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CHINA BEST GROUP HOLDING LIMITED

國華集團控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 370)

**DISCLOSEABLE AND EXEMPTED CONNECTED TRANSACTION
IN RELATION TO
SETTLEMENT ARRANGEMENTS ENTAILING
THE DISPOSAL OF 20% EQUITY INTEREST IN
TANGSHAN JIDONG GEOTHERMAL ENERGY
DEVELOPMENT CO., LTD.**

Financial adviser to the Company



THE AGREEMENT

On 19 November 2020, Huaihua Qinneng (a wholly-owned subsidiary of the Company) and Haixia Fund entered into the Agreement pursuant to which, among other things, the parties agreed that, with effect from the Effective Date, (i) all shareholder rights and equity transfer rights of Baoshihua (which is held as to 70% by Huaihua Qinneng) with respect to its 20% equity interest in the Target Company will be exercised solely by Haixia Fund to the exclusion of Huaihua Qinneng and Baoshihua; and (ii) any proceeds from the disposal of the equity interest held by Baoshihua in the Target Company and any share of profit with respect to the 20% equity interest in the Target Company for the period commencing from the Effective Date will be solely owned by Haixia Fund, and Huaihua Qinneng and Baoshihua will no longer enjoy any of the benefits and will not bear any losses in relation thereto.

* For identification purpose only

Pursuant to the Agreement, Huaihua Qinneng shall pay Haixia Fund (or such account designated by Haixia Fund) a sum of RMB11,000,000 as part payment of the Outstanding Amount; and upon receipt of the said RMB11,000,000, Haixia Fund shall execute, and procure Kunlun to execute, the corporate registration documents required for the release of the Equity Pledge.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal is above 5% and all of the applicable percentage ratios are less than 25%, the Disposal constitutes a discloseable transaction for the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Haixia Fund holds 24% equity interest in Baoshihua and is a substantial shareholder of Baoshihua. Accordingly, Haixia Fund is a connected person at the subsidiary level of the Company under Chapter 14A of the Listing Rules and the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As (i) the Disposal has been approved by the Board and (ii) the independent non-executive Directors have confirmed that the terms of the Disposal are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its shareholders as a whole, the Disposal is subject to the reporting and announcement requirements, but is exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 18 February 2020 in respect of the acquisition of the entire equity interest in Beijing Yuehai by Guohua Jiaye (a wholly-owned subsidiary of the Company) pursuant to the Beijing Yuehai Acquisition Agreement.

As at the date of this announcement, Beijing Yuehai, through its wholly-owned subsidiary Huaihua Qinneng, holds 70% equity interest in Baoshihua, and such 70% equity interest has been pledged in favour of Kunlun and Haixia Fund to secure the payment of the Outstanding Amount (the “**Equity Pledge**”).

Pursuant to the Beijing Yuehai Acquisition Agreement, Guohua Jiaye agreed, among other things, that upon completion of the acquisition of Beijing Yuehai, Guohua Jiaye will procure Huaihua Qinneng to settle the Outstanding Amount of RMB60,000,000 under the Previous Equity Transfer Agreement to Kunlun and Haixia Fund. Pursuant to the Previous Equity Transfer Agreement, within seven business days after receiving the Outstanding Amount, Kunlun and Haixia Fund shall release the Equity Pledge. As at the date of this announcement, the Outstanding Amount remains unpaid.

THE AGREEMENT

On 19 November 2020, Huaihua Qinneng (a wholly-owned subsidiary of the Company) and Haixia Fund entered into the Agreement in relation to, among other things, the Disposal. The principal terms of the Agreement are set out below.

Parties

- (i) Huaihua Qinneng; and
- (ii) Haixia Fund.

