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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 TRANSACTION  
IN RELATION TO  
THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN  
YUNCHENG CITY WANDEFU HOT POWER CO., LTD.**

**THE ACQUISITION**

On 8 September 2020, the Target Company and the Investor (a wholly-owned subsidiary of the Company) entered into the Reorganisation Agreement pursuant to which, among other things, the Target Company agreed that the Investor would act as the reorganisation investor and the Investor (or the designated entity of the Investor) would acquire the entire equity interest in the Target Company upon completion of the Transfer Registration Procedures. The amount of the Investment Sum payable by the Investor in respect of the Reorganisation is RMB110,000,000. Pursuant to the Reorganisation Agreement, the Investor also agreed to buy back two natural gas boilers at their respective original costs (i.e. approximately RMB3,500,000 in aggregate).

Upon completion of the Transfer Registration Procedures, the Target Company and its direct wholly-owned subsidiary, Yuncheng Zuomin, will become indirect wholly-owned subsidiaries of the Company and the assets and liabilities of the Target Group will be consolidated into the financial statements of the Group.

**LISTING RULES IMPLICATIONS**

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

\* For identification purpose only

# THE REORGANISATION AGREEMENT

## Date

8 September 2020

## Parties

- (i) the Investor; and
- (ii) the Target Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Target Company and their ultimate beneficial owners, being Mr. Ren and Mr. Jin, are Independent Third Parties.

## Subject Matter

Pursuant to the Reorganisation Agreement, the Target Company agreed that the Investor would act as the reorganisation investor and the Investor (or the designated entity of the Investor) would acquire the entire equity interest in the Target Company upon completion of the Transfer Registration Procedures.

## Investment Sum

The Investment Sum amounts to RMB110,000,000, which shall be payable by the Investor in cash in the following manner:

- (i) RMB40,000,000 (the “**Deposit**”) shall be payable to the Administrator by 10 September 2020 as deposit and initial payment;
- (ii) RMB20,000,000 (the “**Second Payment**”) shall be payable to the Administrator by 31 January 2021; and
- (iii) the balance of the Investment Sum (i.e. RMB50,000,000, being the amount of the Investment Sum less the Deposit and the Second Payment) shall be payable to the designated account of the Administrator in accordance with the execution progress of the Reorganisation by 31 May 2021.

The Investment Sum will be utilized to settle bankruptcy expenses relating to the Reorganisation, community liabilities, employee claims and other debts and payables owed by the Target Company but does not cover taxes arising from the Reorganisation process and any investment during the Transitional Operation (as defined below) and future operation.

The Investment Sum was determined between the Investor, the Target Company and the Administrator after arm's length negotiations with reference to, among other things:

- (i) the appraised value of the fixed assets of the Target Company as at 30 June 2020 (excluding the land use rights owned by the Target Company) of approximately RMB111,019,000 (the “**Valuation**”), based on the valuation report prepared by Zhong Ming (Beijing) Assets Appraisal International Co., Ltd, an independent valuer appointed by the Group, under the cost approach in accordance with the Asset Valuation Standards issued by the Ministry of Finance of China, the Practicing Standards and Professional Code of Ethics for the Appraisal of Assets issued by the China Appraisal Society and other applicable standards and practices. To the best of the knowledge of the Company having made all reasonable enquiries, the book value of the land use rights held by the Target Company as at 30 September 2018 was approximately RMB9,948,000;
- (ii) the appraised value of fixed assets, land use rights and inventory of the Target Company as at 30 September 2018 of approximately RMB120,361,000, based on the valuation report arranged and provided by the Administrator, under the cost approach prepared by an independent valuer appointed by the Administrator; and
- (iii) the reasons for and benefits of the Acquisition as detailed in the section headed “Reasons for and benefits of the Acquisition” of this announcement.

The Investment Sum and the purchase price of the Natural Gas Boilers (as defined below) will be funded by the Group's internal resources and/or fund raising activities of the Group.

