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Hailan Holdings Limited

海藍控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2278)

DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION IN RELATION TO RENEWAL OF CONSTRUCTION COOPERATION FRAMEWORK AGREEMENT

THE 2019 RENEWAL FRAMEWORK AGREEMENT

Reference is made to the Prospectus in respect of the Construction Cooperation Framework Agreement.

Since the Construction Cooperation Framework Agreement has been expired on 31 December 2018, the Board announces that on 25 January 2019 (after trading hours), the relevant parties to the Construction Cooperation Framework Agreement, which include the Company, Sanya Fenghuang Xincheng, Sanya Fenghuang Shuiyun, Hainan Nanhai Xiang Long, Danzhou Shuang Lian and Nanjing Huizhi, have agreed to continue with the arrangement under the Construction Cooperation Framework Agreement after the expiry of its term upon similar terms and/or covering similar scope of services as in the Construction Cooperation Framework Agreement by entering into of the 2019 Renewal Framework Agreement, of which it extends the Construction Cooperation Framework Agreement for three financial years commencing from 1 January 2019 to 31 December 2021.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Nanjing Huizhi is indirectly wholly-owned by Mr. Yeung, one of the controlling Shareholders of the Company who indirectly holds approximately 75% of the total number of issued Shares. Nanjing Huizhi is therefore a connected person of the Company under the Listing Rules.

Based on the proposed Annual Caps of the 2019 Renewal Framework Agreement, as at least one of the applicable percentage ratios under the Listing Rules exceeds 5%, the entering into of the 2019 Renewal Framework Agreement by the Company constitutes (i) a discloseable transaction of the Company subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and (ii) a continuing connected transaction of the Company subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The EGM will be convened, during which ordinary resolutions will be proposed to the Independent Shareholders to consider and if thought fit, approve the 2019 Renewal Framework Agreement, the proposed Annual Caps and the transactions thereunder. All votes at the EGM will be taken by way of poll.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise and give recommendation to the Independent Shareholders on the entering into of the 2019 Renewal Framework Agreement, the proposed Annual Caps and the transactions thereunder.

The Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, details of the 2019 Renewal Framework Agreement, a letter from the Independent Board Committee, a letter from the Independent Financial Adviser, such other information as required under the Listing Rules and a notice of the EGM is expected to be despatched to the Shareholders within 15 business days from the date of publication of this announcement, so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

INTRODUCTION

Reference is made to the Prospectus in respect of the Construction Cooperation Framework Agreement.

Since the Construction Cooperation Framework Agreement has been expired on 31 December 2018, the Board announces that on 25 January 2019 (after trading hours), the relevant parties to the Construction Cooperation Framework Agreement, which include the Company, Sanya Fenghuang Xincheng, Sanya Fenghuang Shuiyun, Hainan Nanhai Xiang Long, Danzhou Shuang Lian and Nanjing Huizhi, have agreed to continue with the arrangement under the Construction Cooperation Framework Agreement after the expiry of its term upon similar terms and/or covering similar scope of services as in the Construction Cooperation Framework Agreement by entering into of the 2019 Renewal Framework Agreement, of which it extends the Construction Cooperation Framework Agreement for three financial years commencing from 1 January 2019 to 31 December 2021.

THE 2019 RENEWAL FRAMEWORK AGREEMENT

Major terms of the 2019 Renewal Framework Agreement are set out below:

Date	:	25 January 2019 (after trading hours)
Parties	:	(1) The Company; (2) Sanya Fenghuang Xincheng; (3) Sanya Fenghuang Shuiyun; (4) Hainan Nanhai Xiang Long; (5) Danzhou Shuang Lian; and (6) Nanjing Huizhi (as subcontractor).
Term	:	The 2019 Renewal Framework Agreement shall be effective from 1 January 2019 up to 31 December 2021
Services to be provided	:	Nanjing Huizhi has agreed to provide construction services to the Group according to the construction contracts to be entered into between Nanjing Huizhi and the Group from time to time
Condition	:	The 2019 Renewal Framework Agreement shall be conditional on the passing of an ordinary resolution at the EGM by the Independent Shareholders to approve the 2019 Renewal Framework Agreement, the transactions contemplated thereunder and the Annual Caps
Construction Fees and Payment Terms	:	To be specified in the construction contracts to be entered into between Nanjing Huizhi and the Group from time to time

