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SHIFANG HOLDING LIMITED

十方控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1831)

**(1) CLARIFICATION ANNOUNCEMENT
IN RESPECT OF
THE MAJOR TRANSACTION IN RELATION TO
THE ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF
SUPREME GLORY LIMITED;
AND
(2) MAJOR TRANSACTION RELATING TO THE FIRST
RIGHT OF REFUSAL OVER THE PROJECT ASSETS**

Reference is made to (i) the announcement (the “**Announcement**”) of ShiFang Holding Limited (the “**Company**”) dated 8 May 2017 in relation to the proposed acquisition of the entire issued share capital of Supreme Glory Limited (the “**Target Company**”); and (ii) the announcements of the Company dated 31 May 2017, 30 June 2017 and 31 July 2017 in respect of the delay in dispatch of circular and the extension of long stop date of the Acquisition Agreement. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

CLARIFICATION ON THE MAJOR TRANSACTION

In the section headed “INFORMATION ON THE TARGET GROUP” of the Announcement (page 12), it was stated that: *“Based on the preliminary information provided by the Vendors and the Target Company, Beijing Fanxing inherited the leasing right of a parcel of uncultivated hills and land (the “Land”) at the site of the Project with a measurable usable area of approximately 4,022 Chinese mu falling within the four boundaries. Such leasing right was inherited from the original tenant, namely, 北京中夏國際投資發展有限公司 (Beijing Zhongxia International Investment Development Company Limited*) (the “Original Tenant”), through the assignment (the “Assignment”) of the original lease dated 30 December 2008 (the “Lease”) with the consent of the then and current owner of the collective land, namely, 北京市房山區河北鎮李各莊村經濟聯合社 (Economic Cooperative Society of Ligezhuang Village, Hebei Town, Fangshan District, Beijing*) (the “Land Owner”) for the continual use and occupancy of the Land for the remaining period of the original 50 years’ lease period expiring on 30 December 2058 (the “Lease Period”), which is renewable further by mutual consent. According to the information provided by the Vendors, under the terms of the Lease and the Assignment, Beijing Fanxing also inherited the unencumbered title and ownership and unfettered use and enjoyment of the cultivation grown, livestock raised and properties built on the Land (including dormitories, guest rooms and hostels, power supply facilities, water and drainage facilities and roads) and the assets relevant to the Project (collectively, the “Project Assets”). According to the information provided by the Vendors, under the terms of the Lease and the Assignment, the Land Owner must buy out the Project Assets from the legal successor of the leasing right of the Lease (i.e. currently Beijing Fanxing) at fair value at the expiry of the Lease.”*

Upon further review of the documents revealed by the Company in the due diligence process subsequent to the publication of the Announcement, the Board wishes to make the following clarifications on the paragraph above as contained in the Announcement:

1. On 30 December 2008, the Original Tenant entered into the original lease (the “**Original Lease**”) with the Land Owner to lease the 4,022 Chinese mu Land for the 50 years’ Lease Period from 30 December 2008 to 30 December 2058 at the annual rent of RMB90,000 (subject to 6% upward adjustment every ten years). The Land Owner is the government-established rural collective economic organization formed pursuant to the Organic Law of the Villagers’ Committees of the People’s Republic of China (中華人民共和國村民委員會組織法) to exercise the right of ownership of and decision-making regarding the operations and business activities over the collective land situated at Ligezhuang Village, Hebei Town, Fangshan District, Beijing.
2. The Original Lease specified that the Land may be used for cultural, tourism, health preservation, cultivation, livestock breeding and multi-purpose development and use. Under the Original Lease, the operation on the Land should be solely undertaken, and income solely enjoyed, by the Original Tenant without any interference by the Land Owner, but the Original Tenant should be responsible for the preservation of water, land and cultivation resources on the Land. During the Lease Period, the Original Tenant should grant priority to residents belonging to the collective organization of the Land Owner when recruiting staff, assuming all other recruitment terms being identical. Under the Original Lease, all the cultivation grown, livestock raised and all assets and properties built and erected on the Land (collectively, the “**Project Assets**”) during the Lease Period should belong to the Original Tenant absolutely, whether during the Lease Period or upon the modification, termination or release of the Original Lease. When the Lease Period expires in 2058, if the Land Owner decides to continue to let the Land, the Original Tenant should enjoy a first right of refusal to lease the Land, assuming all other leasing terms being identical. If the Land Owner decides not to let the Land any more or the Original Tenant decides not to rent the Land from the Land Owner on the expiry of the Lease Period in 2058, the ownership of all the Project Assets invested by the Original Tenant should remain with the Original Tenant, notwithstanding the expiry of the Original Lease. If the Original Tenant decides to sell the Project Assets to any third party buyer, the Land Owner should have a first right of refusal in acquiring the Project Assets at the same acquisition terms (except the acquisition price) as agreed by the Original Tenant and such third party buyer (the “**Project Assets FROR**”), at an acquisition price which is determined according to the valuation conducted by a valuer.