### **Reorganisation Arrangement**

The Reorganisation involves, among others, the following procedures:

- (i) with effect from the date of the Reorganisation Agreement, the Investor will take possession of the operation of all heat power assets of the Target Company (the “**Transitional Operation**”). Until completion of all requisite procedures for the transfer of assets and ownership between the Target Company and the Investor, the Investor will only have the right to possess and use such assets and the right to receive revenue generated therefrom; and
- (ii) the Investor (or such other entity designated by the Investor) shall become the sole shareholder of the Target Company by no later than 30 September 2020 (unless extended for reasons not within the control of the Investor and the Target Company). Each of the Target Company and the Administrator shall cooperate in the Transfer Registration Procedures.

In the event that the Transfer Registration Procedures cannot be completed due to causes attributable to the Target Company, the Investor shall be entitled to claim against the Target Company for economic losses to the Investor resulting therefrom.

### **Reorganisation Proposal**

The Reorganisation Proposal was approved by the Court on 31 July 2020. In the Reorganisation process, the creditor's rights, community liabilities and bankruptcy expenses determined by the Court shall be paid off in accordance with the Reorganisation Proposal.

### ***Implementation Period***

The Reorganisation Proposal shall be implemented by the Target Company within one year from the Court Approval Date (the "**Implementation Period**"). If due to objective reasons, the Reorganisation Proposal cannot be completed within the Implementation Period, the Administrator or the Target Company shall submit an extension application to the Court prior to the expiration of the Implementation Period to seek the directions of the Court.

### ***Completion of Implementation of the Reorganisation Proposal***

The implementation of the Reorganisation Proposal shall be deemed completed upon the fulfillment of all of the following conditions:

- (i) the bankruptcy expenses and community liabilities having been settled, and the repayments to creditors having been made, in accordance with the Reorganisation Proposal;
- (ii) any repayments not received by the creditors having been deposited in full in the bank account designated by the Administrator in accordance with the Reorganisation Proposal, or there having been corresponding protection for future claims of the relevant creditors; and
- (iii) the Transfer Registration Procedures having been completed.

### **Completion and Termination**

Upon completion of the Transfer Registration Procedures, the Target Company and its direct wholly-owned subsidiary, Yuncheng Zuomin, will become indirect wholly-owned subsidiaries of the Company and the assets and liabilities of the Target Group will be consolidated into the financial statements of the Group.

Upon completion of the Reorganisation Proposal, the Reorganisation Agreement will automatically terminate.

### **Other covenants**

Pursuant to the Reorganisation Agreement, the Investor agreed to buy back two natural gas boilers (the “**Natural Gas Boilers**”) invested and constructed by 運城市經濟技術開發區管理委員會 (the Management Committee of Yuncheng City Economic and Technological Development Zone\*) (the “**Yuncheng Management Committee**”) for the Target Company at their respective original costs (i.e. approximately RMB3,500,000 in aggregate).

The Administrator agreed to use its best endeavours to facilitate the signing of an exclusive franchise agreement (the “**Franchise Agreement**”) in respect of provision of the centralized heating services in 運城市經濟技術開發區 (Yuncheng City Economic and Technological Development Zone\*) (the “**Yuncheng Development Zone**”) between (i) the Investor or a company designated by the Investor on one part and (ii) the Yuncheng Management Committee on the other part.

### **Guarantee**

In connection with the Reorganisation Agreement, on 8 September 2020, the Guarantor, a wholly-owned subsidiary of the Company and the immediate holding company of the Investor, executed the Guarantee in favour of the Administrator, pursuant to which the Guarantor unconditionally and irrevocably agreed to guarantee the payment obligations in respect of the Investment Sum under the Reorganisation Agreement up to the maximum amount of RMB110,000,000. The term of the Guarantee shall be two years from the date on which such Investment Sum becomes due and payable pursuant to the Reorganisation Agreement.

