trading hours), the Company, the Purchaser, being a wholly-owned subsidiary of the Company, and the Vendor entered into the SPA, pursuant to which the Purchaser has conditionally agreed to purchase by itself or any wholly-owned subsidiary of the Company established in the PRC, and the Vendor has conditionally agreed to sell the Target Assets, at the Aggregate Consideration of RMB59,212,000 (equivalent to approximately HK\$73,908,000), subject to adjustment.

THE SPA

Date: 24 April 2018 (after the Stock Exchange trading hours)

Parties:

- (i) the Company;
- (ii) the Purchaser, being a wholly-owned subsidiary of the Company; and
- (iii) the Vendor.

Assets to be acquired

The Target Assets to be acquired by the Purchaser or any wholly-owned subsidiary of the Company established in the PRC comprise (i) the Target Land Parcel; and (ii) the Factory.

The original acquisition cost of the Target Land Parcel amounted to RMB10,207,000 (equivalent to approximately HK\$12,740,000). The original acquisition cost of the Factory based on the estimated construction cost as at the date of the SPA amounted to RMB49,000,000 (equivalent to approximately HK\$61,161,000).

Consideration

The Factory Consideration is RMB49,000,000 (equivalent to approximately HK\$61,161,000), subject to adjustment, and the Target Land Parcel Consideration is RMB10,212,000 (equivalent to approximately HK\$12,747,000). The Aggregate Consideration is RMB59,212,000 (equivalent to approximately HK\$73,908,000), subject to adjustment set out below, which shall be paid to the Vendor and settled by the Purchaser in the following manner:

- (i) as to RMB10,000,000 (equivalent to approximately HK\$12,482,000) shall be payable by the Purchaser within 30 days upon signing of the SPA;
- (ii) as to RMB11,000,000 (equivalent to approximately HK\$13,730,000) (the “**Second Instalment**”) shall be payable by the Purchaser within seven days upon the passing of the necessary resolution(s) by the Independent Shareholders at the EGM to approve the SPA and the transactions contemplated thereunder;
- (iii) as to RMB20,000,000 (equivalent to approximately HK\$24,964,000) shall be payable by the Purchaser on the date of completion of registration of transfer and obtaining of the land use right certificate and the property ownership certificate or the fixed assets certificate of the Target Assets under the name of the Purchaser, whereupon the Purchaser and the Vendor shall enter into a pledge agreement to pledge the land use rights of the Target Land Parcel and the Factory to the Vendor in order to secure the Purchaser’s payment obligation of the Outstanding Balance (as defined in (iv) below), which shall be released by the Vendor upon receipt of the Aggregate Consideration (subject to adjustment) in full; and
- (iv) as to the outstanding balance (the “**Outstanding Balance**”) of RMB18,212,000 (equivalent to approximately HK\$22,732,000), subject to adjustment below, shall be payable by the Purchaser (a) as to RMB3,795,000 (equivalent to approximately HK\$4,737,000) by set off against the Leasing Deposit; and (b) as to RMB14,417,000 (equivalent to approximately HK\$17,995,000) in cash, upon the later of:
 - (x) the date falling on the first anniversary of the date of the SPA; and
 - (y) completion of registration of transfer and the obtaining of the land use right certificate and the property ownership certificate or the fixed assets certificate of the Target Assets under the name of the Purchaser.

The Vendor represents and warrants that the Actual Construction Cost as shown in the Confirmation shall not exceed RMB49,000,000 (equivalent to approximately HK\$61,161,000). In the event such amount is less than RMB49,000,000 (equivalent to approximately HK\$61,161,000), the Aggregate Consideration and the Outstanding Balance shall be reduced by such difference.

In the event the Actual Construction Cost as set out in the Confirmation is higher than the Factory Consideration, no adjustment shall be made to the Aggregate Consideration.

The Aggregate Consideration was determined after arm's length negotiations between the Company, the Purchaser and the Vendor with reference to the aggregate appraised value of the Target Assets of approximately RMB63,175,000 (equivalent to approximately HK\$78,855,000) as at 28 February 2018 as assessed by an independent valuer.

The Aggregate Consideration will be funded by the Group's internal cash resources.