Settlement Arrangements

Pursuant to the Agreement, the parties agreed that:

- (a) with effect from the Effective Date,
 - (1) all shareholder rights and equity transfer rights (including without limitation, the right to nominate director(s) and to determine the identity of transferee, transfer price and procedures for any equity transfer) of Baoshihua (which is held as to 70% by Huaihua Qinneng) with respect to its 20% equity interest in the Target Company will be exercised solely by Haixia Fund to the exclusion of Huaihua Qinneng and Baoshihua;
 - (2) any proceeds from the disposal of the equity interest held by Baoshihua in the Target Company and any share of profit with respect to the 20% equity interest in the Target Company for the period commencing from the Effective Date will be solely owned by Haixia Fund, and Huaihua Qinneng and Baoshihua will no longer enjoy any of the benefits and will not bear any losses in relation thereto; and
 - (3) Huaihua Qinneng shall unconditionally cooperate and arrange for Baoshihua to go through necessary procedures (including capital reduction, the requisite approval and execution of agreements) in accordance with Haixia Fund's directions, and to ensure and unconditionally cooperate with the transfer of the said proceeds from disposal from Baoshihua to Haixia Fund or Haixia Fund's designated party; and
- (b) within 30 days after the Effective Date or within three days after Huaihua Qinneng receives the payment notice from Haixia Fund (whichever is earlier), Huaihua Qinneng shall pay Haixia Fund (or such account designated by Haixia Fund) a sum of RMB11,000,000 as part payment of the Outstanding Amount (the "**Balance Amount**"); and upon receipt of the Balance Amount, Haixia Fund shall execute, and coordinate with Kunlun for Kunlun's execution and delivery of, the corporate registration documents required for the release of the Equity Pledge.

(The arrangements set out above are collectively referred as the "**Settlement Arrangements**".)

The parties agreed that, upon completion of the matters set out in paragraph (b) above, all obligations (save as stipulated in paragraph (a) above) between Huaihua Qinneng and Haixia Fund under the Previous Equity Transfer Agreement shall be deemed fulfilled, that is, all the equity transfer payments payable by Huaihua Qinneng shall be deemed settled; Huaihua Qinneng shall not be required to make any payment to Haixia Fund pursuant to the Previous Equity Transfer Agreement; and Huaihua Qinneng and Haixia Fund shall no longer have the right to terminate the Previous Equity Transfer Agreement.

Implied consideration

Based on the Settlement Arrangements as set out above, the proposed release of the Equity Pledge under the Agreement and the resolutions unanimously approved by the directors of Baoshihua in connection with the Agreement, the total implied consideration for the Disposal amounts to RMB70,000,000 (the “**Implied Consideration**”), which will be distributed to the shareholders of Baoshihua in the following manner:

- (a) As at the date of this announcement, Baoshihua is held as to 70% by Huaihua Qinneng, 24% by Haixia Fund and 6% by Kunlun. The board of directors of Baoshihua have approved that the Implied Consideration will be allocated to the shareholders of Baoshihua on pro-rata basis based on their respective equity interest in Baoshihua. Accordingly, out of the Implied Consideration of RMB70,000,000, Huaihua Qinneng will be entitled to RMB49,000,000; and Haixia Fund and Kunlun will be entitled to RMB21,000,000 in aggregate; and
- (b) The portion of the Implied Consideration attributable to Huaihua Qinneng (i.e. RMB49,000,000), will be applied towards the set-off of the equivalent amount of the Outstanding Amount. Immediately after such set-off and the payment of the Balance Amount of RMB11,000,000 by Huaihua Qinneng to Haixia Fund, the Outstanding Amount of RMB60,000,000 owing by Huaihua Qinneng to Kunlun and Haixia Fund will be deemed settled.