## **INFORMATION OF THE TARGET GROUP**

The Target Company is a limited liability company established in the PRC in May 2007. Its wholly-owned subsidiary, Yuncheng Zuomin, is a limited liability company established in the PRC in November 2016. The Target Company is principally engaged in the business of using coal-fired boilers to provide centralized heating, including industrial steam, to areas exclusively licensed by the Yuncheng Management Committee through centralized pipe networks. As at the date of this announcement, the Target Company is held as to 98% by Mr. Ren and 2% by Mr. Jin. To the best knowledge of the Company, Yuncheng Zuomin has not carried out any business operation since its establishment.

As the Target Company obtained loans for its investment in pipe infrastructure and business operation, thereby resulting in substantial finance costs, the Target Company eventually suffered from years of losses and became insolvent. In September 2018, the Administrator was appointed by the Court for bankruptcy and liquidation of the Target Company. In August 2019, the Court further ordered the reorganisation of the Target Company and the Administrator commenced the recruitment of investors for the Target Company. During the recruitment period, several companies (including the Investor) expressed their intentions to the Administrator to participate in the Reorganisation; and after due diligence procedures conducted by the intended investors on the Target Company, and review of application materials submitted by and discussions with the intended investors, the Administrator was of the view that the Investor is the preferred reorganisation investor for the Reorganisation.

The Administrator is a group of individuals, consisting of officers from the Yuncheng Management Committee and professionals, appointed by the Court pursuant to orders made on 30 September 2018, 16 January 2019 and 8 August 2019 respectively, and are responsible for the reorganisation process for the Target Company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Administrator and the members of the Administrator are Independent Third Parties.

## Financial Information of the Target Company

Set out below is certain unaudited financial information of the Target Company based on the unaudited management accounts of the Target Company for the year ended 31 December 2017 and the nine months ended 30 September 2018:

	<b>For the year ended 31 December 2017 (RMB) approximately</b>	<b>For the nine months ended 30 September 2018 (RMB) approximately</b>
Revenue	36,606,000	33,470,000
Net loss before and after tax	5,141,000	4,465,000

*Note: As the Target Company has suspended its operations since September 2018, the latest accounts available in respect of the Target Company were (i) its unaudited management accounts for the nine months ended 30 September 2018 and for the year ended 31 December 2017 respectively, and (ii) audited accounts for specific audit on its assets, liabilities and net assets as at 30 September 2018 (the “2018 Specific Audited Accounts”) (such specific audit being conducted as part of the Reorganisation process).*

Based on the 2018 Specific Audited Accounts, the audited total assets value and net liabilities of the Target Company as at 30 September 2018 were approximately RMB255,004,000 and RMB141,863,000, respectively.

To the best of knowledge of the Company, as the registered capital of Yuncheng Zuomin has not been paid-up and Yuncheng Zuomin has not carried out any business operation since its establishment, no accounts were available in respect of Yuncheng Zuomin.

## 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.

The Investor 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.

The Guarantor is a limited liability company established in the PRC in January 2020, which is a wholly-owned subsidiary of the Company and the immediate holding company of the Investor. Its principal business activities include enterprises management and consultation services.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Target Company is principally engaged in the business of using coal-fired boilers to provide centralized heating, including industrial steam, to areas exclusively licensed by the Yuncheng Management Committee through centralized pipe networks.

With the improvement of the standard of living and the increasing urbanization process, there is an increase in the demand for heating services in the PRC; and since small boiler heating companies may not be able to meet the environmental protection regulatory requirements, centralized heating enterprises are relatively more competitive, thereby increasing their potential for market development.

Located in the eastern part of Yuncheng City and with an airport and a high-speed railway station nearby, the Yuncheng Development Zone is situated in a strategic location with the total planned area of approximately 105.63 square kilometers and built-up area of approximately 38 square kilometers. The Company considers that the Yuncheng Development Zone has great development potential. Since 2007, the Target Company has been the only heating company which has been granted the exclusive franchise rights to provide the heat and steam supply services for enterprises and residents in the Yuncheng Development Zone, with completed pipe networks' coverage area of approximately 3 million square meters.