Conditions precedent

Completion of the SPA is conditional upon:

- (a) the Vendor having obtained the stand-alone land use right certificate in relation to the Target Land Parcel (with a total site area of not less than 49,000 square metres, the usage shall be for industrial use and the term expiring not earlier than 1 September 2064);
- (b) the Vendor having obtained the property ownership certificate of the Factory (with the total gross floor area of not less than 27,500 square metres);
- (c) the Vendor having obtained and provided the Purchaser with the Confirmation;
- (d) the Vendor having paid in full any penalty payable under the relevant land transfer contract entered between the Vendor and the Yuyao Bureau of Land and Resources on 2 September 2014 or such penalty having been waived by the Yuyao Bureau of Land and Resources;
- (e) the Company and the Purchaser being satisfied with the results of the due diligence review regarding the Target Assets;
- (f) the Purchaser being satisfied with the inspection results of the Target Assets including procedures in relation to, among other matters, environmental inspection, fire control inspection and completion inspection;
- (g) the passing of the necessary resolution(s) by the Independent Shareholders at the EGM to approve the SPA and the transactions contemplated thereunder;

- (h) the Company and/or the Purchaser having received a PRC legal opinion in relation to, among other matters, the legal position of the Target Assets, in form and substance satisfactory to the Company or the Purchaser;
- (i) the release of any pledge against the Target Assets, including the Pledge, having been obtained;
- (j) no occurrence of any event that would result in any material breach of the Vendor's representations, warranties or undertaking under the SPA;
- (k) all other necessary consents, approvals and permits for the transactions contemplated under the SPA having been obtained, and there being no material legal impediments in relation to the transfer of the Target Assets; and
- (l) the Purchaser or the Company having obtained from an independent valuer the valuation of the Target Land Parcel and the Factory (conforming to the standard required under the Listing Rules) upon the Vendor's fulfilment of conditions (a) and (b) above in the appraised value of not less than RMB13,710,000 (equivalent to approximately HK\$17,113,000) and not less than RMB50,285,000 (equivalent to approximately HK\$62,766,000), respectively.

None of the conditions set out above can be waived. In the event the conditions set out above shall not have been fulfilled by 30 September 2018 (or such other date as may be agreed in writing by the parties to the SPA), or that the Purchaser or the Company notified the Vendor in writing that it is not satisfied with the results of the due diligence review pursuant to the condition above, the Vendor shall refund all consideration paid within 10 business days to the Purchaser; in the event the Purchaser and/or the Company fail to fulfill the conditions precedent that they are responsible for, the Purchaser shall pay the Vendor an amount of RMB3,795,000 (equivalent to approximately HK\$4,737,000) as compensation (the "**Compensation**"), and the MOU shall then be terminated. The Compensation shall be offset by the Leasing Deposit, which in turn shall be refunded by the Vendor to the Purchaser upon termination of the MOU pursuant to the terms thereof. The SPA shall be terminated automatically after the Purchaser's receipt of the refunded consideration.

Release of the Pledge

Pursuant to the Pledge Agreement, the Vendor has pledged the land use right of the Land Parcel and the Factory to the Bank as security (up to the amount of RMB110,000,000 (equivalent to approximately HK\$137,302,000)) for a loan facility to the Vendor. As at the date of this announcement, the outstanding loan due to the Bank from the Vendor amounted to RMB21,000,000 (equivalent to approximately HK\$26,212,000). It is expected that the Pledge shall be released within 30 days upon receipt of the Second Instalment by the Vendor.

Completion

Within 15 business days after the date on which all conditions precedent to the SPA having been fulfilled (or such other date as the Purchaser and the Vendor may agree in writing), the parties to the SPA shall make application for registration of the transfer of ownership of the Factory and the Target Land Parcel, the issuance of the new property ownership certificate of the Factory and the new land use right certificate of the Target Land Parcel under the name of the Purchaser.

INFORMATION ON THE TARGET LAND PARCEL AND THE FACTORY

The Target Assets consist of the Target Land Parcel and the Factory. The Target Land Parcel is a portion of the Land Parcel with a total site area of 145,472 square metres located in the Binhai New Area, Economic Development Zone, Yuyao, Zhejiang Province, the PRC. The premium for the Land Parcel has been duly paid in full and the land use right certificate of the Land Parcel is currently held by the Vendor. Based on the development documents, the Target Land Parcel has a total site area of 49,306.92 square metres, on which the Target Factory is built. Based on the development documents, the total gross floor area of the Factory is 27,292.79 square metres.

