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KONG SUN HOLDINGS LIMITED

江山控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 295)

VERY SUBSTANTIAL DISPOSAL DISPOSAL OF A SUBSIDIARY

THE DISPOSAL

On 4 December 2020, Jiangshan Fengrong, an indirect wholly-owned subsidiary of the Company, the Purchaser and Yongchen, entered into the Disposal Agreement, pursuant to which Jiangshan Fengrong conditionally agreed to sell the Sale Equity Interest to the Purchaser for a total consideration of approximately RMB1,177,829,000.

Upon completion of the Disposal, Yongchen will cease to be a subsidiary of the Company and its financial statement will cease to be consolidated into the Company's financial statements.

LISTING RULES IMPLICATIONS

The Disposal

As one of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposal is 75% or more, the transaction contemplated under the Disposal Agreement constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Guarantee

As certain of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposal are 25% or more, the Guarantee constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

General

The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Disposal Agreement and the transactions contemplated thereunder (including the Guarantee). Insofar as the Company is aware, none of the Shareholders has any material interest in the Disposal and the Guarantee. Hence, no Shareholder is required to abstain from voting on the resolutions in relation to the Disposal Agreement and the transactions contemplated thereunder (including the Guarantee) at the EGM. A circular containing, among other things, further details of the Disposal and the Guarantee, the financial information of the Group, the financial information and the valuation report of the Project Companies and Yongchen, the notice convening the EGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 15 January 2021 as additional time is required to prepare the information to be included in the circular.

Shareholders and potential investors should note that completion of the Disposal is conditional upon satisfaction of certain condition precedent as set out in this announcement. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares and other securities of the Company.

THE DISPOSAL

On 4 December 2020, Jiangshan Fengrong, an indirect wholly-owned subsidiary of the Company, the Purchaser and Yongchen, entered into the Disposal Agreement, pursuant to which Jiangshan Fengrong conditionally agreed to sell the Sale Equity Interest to the Purchaser for a total consideration of approximately RMB1,177,829,000. The Company agreed to guarantee the obligations of Jiangshan Fengrong in favour of the Purchaser under the Disposal Agreement.

The principal terms of the Disposal Agreement are summarized as follows:

PRINCIPAL TERMS OF THE DISPOSAL AGREEMENT

Subject matter

On 4 December 2020, Jiangshan Fengrong, the Purchaser and Yongchen entered into the Disposal Agreement, pursuant to which Jiangshan Fengrong conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sale Equity Interest.

Consideration

The Equity Consideration is approximately RMB1,177,829,000, which shall be payable by the Purchaser in cash in accordance with the following manner:

- (i) an amount of RMB36,500,000, representing approximately 3.1% of the Equity Consideration, shall be paid to Jiangshan Fengrong within ten (10) business days upon execution of the Disposal Agreement and upon satisfaction of items (e) and (f) of the conditions precedent (the “**Earnest Money**”);
- (ii) an amount of approximately RMB670,197,000 (the “**First Deposit**”), representing approximately 56.9% of the Equity Consideration, shall be paid into the Escrow Account before completion of the Disposal and shall be transferred to Jiangshan Fengrong within ten (10) business days after completion of the Disposal;
- (iii) an amount of approximately RMB301,495,000, representing approximately 25.6% of the Equity Consideration, shall be paid to Jiangshan Fengrong within ten (10) business days after completion of the Disposal;
- (iv) a total amount of up to RMB95,800,000, representing approximately 8.1% of the Equity Consideration, shall be paid to Jiangshan Fengrong within ten (10) business days upon the completion of each of certain rectification works items of the Project by Jiangshan Fengrong required by the Purchaser, which in any event, within one (1) year after completion of the Disposal. The estimated cost of such rectification works items of the Project is approximately RMB95,800,000; and
- (v) an amount equal to 15% of the amount of the state renewable energy subsidies received by Yongchen from the State Grid Corporation of China, which shall be paid in batches, within ten (10) business days of each receipt, up to a total amount of approximately RMB73,837,000, representing approximately 6.3% of the Equity Consideration. By this time Jiangshan Fengrong should have already received 85% of the projected amount of such subsidies. The remaining 15% of such subsidies pending to be received by Jiangshan Fengrong would only constitute 6.3% of the Equity Consideration. Jiangshan Fengrong is able to know when Yongchen will receive each batch of subsidies as such information is available in public website.