3. On 16 May 2016, the Original Tenant entered into a memorandum of understanding with 福建繁星電子科技有限公司 (Fujian Fanxing Electronics Technology Co., Ltd.*) (“**Fujian Fanxing**”), the then holding company of Beijing Fanxing, regarding the possible assignment of the leasing right of the Original Tenant under the Original Lease and the ownership of the Project Assets. On 3 August 2016, the Original Tenant and Fujian Fanxing entered into an assignment (the “**Assignment**”) to assign the leasing right under the Original Lease and the Project Assets in favour of Beijing Fanxing (as expressly nominated by Fujian Fanxing to take up all rights of the Assignment) absolutely, and all obligations of the Original Tenant under the Original Lease (including the obligation to pay rent to the Land Owner) were assumed by Fujian Fanxing (or its nominee Beijing Fanxing) under the same terms of the Original Lease with effect from 1 January 2017. The consideration payable by Fujian Fanxing (or Beijing Fanxing) to the Original Tenant for the Assignment was RMB30 million. Under the terms of the Assignment, the Original Tenant undertook to procure the Land Owner to grant a direct lease (the “**New Lease**”) to Beijing Fanxing upon the same terms as in the Original Lease, such that the name of Beijing Fanxing be registered as the legal tenant of the Land on the official records of the local government for the remaining Lease Period (the “**Change of Tenant Registration**”(租賃主體變更)).
4. In compliance with the procedures required by the PRC laws regarding the use, enjoyment and operation of collective land, on 27 October 2016, the Change of Tenant Registration was approved by simple majority at a meeting attended by over two-thirds of the villager representatives of Ligezhuang Village (at which the Land is situated). On 1 November 2016, the Change of Tenant Registration was formally approved by the Land Owner and the villager’s committee of Ligezhuang Village (李各莊村村民委員會). On the same day, the application for the Change of Tenant Registration was approved for submission by the Supervising Center of Rural Collective Assets of Hebei Town (河北鎮農村集體資產監管中心), which application was finally approved by the People’s Government of Hebei Town, Fangshan District (房山區河北鎮人民政府) on 3 December 2016 subject only to the relocation of the registered address of Beijing Fanxing to Hebei Town. On 25 April 2017, the registered address of Beijing Fanxing was relocated to Hebei Town in satisfaction of the condition imposed by government regarding the Change of Tenant Registration.

5. On 5 December 2016, the New Lease was formally entered into by the Land Owner directly with Beijing Fanxing, whereby the Land Owner expressly consented to the substitution of the tenant of the Land by Beijing Fanxing and the Change of Tenant Registration along the same terms as originally specified in the Original Lease, subject only to the adjustment of the annual rental from RMB90,000 to RMB106,000 (with 6% upward adjustment for every ten years). In the light of the New Lease granted directly by the Land Owner to Beijing Fanxing, based on the legal advice obtained by the Company from its PRC legal advisers, the Company is of the view that Beijing Fanxing should have obtained the absolute and undisputed leasing right (including the unfettered use, enjoyment and operation) of the Land for up to 2058, which is unaffected by the revocation of business license of the Original Tenant (as described in Paragraph 7 below).
6. On 29 December 2016, in furtherance of the Assignment, the Original Tenant delivered physical possession of the Project Assets and recorded the asset transfers by way of four asset transfer agreements (the “**Project Assets Transfer Agreements**”). In the light of the passing of physical possession of the Project Assets and the signing and completion of the Project Assets Transfer Agreements, based on the legal advice obtained by the Company from its PRC legal advisers, the Company is of the view that Beijing Fanxing should have obtained the absolute and undisputed title and ownership of the Project Assets, which is unaffected by the revocation of business license of the Original Tenant (as described in Paragraph 7 below).
7. Based on public search records, the business license (營業執照) of the Original Tenant was revoked (吊銷) with effect from 12 October 2012, but its business license has yet to be cancelled (注銷) up to now. Based on the legal advice obtained by the Company from its PRC legal advisers, despite the revocation of the business license of the Original Tenant, it was still regarded as a valid and existing corporate entity and had civil capacity to enter into the Assignment and the related documents (including the Project Assets Transfer Agreements) and be held responsible for civil liabilities thereunder. Accordingly, based on the advice of the Company’s PRC legal advisers, the legitimate leasing right of Beijing Fanxing over the Land (whether derived from the Assignment or the New Lease) and the absolute legal title and beneficial ownership of the Project Assets (whether under the Assignment or the Project Assets Transfer Agreements) should be upheld in, and protected by, the PRC laws and not be affected by the revocation (and the eventual cancellation) of the business license of the Original Tenant.