The Implied Consideration and the Settlement Arrangements were determined among shareholders of Baoshihua after arm’s length negotiations with reference to:

- (a) the carrying value of the 20% equity interest in the Target Company of approximately RMB59,910,000 as at 31 July 2020; and the Implied Consideration represents a premium of approximately 16.84% over such carrying value; and

- (b) the appraised fair value of the 20% equity interest in the Target Company of approximately RMB67,000,000 and the appraised fair value of the Group's 14% effective interest in the Target Company of approximately RMB47,000,000 as at 31 July 2020, based on the valuation report prepared by APAC Asset Valuation and Consulting Limited, an independent valuer, under the market approach in accordance with the International Valuation Standard, and the Implied Consideration of RMB70,000,000 and implied settlement amount of RMB49,000,000 represent a premium of approximately 4.48% and approximately 4.26% over the appraised fair value of 20% and 14% equity interest in the Target Company, respectively.

Other covenants

If the 20% equity interest in the Target Company held by Baoshihua cannot be transferred to third party due to reasons of Baoshihua or Huaihua Qinneng, Huaihua Qinneng shall indemnify Haixia Fund for the corresponding amount of consideration of such equity interest transfer.

INFORMATION OF THE TARGET COMPANY

The Target Company is a limited liability company established in the PRC in March 2019. As at the date of this announcement, it is held as to 20% by Baoshihua and as to 80% by Independent Third Parties. It principally engages in the development, production and sales of the geothermal energy and the provision of heat supply to various buildings located in residential areas in the PRC.

Set out below is certain key financial information of the Target Company for the year ended 31 December 2019 and the seven months ended 31 July 2020:

	From the date of incorporation to 31 December 2019 (Note) (unaudited) (RMB'000)	For the seven months ended 31 July 2020 (unaudited) (RMB'000)
Revenue	79,742	41,392
Net profit before tax	50,506	6,714
Net profit after tax	37,948	5,902

Note: The Target Company was incorporated in March 2019.

Based on the unaudited management accounts of the Target Company as at 31 July 2020, the net asset value of the Target Company was approximately RMB202,913,000.

As Baoshihua is an indirect non-wholly owned subsidiary of Beijing Yuehai and holds 20% of the Target Company, the Group indirectly acquired interest in the Target Company through its acquisition of the entire equity interest in Beijing Yuehai. The original acquisition cost of the entire equity interest in Beijing Yuehai, including the indirect interest in the Target Company, to the Company was RMB170,000,000, which comprises (i) cash consideration of RMB110,000,000 and (ii) the Outstanding Amount payable to Kunlun and Haixia Fund. There is no separate original acquisition cost of 20% equity interest of the Target Company. According to a purchase price allocation report issued by APAC Asset Valuation and Consulting Limited, the fair value of 20% equity interest of the Target Company held by Baoshihua as at 24 March 2020, being the completion date of the acquisition of Beijing Yuehai, amounts to approximately RMB57,508,000.

INFORMATION OF THE GROUP

The Group is principally engaged in (i) trading of electronic devices, (ii) the finance leasing business, (iii) the money lending business, (iv) the securities and futures brokerage business, (v) international air and sea freight forwarding and the provision of logistics services, (vi) trading of securities, (vii) property investment, (viii) the property brokerage business, (ix) the building architecture and interior design business, (x) the property development business, (xi) the geothermal energy business and (xii) the building construction contracting business.

Huaihua Qinneng is a limited liability company established in the PRC in October 2019, which is a wholly-owned subsidiary of the Company. Its principal business activities include development and promotion of new energy.

Baoshihua is a limited liability company established in the PRC in March 2018. As at the date of this announcement, it is held as to 70% by Huaihua Qinneng, as to 6% by Kunlun and as to 24% by Haixia Fund. It, through its subsidiaries, principally engages in developing and utilising geothermal energy in provision of heating and cooling supply to various buildings located in residential areas in the PRC.