Repayment of the Debts

As at the Reference Date, Yongchen had the outstanding Debts in the amount of approximately RMB94,980,000. The Debts, subject to adjustment for any net increase or decrease thereof during the Transition Period as determined under the Transition Period Audit, shall be settled by Yongchen within ten (10) business days after completion of the Transition Period Audit.

The Transition Period Audit report will be issued within ten (10) business days of the completion of the Disposal. In the event of any change of net assets value of Yongchen as a result of matters occurred in non-ordinary course of business during the Transition Period, such change will be considered as a consideration adjustment. The Purchaser has the right to request compensation from Jiangshan Fengrong.

Default

If the Purchaser fails to pay the Equity Consideration pursuant to the terms of the Disposal Agreement or Yongchen fails to repay the Debts pursuant to the terms of the Disposal Agreement, Jiangshan Fengrong has the right to request the Purchaser and Yongchen to pay to it a default payment, which is calculated based on the relevant unpaid amounts due and a penalty at 0.05% of the relevant amounts due on a daily basis. If the default continues for more than ninety (90) calendar days from the relevant due date, Jiangshan Fengrong will be entitled to terminate the Disposal Agreement, refund all the payments made by the Purchaser after deducting a default payment of RMB30,000,000 and compensate for all losses incurred by Jiangshan Fengrong. Jiangshan Fengrong will also be entitled to commence litigation against the Purchaser in the PRC court with competent jurisdiction and claim restitution in accordance with the PRC law. If the Purchaser refuses to perform the court decision in favour of Jiangshan Fengrong, Jiangshan Fengrong may seek enforcement by the court. Under this circumstance, the Purchaser may be added into 失信執行人名錄 (the List of Untrustworthy Executors*) (an effective enforcement machinery in the PRC), which may have a material adverse effect on the assessment of the Purchaser's credit rating and reputation. Taking into consideration of the general market practice in the solar industry as well as the background of the Purchaser, the Directors are of the view that the settlement and completion mechanism is sufficient to safeguard the Company's right to receive the full consideration and the possibility of the Purchaser would not honour its contractual commitment is relatively low.

Conditions Precedent

Completion of the Disposal is subject to the satisfaction of the following conditions precedent:

- (a) each party having obtained all necessary internal approvals regarding the Disposal and the Guarantee:
 - (i) with respect to Yongchen, the approval from Jiangshan Fengrong as its sole shareholder;
 - (ii) with respect to Jiangshan Fengrong, the approval from its shareholders, the approval from the Board and the approval from the Shareholders at the EGM in accordance with the Listing Rules; and
 - (iii) with respect to the Purchaser, the approval from its shareholders, the approvals from the board of directors and the shareholders of Beijing Energy International in accordance with the Listing Rules; and
- (b) the written consent from CDB Leasing in respect of the Disposal regarding the CDB Finance Lease;
- (c) Jiangshan Fengrong, its related parties and Yongchen having agreed and completed the debt restructuring under which, the Yongchen's Inter-company Debts and the Subsidiaries' Inter-company Debts will be netted off;

- (d) the Purchaser having paid the Earnest Money and deposited the First Deposit into the Escrow Account;
- (e) 榆林隆源光伏電力有限公司 (Yulin Longyuan Solar Energy Limited*), a limited liability company established in the PRC, having issued a written consent to confirm the sharing of the booster station with Yongchen, the granting of project use rights and the allocation of costs; and
- (f) the Purchaser having confirmed in writing its acknowledgement and agreement that the photovoltaic power generation is classified as the “encouraged” industry under the “Industrial Structure Adjustment Guidance Catalog (2019)” issued by the Shaanxi Provincial Development and Reform Commission.

As at the date of this announcement, none of the above conditions precedent has been satisfied.

The parties shall use their best efforts to procure satisfaction of the above conditions precedent on or before the Long Stop Date:

- (i) If Jiangshan Fengrong or Yongchen fails to fulfil its obligation under the conditions precedent on or before the Long Stop Date pursuant to the terms of the Disposal Agreement, Jiangshan Fengrong will be liable to pay to the Purchaser a default payment, to be calculated at an annual percentage rate of 8% of the Earnest Money paid by the Purchaser, and the Purchaser will be entitled to, among other things, terminate the Disposal Agreement and seek for damages from Jiangshan Fengrong for all fees and costs incurred by third parties arising from the Disposal; and
- (ii) If the Purchaser fails to fulfil its obligation under the conditions precedent on or before the Long Stop Date pursuant to the terms of the Disposal Agreement, Jiangshan Fengrong will be entitled to terminate the Disposal Agreement and seek for damages from the Purchaser for all fees and costs incurred by Jiangshan Fengrong, Yongchen or third parties arising from this transaction. Jiangshan Fengrong shall refund all the payment made by the Purchaser.