PRICING POLICY

The construction fees as contemplated under the 2019 Renewal Framework Agreement will be determined by reference to the prevailing market prices of similar construction services taking into consideration of the experience, terms of service and expected quality rendered by Nanjing Huizhi. The Group will invite approved and shortlisted independent service providers to submit their bids for the construction services. By comparing the bids of each bidder, the Group shall be able to ensure that the terms of service offered by Nanjing Huizhi are no less favourable to the Group than those available from independent service providers. Furthermore, the Group will determine whether viable alternatives of comparable quality can be obtained in a timely manner.

INTERNAL CONTROL

The Group will continue to adopt the existing measures to protect the interests of the Independent Shareholders, which include (i) independence in selection process; and (ii) independent review of construction services provided by Nanjing Huizhi.

(i) Independence in Selection Process

The Group will continue to adopt an independent mechanism to govern and monitor the selection process for the Company's potential bidders, of which an internal tender review committee comprising members appointed by the independent non-executive Directors and accountable to the independent non-executive Directors, had been established for reviewing the terms and conditions of tenders, complying with the relevant laws and regulations and screening out unsuitable tenders.

(ii) Independent Review of Construction Services Provided by Nanjing Huizhi

The Company will continue inviting independent qualified engineering supervisory companies to provide monthly reports regarding the construction progress and the quality of the constructions services, and the views and recommendations of the Company's independent non-executive Directors will be adopted by the Company. The internal tender review committee of the Company is required to give a written approval if there are any modifications on the scope of work, construction schedule or other relevant information.

The Company's external auditors will review the transactions as contemplated under the 2019 Renewal Framework Agreement annually to check and confirm, among others, whether the pricing terms have been adhered to and whether the relevant Annual Caps have been exceeded.

The Directors consider that the existing internal control system of the Group is adequate to ensure that the transactions as contemplated under the 2019 Renewal Framework Agreement will be on normal commercial terms and no less favourable to the Company than those offered by independent third parties.

HISTORICAL AGGREGATE TRANSACTIONS VALUES

The table below sets out (1) the historical actual amounts of construction fees payable by the Group to Nanjing Huizhi for the two financial years ended 31 December 2016 and 31 December 2017 and for the nine months ended 30 September 2018; and (2) the existing annual caps for the construction fees payable by the Group to Nanjing Huizhi for the three years ended 31 December 2018.

(in RMB'000)	Actual construction fees payable to Nanjing Huizhi			Existing annual caps		
	For the year ended 31 December 2016	For the year ended 31 December 2017	For the nine months ended 30 September 2018	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2018
Total amount	<u>46,083</u>	<u>285,207</u>	<u>18,541</u>	<u>50,540</u>	<u>399,404</u>	<u>501,722</u>

THE PROPOSED ANNUAL CAPS

The Company expects that the Annual Caps in respect of the transactions contemplated under the 2019 Renewal Framework Agreement for the financial years ending 31 December 2019, 31 December 2020 and 31 December 2021 will be as follows:–

The 2019 Renewal Framework Agreement

for the year ended 31 December 2019 (RMB'000)	Annual Caps		for the year ended 31 December 2021 (RMB'000)
	for the year ended 31 December 2020 (RMB'000)		
<u>279,531</u>	<u>279,889</u>		<u>260,814</u>

Each of the Annual Caps has been determined by reference to:

- (a) the historical annual or annualized amounts in respect of the construction services provided by Nanjing Huizhi to the Group during the two financial years 31 December 2016 and 31 December 2017 and for the nine months ended 30 September 2018; and
- (b) the projected annual or annualized amounts in respect of the construction services to be provided by Nanjing Huizhi to the Group, in the next three financial years, having taken into account:
 - the existing uncompleted construction projects/project phases;
 - the estimated construction schedule of the Group's new property development projects that the Group expects to undertake;
 - the anticipated inflation and increase in development cost; and
 - adjustments for non-recurring or extraordinary items

on the principal assumptions that, for the duration of the projected period, (i) there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group; and (ii) the construction industries which the Group operates will have steady growth.