It is a condition precedent to the Acquisition that the Vendor should have obtained a stand-alone land use right certificate in relation to the Target Land Parcel (with a total site area of not less than 49,000 square metres) and the property ownership certificate of the Factory (with the total gross floor area of not less than 27,000 square metres). The Target Land Parcel shall be granted for a term expiring not earlier than 1 September 2064 for industrial use.

As at the date of this announcement, the construction of the Factory is completed and the application for the property ownership certificate of the Factory is in progress.

INFORMATION ON THE VENDOR

The Vendor is a company established under the laws of the PRC and is principally engaged in the property development and rental services in the PRC.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in jewelry business in Hong Kong and the PRC, as well as solar energy business in the PRC.

The Group has been expanding its solar energy business since the end of 2015. In view of the imminent need of factory premises for its business operation, the Company entered into the Framework Tenancy Agreement with the Vendor in 2015 for the Group's proposed lease of the Factory upon its construction by the Vendor. The Company intended to use the Factory as the production plant of the Coolstore cooling-stored pipes.

Having undergone the testing stage for solar-powered interior climate products, the Group commenced sales of solar photovoltaic products in 2016. With the established international sales channels by making use of the network of Suncool AB, a leading energy conservation technologies development company in Sweden, and the optimistic prospects under favourable policy environment in the PRC, the Company expected the demand for such products would increase gradually. To facilitate the production capacity in order to meet the growing demand of solar photovoltaic products, the Company, the Purchaser and the Vendor entered into the MOU in 2017 in relation to the proposed acquisition of the Factory, as well as the interim use of the Factory. The entering into of the SPA could therefore conclude the Acquisition which would enable the Group to cope with its future development while at the same time saving rental cost of the Factory in the long run.

Considering the above, the Directors (excluding Mr. Li Wei Qi, Jacky and all independent non-executive Directors) are of the view that the terms of the SPA and the transactions contemplated thereunder are on normal commercial terms after arm's length negotiations, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition is above 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules which is subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

As Mr. Hu Yishi, a Controlling Shareholder, is effectively the indirect beneficial owner of approximately 34.5% in the registered capital of the Vendor, under Rule 14A.12(1)(c) of the Listing Rules, the Vendor is an associate of Mr. Hu Yishi and therefore, under Rule 14A.07(4) of the Listing Rules, becomes a connected person of the Company. The transaction contemplated under the SPA constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules, which is subject to, among other things, the Independent Shareholders' approval at the EGM.

Save and except for Mr. Li Wei Qi, Jacky, a non-executive Director, in his capacity as a director of the Vendor, none of the other Directors has a material interest in the SPA and the transactions contemplated thereunder or is required to abstain from voting on the Board resolution. Mr. Li Wei Qi, Jacky is not a shareholder of the Vendor. He abstained from voting at the Board meeting approving the SPA and the transactions contemplated thereunder.

Given Mr. Hu Yishi and Mr. Li Wei Qi, Jacky are connected persons of the Company and have material interest in the Acquisition, Mr. Hu Yishi and Mr. Li Wei Qi, Jacky (and their respective associates), who are respectively interested in 207,454,000 Shares and 2,736,000 Shares, representing approximately 62.85% and approximately 0.83% of the issued share capital of the Company as at the date of this announcement, will abstain from voting at the EGM for approving the SPA and the transactions contemplated thereunder.

An Independent Board Committee will be established to advise the Independent Shareholders regarding the terms of the SPA and the transactions contemplated thereunder. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the SPA and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. None of the members of the Independent Board Committee will have any material interest in the SPA and the transactions contemplated thereunder.

GENERAL

A circular containing, among other matters, (a) further information of the SPA; (b) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (c) the letter of advice from the independent financial adviser to be appointed containing its advice and recommendations in respect of the entering into of the SPA and the transactions contemplated thereunder; (d) the valuation report on the Target Assets; and (e) a notice convening the EGM, will be despatched to the Shareholders on or before 1 June 2018, as additional time is required for preparation of the information therein.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“Acquisition”	the acquisition of the Target Assets pursuant to the SPA
“Actual Construction Cost”	the actual construction cost of the Factory to be concluded with reference to the Confirmation