BASIS OF THE CONSIDERATION FOR THE DISPOSAL

The consideration for the Disposal was determined upon arm’s length negotiations between Jiangshan Fengrong and the Purchaser with reference to the unaudited net assets of Yongchen as at 31 October 2020 in the amount of approximately RMB1,276,547,000, and adjusted by applying a discount of approximately 7.7% and the weak financial position of Yongchen with poor refinancing ability. Without the Debts as the shareholder’s loan which provide imminent funding for Yongchen, Yongchen will not have sufficient cash to maintain and operate its businesses. The Equity Consideration covers the estimated cost of the outstanding rectification works items of the Project to be paid by Jiangshan Fengrong in the amount of approximately RMB95,800,000.

In determining the discount to be applied to the net asset value of Yongchen for the determination of the consideration for the Disposal, the Directors took into consideration account the following factors:

- (i) the Disposal represents an opportunity for the Group to recoup its capital investment in Yongchen given the Debts will be repaid in full to the Group within twenty (20) business days after completion of the Disposal, which will relieve the Group from its funding commitment to Yongchen in the form of shareholder's loan which is costly to maintain;
- (ii) Yongchen recorded a significant amount of accounts receivables, being the state renewable energy subsidies to be received from the State Grid Corporation of China, of approximately RMB492,244,000 as at the Reference Date, the receipt of which depends on the decision of the relevant government authority;
- (iii) the discount of approximately 7.7% to the net asset value of Yongchen is much lower than the average discount rate (i.e. 20.2%) to the net asset value of the project companies disposed by the Group since the end of the year 2018; and
- (iv) the Group is expected to save an annual finance costs of approximately RMB101,600,000 upon completion of the Disposal.

Arrangements during the Transition Period

Any profits generated and any losses incurred and any changes to the net assets of Yongchen during the Transition Period, subject to the Transition Period Audit, shall be borne by Yongchen.

During the Transition Period, Jiangshan Fengrong shall ensure that, among other things, Yongchen will continue its normal business operations in accordance with its past practices and, save for the equity pledge over the Sale Equity Interest in favour of CDB Leasing to secure the CDB Finance Lease as permitted under the Disposal Agreement, no encumbrances or other third party rights will be created with respect to the equity interest in Yongchen without the prior written consent of the Purchaser.

Termination of the Guarantee

Pursuant to the Disposal Agreement, by no later than 90 (ninety) days after the completion of the Disposal, the Purchaser shall provide necessary financing facilities to Yongchen for its repayment of the outstanding amount under the CDB Finance Lease and procure the release of the Guarantee. In the event that the Purchaser does not procure completion of the release of the Guarantee within ninety (90) days after completion of the Disposal, Jiangshan Fengrong shall have the right to seek for damages from the Purchaser and default penalty incurred thereunder calculated at an annual percentage rate of 0.2% based on the principal of guarantee amount. If the Purchaser fails to procure completion of the release of the Guarantee within the agreed time, Jiangshan Fengrong shall have the right to rescind the Disposal Agreement, and seek for damages from the Purchaser in the maximum amount of RMB30,000,000 and the Purchaser shall bear all the costs and expenses in connection with

the transactions contemplated thereunder. The Company will then make assessment on the possible implications under the Listing Rules and make further disclosure as and when appropriate to comply with it.

The continuation of the Guarantee was agreed after an arm's length negotiation between the parties and was one of the key commercial terms for the Purchaser to agree to the transactions contemplated under the Disposal Agreement. In view of the financial stress that the Group is encountering though the terms and conditions of the Guarantee may not be ideal, the Directors consider that the Disposal and the Guarantee are still the best available option under the circumstances for the Company to cut losses and streamline its operation at an appropriate timing after identifying the Purchaser which is subsidiary of another listed company in Hong Kong. The Guarantee would also facilitate CDB Leasing to provide its written consent regarding the Disposal in respect of the CDB Finance Lease, which is a condition precedent under the Disposal Agreement. In the worst scenario if the Purchaser fails to procure release of the Guarantee within an agreed time, Jiangshan Fengrong shall have the right to rescind the Disposal Agreement.