The centralized heating business is an important link under the real estate services field. As disclosed in the Company's annual report for the year ended 31 December 2019, the Group is seeking opportunities for real estate development and the related service businesses in the PRC while continuing to develop its principal financial services business, thereby improving the Group's profitability and sustainability. The Acquisition aims to expand the industrial layout of the Group's business segment and closely integrate with the Group's existing real estate related business. Leveraging on the long established position in the heat supply industry and the expertise, infrastructure and resources of the Target Company, the Acquisition is expected to create synergies with the Group's existing operations and strengthen the Group's capabilities of providing heat supply services.

Notwithstanding the past financial troubles faced by the Target Company, after the due diligence exercise conducted by the Group in the Target Company including elaborate discussions held with the Administrator, the Company considers that the Acquisition represents a viable business opportunity for its real estate related business segment as (i) the financial burden of the Target Company is greatly reduced after the restructuring of debts; and (ii) the Reorganisation Proposal, which was approved by the Court on 31 July 2020, provides for detailed timetable and procedures for the Reorganisation.

Separately, as the Group is currently in discussions with the Yuncheng Management Committee in respect of the exclusive franchise rights for provision of the centralized heating services in the Yuncheng Development Zone (currently held by the Target Company), the Acquisition will enable the Group to leverage on the current infrastructure, human resources and expertise of the Target Company for the provision of heating services in the same geographical area, which will greatly reduce the entry barrier for the Group and expedite the timing for developing facilities to provide such heating services. The Acquisition, coupled with the exclusive operation right under the Franchise Agreement, is expected to contribute a steady income stream for the Group.

Taking into account of the above, the Directors consider that the Acquisition represents a good opportunity for the Group to diversify its business activities, and the Directors further consider that the terms and conditions of the Reorganisation Agreement (including the Investment Sum and the purchase price of the Natural Gas Boilers) are fair and reasonable, and are in the interests of the Company and its shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

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

## **DEFINITIONS**

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

“Acquisition”	the transactions contemplated under the Reorganisation Agreement (including the acquisition of the entire equity interest of the Target Company and the buy-back of the Natural Gas Boilers)
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“Administrator”	the administrator of the Target Company appointed by the Court pursuant to orders made on 30 September 2018, 16 January 2019 and 8 August 2019 respectively
“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)
“Court”	運城市中級人民法院 (the Intermediate People’s Court of Yuncheng City*)
“Court Approval Date”	the date on which the Reorganisation Proposal was approved by the Court, being 31 July 2020
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Guarantee”	the guarantee dated 8 September 2020 entered into by the Guarantor in favour of the Administrator
“Guarantor”	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
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	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
“Investment Sum”	investment sum payable by the Investor in respect of the Reorganisation

“Investor”	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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Jin”	靳建明 (Jin Jianming*)
“Mr. Ren”	任佐敏 (Ren Zuomin*)
“PRC”	the People’s Republic of China
“Reorganisation”	the reorganisation of the Target Company under the Reorganisation Proposal
“Reorganisation Agreement”	the reorganisation investment agreement dated 8 September 2020 entered into between the Investor and the Target Company in relation to the Reorganisation
“Reorganisation Proposal”	the proposal in relation to the Reorganisation
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	運城市萬得福熱力有限公司 (Yuncheng City Wandefu Hot Power Co., Ltd.*), a limited liability company established in the PRC which is held as to 98% by Mr. Ren and 2% by Mr. Jin
“Target Group”	the Target Company and its subsidiary, namely, Yuncheng Zuomin
“Transfer Registration Procedures”	the applicable registration procedures with the relevant regulatory and government authorities to effect the transfer of the entire equity interest of the Target Company to the Investor or its designated entity

“Yuncheng Zuomin”

運城市佐敏售電服務有限公司 (Yuncheng City Zuomin Energy Supply Co., Ltd\*), a limited liability company established in the PRC and the direct wholly-owned subsidiary of the Target Company

“%”

per cent.

By Order of the Board  
**China Best Group Holding Limited**  
**Mr. Qin Jie**

*Executive Director and Chief Executive Officer*

Hong Kong, 8 September 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.*