Shareholders and potential investors should note that the Annual Caps should not be construed as an assurance or forecast by the Company of the future revenues of the Group.

REASONS FOR, AND BENEFITS OF, ENTERING INTO OF THE 2019 RENEWAL FRAMEWORK AGREEMENT

The transactions contemplated under the 2019 Renewal Framework Agreement is expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group. The 2019 Renewal Framework Agreement entered into have been agreed on arm's length basis and on normal commercial terms.

The Directors (including the independent non-executive Directors) are of the views that the terms of the 2019 Renewal Framework Agreement and the proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CONNECTION BETWEEN THE PARTIES INVOLVED AND LISTING RULES IMPLICATIONS

As at the date of this announcement, Nanjing Huizhi is indirectly wholly-owned by Mr. Yeung Man (“**Mr. Yeung**”), one of the controlling Shareholders of the Company who indirectly holds approximately 75% of the total number of issued Shares. Nanjing Huizhi is therefore a connected person of the Company under the Listing Rules.

Based on the proposed Annual Caps of the 2019 Renewal Framework Agreement, as at least one of the applicable percentage ratios under the Listing Rules exceeds 5%, the entering into of the 2019 Renewal Framework Agreement by the Company constitutes (i) a discloseable transaction of the Company subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and (ii) a continuing connected transaction of the Company subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In the event that the relevant Annual Caps in respect of the 2019 Renewal Framework Agreement is exceeded or the 2019 Renewal Framework Agreement is renewed or materially varied, the Company will re-comply with the reporting, announcement and/or Independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules (where applicable).

INFORMATION REGARDING THE GROUP, SANYA FENGHUANG XINCHENG, SANYA FENGHUANG SHUIYUN, HAINAN NANHAI XIANG LONG, DANZHOU SHUANG LIAN AND NANJING HUIZHI

The Group

The Group is a property developer primarily focusing on residential property development in the Hainan Province of the PRC.

Sanya Fenghuang Xincheng

Sanya Fenghuang Xincheng is a company incorporated with limited liability in the PRC, which is indirectly held as to 100% by the Company as at the date of this announcement. It is principally engaged in real estate development and operation.

Sanya Fenghuang Shuiyun

Sanya Fenghuang Shuiyun is a company incorporated with limited liability in the PRC, which is indirectly held as to approximately 97% by the Company as at the date of this announcement. It is principally engaged in real estate development.

Hainan Nanhai Xiang Long

Hainan Nanhai Xiang Long is a company incorporated with limited liability in the PRC, which is indirectly held as to 100% by the Company as at the date of this announcement. It is principally engaged in real estate development.

Danzhou Shuang Lian

Danzhou Shuang Lian is a company incorporated with limited liability in the PRC, which is indirectly held as to 60% by the Company as at the date of this announcement. It is principally engaged in real estate development.

Nanjing Huizhi

Nanjing Huizhi is a company incorporated with limited liability in the PRC and is indirectly held as to 100% by Mr. Yeung at the date of this announcement. It is principally engaged in real estate development and construction.

GENERAL

Mr. Yeung and Ms. Zhou Li (being a cohabiting spouse of Mr. Yeung) will be required to abstain from voting at the EGM on the resolutions approving the 2019 Renewal Framework Agreement, the transactions contemplated thereunder and the related Annual Caps.

The Independent Board Committee (comprising Mr. Li Yong, Mr. E Junyu and Mr. Zhao Guoqing) has been formed to advise and provide recommendation to the Independent Shareholders in respect of the transactions contemplated under the 2019 Renewal Framework Agreement and the related Annual Caps.

The Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders on the transactions contemplated under the 2019 Renewal Framework Agreement and the related Annual Caps.

The EGM will be convened and held by the Company to consider and, if thought fit, approve the 2019 Renewal Framework Agreement, the proposed Annual Caps and the transactions contemplated thereunder. All votes at the EGM will be taken by way of poll.

A circular containing, among other things, details of the 2019 Renewal Framework Agreement, a letter from the Independent Board Committee, a letter from the Independent Financial Adviser, such other information as required under the Listing Rules and a notice of the EGM is expected to be despatched to the Shareholders within 15 business days from the date of publication of this announcement, which allows sufficient time for the preparation of the relevant information for inclusion in the circular.