COMPLETION OF THE DISPOSAL

Completion of the Disposal shall take place on the date when the transfer of the Sale Equity Interest has been registered with the relevant administration for industry and commerce and a new business license has been issued to Yongchen.

Completion of the Disposal and the provision of the Guarantee are inter-conditional upon each other.

INFORMATION ON YONGCHEN

Yongchen is a company established in the PRC with limited liability. It is principally engaged in the development, construction and operation of the Project. The construction of the Project has been completed, and the power plant has been connected to the power grid.

The unaudited financial results of Yongchen for the two financial years immediately preceding the date of this announcement are as follows:

	For the year ended	
	31 December	
	2018	2019
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit before tax	146,489	44,991
Net profit after tax	146,489	44,991

The unaudited net asset value of Yongchen as at 31 October 2020 was approximately RMB1,276,547,000.

INFORMATION ON THE PARTIES

Jiangshan Fengrong

Jiangshan Fengrong is an indirect wholly-owned subsidiary of the Company and is principally engaged in investment holding. As at the date of this announcement, Yongchen is a direct subsidiary of Jiangshan Fengrong.

The Company and the Purchaser

The Company is principally engaged in the investment in and operation of solar power plants, provision of solar power plant operation and maintenance services, provision of financial services, trading of liquefied natural gas and asset management.

The Purchaser is a company established in the PRC and is principally engaged in the development and operation of clean energy such as solar energy. As at the date of this announcement, the Purchaser is an indirect wholly-owned subsidiary of Beijing Energy International.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Purchaser and its ultimate beneficial owner is a third party independent of the Company and connected persons of the Company.

REASONS AND BENEFITS FOR THE DISPOSAL

The Directors consider that the Disposal represents a good opportunity for the Group to realise its investment in Yongchen so as to better allocate the Group's resources and optimize its operation model. The Disposal is consistent with the Group's strategy to reduce debts and interest rate exposure given it was agreed between the parties that the Debts will be repaid in full to the Group within twenty (20) business days after completion of the Disposal, which will relieve the Group's funding commitment as a shareholder to Yongchen. The net proceeds of the Disposal will be applied towards the repayment of the Company's existing indebtedness, the Company will be expected to save an annual finance cost of approximately RMB101,600,000, which is calculated from a formula of the net proceeds of the Disposal of approximately RMB1,270,000,000 multiplied by the average interest rate of the Group's existing indebtedness of approximately 8% per annum.

Based on the foregoing, the Directors are of the view that the Disposal and the terms of the Disposal Agreement were entered into on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. As at the date of this announcement, none of the Directors had a material interest in the Disposal and was required to abstain from the relevant Board's resolutions to approve the Disposal Agreement and the transactions contemplated thereunder.

FINANCIAL EFFECT OF THE DISPOSAL AND INTENDED USE OF PROCEEDS

As at the date of this announcement, Yongchen is an indirect subsidiary of the Company. With effect from completion of the Disposal Agreement, Yongchen will cease to be a subsidiary of the Company and its financial statement will cease to be consolidated in the financial statements of the Company.

Subject to final audit, it is expected that the Group will realise a net loss on the Disposal of not more than approximately RMB102,000,000, which is calculated by reference to the difference between (i) the consideration for the Disposal and net asset value of Yongchen as at 31 October 2020 and (ii) the related transaction costs, taxes and expenses of the Disposal. Despite the net loss on the Disposal, having taking into consideration of the reasons for the Disposal as stated under the paragraph headed “Reasons and Benefits for the Disposal” above, the Company is of the view that the Disposal will be in the interests of the Company and the Shareholders as a whole as it will lower the Group’s gearing ratio.

The net proceeds from the Disposal after deducting the taxation and transaction costs are estimated to be approximately RMB1,270,000,000. The Group intends to apply the net proceeds from the Disposal to repay its existing indebtedness.

LISTING RULES IMPLICATIONS

The Disposal

As one of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposal is 75% or more, the transaction contemplated under the Disposal Agreement constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

The Guarantee

As certain of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Guarantee are 25% or more, the Guarantee constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

GENERAL

The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Disposal Agreement and the transactions contemplated thereunder (including the Guarantee). Insofar as the Company is aware, none of the Shareholders has any material interest in the Disposal and the Guarantee. Hence, no Shareholder is required to abstain from voting on the resolutions in relation to the Disposal Agreement and the transactions contemplated thereunder (including the Guarantee) at the EGM. A circular containing, among other things, further details of the Disposal and the Guarantee, the financial information of the Group, the financial information and the valuation report of the Project Companies and Yongchen, the notice convening the EGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 15 January 2021 as additional time is required to prepare the information to be included in the circular.