8. In addition, as part of the Assignment, 中國資產經營管理公司 (China Asset Management Corporation*) (“**China AM Corporation**”) (i) guaranteed the unencumbered nature of the leasing right over the Land and the Project Assets upon the transfer of ownership contemplated by the Assignment, (ii) undertook to indemnify Fujian Fanxing (acting for and on behalf of Beijing Fanxing) for all debts, liabilities and contingent liabilities affecting the leasing right over the Land and the Project Assets, and (iii) represented and warranted that all necessary consents required for the assignment of the leasing right over the Land and the Project Assets were duly obtained. China AM Corporation also provided joint and several unlimited guarantee in favour of Fujian Fanxing (acting for and on behalf of Beijing Fanxing) to ensure the due and punctual performance of all obligations of the Original Tenant under the Assignment. Under the terms of the Assignment, the validity of the guarantee provided by China AM Corporation shall be valid for two years after the contractual deadline imposed on the Original Tenant for full performance of its obligations, and shall not be affected even if any terms of the Assignment are subsequently held to be defective or invalid.
9. China AM Corporation is a whole people-owned enterprise (全民所有制企業) with a registered capital of RMB159 million wholly-owned by China Chengtong Holdings Group Limited (中國誠通控股集團有限公司) (“**CCT Group**”), a state-owned enterprise with a registered capital of RMB9,380 million. In the light of the guarantee and indemnity provided by China AM Corporation under the Assignment, the Company is of the view that Beijing Fanxing should be able to uphold its absolute ownership of the Project Assets and should be sufficiently safeguarded against any risk associated with the revocation of business license of the Original Tenant.

MAJOR TRANSACTION RELATING TO THE FIRST RIGHT OF REFUSAL OVER THE PROJECT ASSETS

Under the Assignment and the New Lease, Beijing Fanxing has taken over all rights and obligations of the Original Tenant under the same terms of the Original Lease with effect from 1 January 2017. If the Acquisition proceeds to Completion, Beijing Fanxing, which is bound by the Project Assets FROR exercisable by the Land Owner if it decides to sell the Project Assets, will become an indirect wholly-owned subsidiary of the Company.

The Project Assets FROR is the first right of refusal to acquire the Project Assets at the same acquisition terms (except the acquisition price) as offered by Beijing Fanxing to a third party buyer at an acquisition price which is determined according to the valuation conducted by a valuer, exercisable by the Land Owner if the lease over the Land is modified, terminated, released or expired and if Beijing Fanxing decides to sell the Project Assets to any third party buyer. The Project Assets FROR may be regarded as an option which is exercisable (albeit conditionally) at the discretion of the Land Owner on the expiry of the Lease Period in 2058. As the fair market value of the Project Assets cannot be determined before the expiry of the Lease Period, under Rule 14.76(1) of the Listing Rules, the Project Assets FROR should be classified as at least a major transaction for the Company, and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

If the Acquisition proceeds to Completion and if the Company decides to sell the Project Assets (such as if the lease over the Land is modified, terminated, released or expired beyond the control of the Company and if the disposal of the Project Assets is the only viable solution for the Company to realize its investment in the Project Assets), the Company will re-comply with the Listing Rules in respect of the disposal of the Project Assets (including the possible exercise by the Land Owner of the Project Assets FROR). Based on the legal advice obtained by the Company from its PRC legal advisers, while the renewal of the New Lease in 2058 is beyond the control of the Company, the disposal of the Project Assets is within the Company's control. Therefore, the Board considers that the Company will be able to re-comply with the Listing Rules (including without limitation to obtain shareholders' approval again) if the disposal of the Project Assets (including the possible exercise by the Land Owner of the Project Assets FROR) falls within a higher classification of notifiable transaction.

By order of the Board
ShiFang Holding Limited
Siuming Tsui

Executive Director and Chief Executive Officer

Hong Kong, 8 August 2017

As at the date of this announcement, the executive Directors are Mr. Siuming Tsui (Chief Executive Officer), Mr. Chen Zhi and Mr. Yu Shi Quan; the non-executive Directors are Mr. Chen Wei Dong and Ms. Chen Min; and the independent non-executive Directors are Mr. Zhou Chang Ren, Mr. Wong Heung Ming, Henry and Mr. Cai Jian Quan.