INFORMATION OF HAIXIA FUND

Haixia Fund is a limited liability company established in the PRC. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, (i) Haixia Fund's principal business activities include investment management, equity investment and trustee management of equity investment funds; and (ii) Haixia Fund is held as to 47% by Strait Energy Limited (海峽能源有限公司) (“**Strait Energy**”), 35% by 高能天匯創業投資有限公司 (Gaoneng Tianhui Venture Investment Co., Ltd.*) (“**Gaoneng Tianhui**”) and 18% by 廈門高能海濱股權投資基金合夥企業 (有限合夥) (Xiamen Gaoneng Haibin Equity Investment Fund Enterprise (Limited Partnership)*) (“**Xiamen Gaoneng**”). Strait Energy is held as to 40% by Strait Energy Investment Company Limited (海峽能源投資有限公司), being a wholly owned subsidiary of 中國石油天然氣集團有限公司 (China National Petroleum Corporation), which is in turn wholly owned by State-owned Assets Supervision and Administration Commission of the State Council. Gaoneng Tianhui is held as to 49% by 王曉濱 (Wang Xiaobin*) as the single largest shareholder. Xiamen Gaoneng is held as to 99.5% by 賴坤躍 (Lai Kunyue*).

INFORMATION OF KUNLUN

Kunlun is a limited liability company established in the PRC. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Kunlun's principal business activities include capital trusts and other property trusts, investment fund business, corporate restructuring, mergers and acquisitions and project financing, financial advisory, bond underwriting business, credit investigation services and inter-bank lending (foreign currency).

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for the fact that Kunlun holds 6% interest in Baoshihua, Kunlun and its ultimate beneficial owners are Independent Third Parties.

FINANCIAL EFFECT OF THE DISPOSAL

After completion of the Disposal, the Company will cease to own any beneficial interest in the Target Company, and the Target Company will cease to be accounted as an associate of the Company.

For illustrative purpose only and subject to final audit, it is expected that the Group will realise a net gain on the Disposal of approximately RMB10,090,000 for the year ending 31 March 2021 based on the estimated difference between the Implied Consideration of RMB70,000,000 and the carrying value of the 20% equity interest in the Target Company of approximately RMB59,910,000 as at 31 July 2020, which gain amount will be attributed to the shareholders of the Company as to approximately RMB7,063,000 and to Kunlun and Haixia Fund in aggregate as to approximately RMB3,027,000, respectively. No cash proceeds will be received by the Group from the Disposal.

REASONS FOR AND BENEFITS OF THE DISPOSAL

As disclosed above, pursuant to the Beijing Yuehai Acquisition Agreement, the Group agreed to settle the Outstanding Amount of RMB60,000,000 under the Previous Equity Transfer Agreement to Kunlun and Haixia Fund. The repayment of the Outstanding Amount will exert pressure on the Group's cash flow position and restrict the available cash resources that could otherwise be used for developing the Group's business. Further, since the Company indirectly holds interest in the Target Company through its 70% interest in Baoshihua and the Company does not hold a controlling interest in the Target Company, the investment in the Target Company is accounted for as an investment in associate in the Group's consolidated statement of financial position and the synergetic effects generated from such investment are limited given that the Company is only a minority shareholder and does not involve in the daily operation and management of the Target Company. On the other hand, the release of the Equity Pledge could facilitate the financing activities of Baoshihua when the needs arise. Accordingly, the Directors consider that it will be beneficial to the Group to implement the Disposal and the Settlement Arrangements with a view to realising its investment in the Target Company at a profit, alleviating the impact on the Company's cash flow position upon settlement of the Outstanding Amount, reducing the liabilities of the Group and retaining financial resources for developing the Group's businesses.

Taking into account of the above, the Directors (including the independent non-executive Directors) consider that, notwithstanding that the transactions contemplated under the Agreement are not in the ordinary and usual course of business of the Group, the terms of the Agreement (including the Implied Consideration and the Settlement Arrangements) are on normal commercial terms or better and the Disposal is fair and reasonable and in the interests of the Company and its shareholders as a whole.