Shareholders and potential investors should note that completion of the Disposal is conditional upon satisfaction of certain condition precedent as set out in this announcement. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares and other securities of the Company.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Beijing Energy International”	北京能源國際控股有限公司 (Beijing Energy International Holding Co., Ltd.*), a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 686) and the controlling shareholder of the Purchaser as at the date of this announcement
“Board”	the board of Directors
“CDB Finance Lease”	the finance lease agreement dated 25 December 2018 entered into between Yongchen and CDB Leasing
“CDB Leasing”	國銀金融租賃股份有限公司 (China Development Bank Financial Leasing Co., Ltd.*), a company established in the PRC with limited liability, the H-shares of which are listed on the Stock Exchange (stock code: 1606)
“Company”	Kong Sun Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 295)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Debts”	the outstanding loans, advances, interests (if any) and other sums owed by Yongchen to Jiangshan Fengrong which is the net-off amount between the Yongchen’s Inter-company Debts and the Subsidiaries’ Inter-company Debts
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Sale Equity Interest
“Disposal Agreement”	the equity transfer agreement dated 4 December 2020 entered into by and among the Purchaser, Jiangshan Fengrong and Yongchen in relation to the Disposal

“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approve, among other things, the Disposal Agreement and transactions contemplated thereunder (including the Guarantee)
“Equity Consideration”	the consideration for the Disposal
“Escrow Account”	the bank account to be jointly established and operated by Jiangshan Fengrong and the Purchaser for holding the relevant deposit pursuant to the terms of the Disposal Agreement
“Group”	the Company and its subsidiaries
“Guarantee”	the guarantee provided by Jiangshan Fengrong and its related companies which are subsidiaries of the Company for securing the existing borrowings of Yongchen
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jiangshan Fengrong”	江山豐融投資有限公司 (Jiangshan Fengrong Investment Company Limited*), a company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 April 2021
“MW”	mega watts
“PRC”	the People’s Republic of China
“Project”	a 300 MW solar power plant owned by Yongchen in Shaanxi Province, PRC
“Project Companies”	威縣天海光伏發電有限公司 (Weixian Tianhai Photovoltaic Power Generation Co., Ltd.*), 平山縣天匯能源科技有限公司 (Pingshan Tianhui Energy Technology Co., Ltd.*), 山東新泰樓德佳陽光光伏發電有限公司 (Shandong Xintailou Dejia Solar Power Co., Ltd.*) and 威縣天海光伏發電有限公司 (Weixian Tianhai Photovoltaic Power Generation Co., Ltd.*), all of which are companies established in the PRC with limited liability and are indirect wholly-owned subsidiary of the Company as at 22 October 2020

“Purchaser”	北京聯合榮邦新能源科技有限公司 (Beijing United Rongbang New Energy Technology Co., Ltd.*), a company established in the PRC with limited liability
“Reference Date”	30 April 2020
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Equity Interest”	the entire equity interests of Yongchen
“Share(s)”	ordinary shares of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiaries’ Inter-company Debts”	the outstanding net amount of RMB142,550,000 due by certain subsidiaries of the Company to Yongchen as at the Reference Date
“Transition Period”	the period from (but excluding) the Reference Date to (and including) the date of completion of the Disposal
“Transition Period Audit”	an audit to be performed by an auditor engaged by the Purchaser with respect to Yongchen for the Transition Period
“Yongchen”	榆林市江山永宸新能源有限公司 (Yulin City Jiangshan Yongchen New Energy Limited*), a company established in the PRC with limited liability and an indirect subsidiary of the Company as at the date of this announcement
“Yongchen’s Inter-company Debts”	the outstanding net amount of RMB237,530,000 due by Yongchen to Jiangshan Fengrong as at the Reference Date
“%”	per cent.

By Order of the Board
Kong Sun Holdings Limited
Mr. Jin Yanbing
Executive Director

Hong Kong, 4 December 2020

As of the date of this announcement, the Board comprises two executive Directors, Mr. Jin Yanbing and Mr. Qin Hongfu, one non-executive Director, Mr. Jiang Hengwen and three independent non-executive Directors, Mr. Lang Wangkai, Ms. Wang Fang and Ms. Wu Wennan.

* For identification purposes only