“Aggregate Consideration”	the aggregate of the Factory Consideration and the Target Land Parcel Consideration
“associate(s)”	has the same meaning as ascribed to it under the Listing Rules
“Bank”	the bank as the pledgee under the Pledge Agreement
“Board”	the board of Directors
“Company”	Zhong Fa Zhan Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“Confirmation”	the confirmation on the completion cost of construction of the Factory to be issued by Shanghai Haida Engineering Construction Consulting Co., Ltd, an engineering construction consulting company which is independent of both of the Purchaser and the Vendor, as an engineering audit unit
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholder”	has the meaning ascribed thereto in the Listing Rules
“CoolStore”	Suncool AB’s CoolStore concept for solar heating and cooling collectors, based on proprietary triple-state absorption technology of ClimateWell AB (publ)
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held to approve, among other matters, the SPA and the transactions contemplated thereunder
“Factory”	the factory constructed by the Vendor on the Target Land Parcel located on the north side of Binhai Avenue, Binhai New Area, Yuyao, Zhejiang Province, the PRC
“Factory Consideration”	the consideration for the Factory pursuant to the SPA

“Framework Tenancy Agreement”	the framework agreement dated 18 December 2015 entered into between the Company, as tenant, and the Vendor, as landlord, in respect of the Factory, details of which are set out in the announcement of the Company dated 18 December 2015
“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 PRC
“Independent Board Committee”	the independent committee of the Board (comprising all independent non-executive Directors) to be established to advise the Independent Shareholders in respect of the entering into of the SPA and the transactions contemplated thereunder
“Independent Shareholders”	all Shareholders other than Mr. Hu Yishi and Mr. Li Wei Qi, Jacky and their respective associates, and those who have a material interest in the SPA and the transactions contemplated thereunder
“Land Parcel”	a piece of land with a total site area of 145,472 square metres located in the Binhai New Area, Economic Development Zone, Yuyao, Zhejiang Province, the PRC
“Leasing Deposit”	the refundable deposit of RMB3,795,000 (equivalent to approximately HK\$4,737,000) paid by the Company to the Vendor pursuant to the terms of the Framework Tenancy Agreement and which has subsequently been applied as security deposit to secure the Purchaser’s obligations under the MOU
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“MOU”	the memorandum of understanding dated 13 November 2017 entered into between the Company, the Purchaser and the Vendor in relation to the proposed acquisition of the Factory, as well as the interim use of the Factory, details of which are set out in the announcement of the Company dated 13 November 2017
“Pledge”	the pledge of the land use right of the Land Parcel and the Factory by the Vendor to the Bank as a security (up to the amount of RMB110,000,000 (equivalent to approximately HK\$137,302,000)) for a loan facility pursuant to the Pledge Agreement
“Pledge Agreement”	the pledge agreement dated 26 December 2016 entered into between the Vendor and the Bank in relation to the Pledge
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC
“Previous Announcements”	the announcements of the Company dated 18 December 2015, 30 August 2017 and 13 November 2017
“Purchaser”	寧波升谷節能科技有限公司 (Ningbo Shenggu Energy Reservation Technology Co., Ltd.*), a limited liability company established under the laws of the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of Shares
“SPA”	the conditional sale and purchase agreement entered into between the Company, the Purchaser and the Vendor on 24 April 2018 in relation to the sale and purchase of the Target Assets
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Target Assets”	the Factory and the Target Land Parcel
“Target Land Parcel”	the parcel of land of a site area of approximately 49,000 square metres located in the Binhai New Area, Yuyao, Zhejiang Province, the PRC
“Target Land Parcel Consideration”	the consideration for the Target Land Parcel pursuant to the SPA
“Tenancy”	the tenancy proposed to be entered into between the Company or any subsidiary of the Company as tenant and the Vendor as landlord pursuant to and contemplated under the Framework Tenancy Agreement
“Vendor”	中節能(余姚)低碳技術開發有限公司 (CECEP (Yuyao) Low Carbon Technology Development Co., Ltd.*), a limited liability company established under the laws of the PRC
“%”	per cent

By Order of the Board
Zhong Fa Zhan Holdings Limited
Chan Wing Yuen, Hubert
Chief Executive & Executive Director

Hong Kong, 24 April 2018

* *For identification purpose only*

As at the date of this announcement, the Board consists of three executive Directors, namely Mr. Wu Hao, Mr. Hu Yangjun and Mr. Chan Wing Yuen, Hubert; a non-executive Director, namely Mr. Li Wei Qi, Jacky; and three independent non-executive Directors, namely Mr. Wu Chi Keung, Ms. Kwok Pui Ha and Mr. Jin Qingjun.

For the purpose of this announcement, the conversion rate of RMB to HK\$ is set at the rate of RMB1.00 for HK\$1.2482.