DEFINITIONS

Unless the context otherwise requires, the following expressions used in this announcement have the following meanings:

“Annual Cap(s)”	the maximum aggregate annual transaction value in respect of the fees of constructions contracts payable to Nanjing Huizhi under the 2019 Renewal Framework Agreement for the three financial years ending 31 December 2021
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Hailan Holdings Limited (海藍控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange (Stock code: 2278)
“connected person”	has the meaning as ascribed to it under the Listing Rules
“Construction Cooperation Framework Agreement”	the framework construction services agreement dated 8 April 2016 entered into among the Company, Sanya Fenghuang Xincheng, Sanya Fenghuang Shuiyun, Hainan Nanhai Xiang Long, Danzhou Shuang Lian and Nanjing Huizhi as disclosed in the Prospectus
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Danzhou Shuang Lian”	Danzhou Shuang Lian Properties Development Company Limited (儋州雙聯房地產開發有限公司), a company established in the PRC with limited liability which is indirectly held as to 60% by the Company and directly held as to 40% by Nanjing San Long Cement Company Limited (南京三龍水泥有限責任公司), which is in turn held as to 100% by 20 PRC natural persons who are Independent Third Parties
“Director(s)”	the director(s) of the Company

“EGM”	the extraordinary general meeting of the Company to be convened for the approval by the Independent Shareholders of the 2019 Renewal Framework Agreement
“Group”	the Company and its subsidiaries from time to time
“Hainan Nanhai Xiang Long”	Hainan Nanhai Xiang Long Properties Development Limited* (海南南海翔龍房地產開發有限公司), a company established in the PRC with limited liability which is indirectly held as to 100% by the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board (which comprises Mr. Li Yong, Mr. E Junyu and Mr. Zhao Guoqing, all of them are independent non-executive Directors) established to advise the Independent Shareholders in respect of the discloseable and continuing connected transaction contemplated under the 2019 Renewal Framework Agreement and the related Annual Caps
“Independent Financial Adviser”	the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the discloseable and continuing connected transaction contemplated under the 2019 Renewal Framework Agreement and the related Annual Caps
“Independent Shareholder(s)”	Shareholders other than Mr. Yeung, his respective associates and all other Shareholders materially interested in the 2019 Renewal Framework Agreement, the discloseable and continuing connected transaction contemplated thereunder and the related Annual Caps
“Independent Third Party(ies)”	a party independent of and not connected with the Company and its connected person(s)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Nanjing Huizhi”	Nanjing Huizhi Construction Installation Engineering Company Limited (南京惠智建築安裝工程有限公司), a company established in the PRC with limited liability which is indirectly held as to 100% by Mr. Yeung
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macao S.A.R. and Taiwan
“Prospectus”	the prospectus of the Company dated 30 June 2016

“Sanya Fenghuang Shuiyun”	Sanya Fenghuang Shuiyun Property Development Company Limited (三亞鳳凰水韻房地產開發有限公司), a company established in the PRC with limited liability which is indirectly held as to approximately 97% by the Company
“Sanya Fenghuang Xincheng”	Sanya Fenghuang Xincheng Industry Company Limited (三亞鳳凰新城實業有限公司), a company established in the PRC with limited liability which is indirectly held as to 100% by the Company
“Share(s)”	ordinary share(s) of nominal value of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“2019 Renewal Framework Agreement”	the new construction cooperation framework agreement entered into among the Company, Sanya Fenghuang Xincheng, Sanya Fenghuang Shuiyun, Hainan Nanhai Xiang Long, Danzhou Shuang Lian and Nanjing Huizhi on 25 January 2019
“%”	per cent.

By order of the Board
Hailan Holdings Limited
Chairperson
Zhou Li

The PRC, 25 January 2019

As at the date of this announcement, the executive Directors are Ms. Zhou Li, Mr. Chen Xiang, Ms. Fan Wenyi and Ms. Chan Si Yu; the non-executive Director is Ms. Yao Yu; and the independent non-executive Directors are Mr. Li Yong, Mr. E Junyu and Mr. Zhao Guoqing.

* For identification purposes only