None of the Directors has any material interest in the Agreement, and no Director was required to abstain from voting on the board resolutions of the Company approving the Agreement.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal is above 5% and all of the applicable percentage ratios are less than 25%, the Disposal constitutes a discloseable transaction for the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Haixia Fund holds 24% equity interest in Baoshihua and is a substantial shareholder of Baoshihua. Accordingly, Haixia Fund is a connected person at the subsidiary level of the Company under Chapter 14A of the Listing Rules and the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As (i) the Disposal has been approved by the Board and (ii) the independent non-executive Directors have confirmed that the terms of the Disposal are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its shareholders as a whole, the Disposal is subject to the reporting and announcement requirements, but is exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

DEFINITIONS

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

“Agreement”	the second supplemental agreement entered into between Huaihua Qinneng and Haixia Fund on 19 November 2020 in relation to the Disposal
“Baoshihua”	寶石花地熱能開發有限公司 (Baoshihua Geothermal Energy Development Co., Ltd.*), a limited liability company established in the PRC, which is held as to 70% by Huaihua Qinneng, 24% by Haixia Fund and 6% by Kunlun
“Beijing Yuehai”	北京岳海企業管理有限公司 (Beijing Yuehai Enterprise Management Co., Ltd.*), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company

“Beijing Yuehai Acquisition Agreement”	the equity transfer agreement dated 18 February 2020 entered into by, among others, Guohua Jiaye (as purchaser) and 青島茂捷企業管理合夥企業(有限合夥) (Qingdao Maojie Enterprise Management Partnership (LLP)*) and 李靜 (Li Jing*) (as vendors), in relation to the transfer of the entire equity interest in Beijing Yuehai
“Board”	the board of Directors
“Company”	China Best Group Holding Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 370)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Disposal”	the transactions contemplated under the Agreement (including the disposal of 20% equity interest of the Target Company and the release of the Equity Pledge)
“Effective Date”	19 November 2020, being the date on which the Agreement was signed by the parties with official seal affixed and became effective
“Group”	the Company and its subsidiaries
“Guohua Jiaye”	國華佳業(北京)企業管理有限公司 (Guohua Jiaye (Beijing) Enterprise Management Co., Ltd.*), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
“Haixia Fund”	海峽能源產業基金管理(廈門)有限公司 (Haixia Energy Industrial Fund Management (Xiamen) Co., Ltd.*), a limited liability company established in the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Huaihua Qinneng”	懷化勤能科技開發有限公司 (Huaihua Qinneng Technology Development Co., Ltd.*), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
“Independent Third Party(ies)”	an individual or a company who is not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates
“Kunlun”	昆侖信託有限責任公司 (Kunlun Trust Co., Ltd.*), a limited liability company established in the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Outstanding Amount”	the aggregate amount of RMB60,000,000 owed by Huaihua Qinneng to Kunlun and Haixia Fund under the Previous Equity Transfer Agreement
“PRC”	the People’s Republic of China
“Previous Equity Transfer Agreement”	the equity transfer agreement (as amended and supplemented from time to time) entered into by and between Huaihua Qinneng and Haixia Fund pursuant to which Haixia Fund and Kunlun in aggregate agreed to transfer 70% equity interest in Baoshihua to Huaihua Qinneng
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Target Company” 唐山冀東地熱能開發有限公司 (Tangshan Jidong Geothermal Energy Development Co., Ltd.*), a limited liability company established in the PRC and is held as to 20% by Baoshihua and 80% by Independent Third Parties

“%” per cent.

* *for identification purpose only*

By Order of the Board
China Best Group Holding Limited
Mr. Qin Jie
Executive Director and Chief Executive Officer

Hong Kong, 19 November 2020

As at the date of this announcement, the Board comprises five executive Directors, namely, Ms. Wang Yingqian (Chairman), Mr. Qin Jie (Chief Executive Officer), Mr. Liu Wei, Mr. Chen Wei and Mr. Fan Jie, and three independent non-executive Directors, namely, Mr. Ru Xiangnan, Mr. Liu Haiping and Mr. Liu Tonghui.