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KINGBO STRIKE LIMITED

工蓋有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code : 1421)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE TARGET COMPANY

Reference is made to the announcement (the “**Announcement**”) of Kingbo Strike Limited (the “**Company**”) dated 29 March 2018 in relation to the Acquisition. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement. In addition to the information disclosed in the Announcement, the Board wishes to provide additional information in respect of the Acquisition as below:

FURTHER INFORMATION ON THE TARGET COMPANY

The Target Company, which was established in the PRC with limited liability in November 2007 and commenced its business in 2013, is principally engaged in the manufacture of solar power wafer battery and photovoltaic power components as well as the installation, operation and maintenance of photovoltaic power station. It manufactures the solar power related products based on the sales order placed by its customers and the needs of their projects. Its major customers are owners and contractors of photovoltaic power stations. Its products consist of solar power wafer battery, photovoltaic power components and solutions for photovoltaic power station system and their implementation. The Company will further launch other products such as energy storage system facilities, intelligent power distribution facilities and photovoltaic components intelligent cleaning robot system etc.

As at the date hereof, the Target Company has a total of 10 production staff and has different wafer production equipment such as single crystal furnace, slicer and washing machine, 20kV high-voltage power transmission system and power transformers, high and low voltage switch cabinets and other large-scale power equipment. As the Target Company has completed the disposal of a large number of production equipment which are technologically outdated, it currently has no large-scale production capacity. Due to the technology upgrade in the photovoltaic industry (the “**Upgrade**”), the Target Company is currently in the planning stage of production equipment and technology upgrade. Upon completion of the Acquisition, the Upgrade will be dominated by the Purchaser. The Purchaser’s preferred products consist of

* *For identification purposes only*

high-power storage equipment and intelligent power distribution products and plans to reach a production capacity of 5,000 sets of intelligent power distribution equipment, 1,000 sets of high power storage equipment, 100 megawatt of solutions for distributed photovoltaic power plants system and 3,000 sets of photovoltaic components intelligent cleaning robot systems per year. After completion of the Acquisition, the Purchaser intends to invest no more than RMB50.0 million in different stages, depending on the necessity and development of the Target Company, as working capital of the Target Company, of which about RMB30.0 million will be invested in production equipment. The Purchaser will use its internal resources to make the investment in the Target Company.

The expected timetable for the Upgrade is as follow:

By 31 May 2018	Completion of model selection, price comparison and bidding of basic equipment such as CNC machine tools, welding machines and assembly fixtures, semi-automated assembly lines and test equipment
	Drawing design of high-power storage system
	Project demonstration of intelligent power distribution products
By 30 September 2018	Completion of installation and commissioning of all equipment and commencement of trial production
By 31 October 2018	Sale of products manufactured from improved production capacity in the market

In relation to the two parcels of land owned by the Target Company, they are situated at Hongri Road, Lianshui Economic Development Zone, Huaian City, Jiangsu Province, the PRC and are 1 km from the Lianshui high speed rail station. The Target Company has obtained the land use right certificates for the land and the land is free from encumbrances. The two parcels of land have a land use right area of 78,132 m² and 36,036 m² respectively. The relevant land use right certificates will expire on 7 June 2061 and 24 April 2062 respectively.

FINANCIAL INFORMATION OF THE TARGET COMPANY

The Target Company's revenue for each of the year ended 31 December 2016, 31 December 2017 and the two months ended February 2018 were RMB11,683,915.4, RMB65,432,760.86 and RMB7,559,154.87 respectively.

The Target Company began to operate its photovoltaic business in 2016. Since some of the products sold did not meet the requirements of the customer, the company had incurred a bad debt loss of RMB35,870,000 in 2017. At the same time, due to product upgrade and that the special equipment could no longer be used by the Target Company, the Target Company had incurred a loss for special equipment in the amount of RMB23,360,000 and a write-off of one-off startup fee of RMB4,200,000.

Detailed breakdown of the loss before taxation of RMB56.5 million for the year ended 31 December 2017 is as follow:

Particulars	Amount (RMB'000)
Write-off of bad debts due to product quality problems	(35,870)
Net loss caused by the sale of technologically outdated production equipment	(15,980)
Write-off of prepayments for equipment no longer purchased due to outdated technology	(7,380)
Write-off of one-off startup fee of the Target Company	(4,200)
<i>Note:</i> The above were caused by the technical upgrade and transformation of the Target Company to adapt to changes in the market.	
Profit generated by the Target Company's normal production and operation during the year	<u>6,930</u>
Total	<u><u>(56,500)</u></u>

As the Target Company incurred a loss of RMB56.5 million, it caused the net assets of the Target Company to decrease to RMB34.0 million as at 31 December 2017.

BASIS OF CONSIDERATION

In relation to the determination of the Consideration for the Acquisition, the independent valuer engaged for the valuation of the land and properties of the Target Company (including the fixed assets of the production base) (the “**Valuation**”) is Asset Appraisal Limited (the “**Valuer**”), a professional member of the Royal Institute of Chartered Surveyors and the Hong Kong Institution of Surveyors as well as a registered professional surveyor in Hong Kong.

The depreciated replacement cost method has been adopted for the Valuation to provide a good indication of fair value for fixed assets in the absence of known second hand markets. The values of each of the asset categories have been arrived at under the following valuation approaches:

- (i) land use rights – market approach (with consideration of such valuation inputs as site area, permitted land use, comparable land use right transactions at the subject locality);
- (ii) buildings and structure – cost approach (with consideration of such valuation inputs as quantities of work, type of construction, recent tender construction costs of similar building construction works); and
- (iii) machineries – cost approach (with consideration of such valuation inputs as book costs, year of purchase, expected useful life).

As the Company intends to retain all fixed assets for its own business operations, the fixed assets have been valued as a whole, in place but on the assumption that all businesses or the production processes of the Target Company employing the assets were all in cessation.

Valuation Assumptions

The assumptions used in the Valuation are set out as below:

- (i) The Valuer has conducted visual inspection of the production base of the Target Company but has not carried out site investigations to determine the suitability of ground conditions or the services for any future development of the subject land parcel. The land parcel has been valued on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.
- (ii) Building Ownership Certificate for the subject buildings has not yet been issued on the valuation date. The Valuer has valued them on the basis that all buildings and structures have been built in compliance with all relevant laws, rules, regulations and building safety standards such that there shall be no administrative and legal impediment for the Target Company to obtain Building Ownership Certificate from the PRC Government in due course.
- (iii) The Valuer has inspected the exterior and interior of all the subject buildings and structures of the Target Company but no structural survey has been made. The Valuer has valued them on the basis that they are free from rot, infestation or any other structural defects.
- (iv) No mechanical survey and test were carried out for the machinery and equipment of the Target Company by the Valuer. He has valued the equipment on the basis that it can perform efficiently according to the purposes for which it was designed and built and is in a physical condition commensurate with its post installation age.
- (v) The Valuer has valued the high voltage power transmission system erected on the expenses of the administrative authority of the Lian Shui Economic Development Area on the basis that the Target Company will have free and uninterrupted rights to exclusively use the system throughout the unexpired land use rights term of the subject land parcel held by it.

In relation to the valuation assumptions (i) and (iii), the Valuer has ascertained the following during the site inspection on 16 March 2018: (a) the general environment and development conditions of the area where the property is situated; (b) the accessibility of the property and the access road linkage between the property and the main road; (c) the occupancy of the property; (d) the facilities provided by the property; (e) the existence of any non-conformity use within the property; (f) the repair and maintenance conditions of the property; and (g) the existence of any closure order and resumption order affixed to the property. According to the Valuer, no adverse finding over the above matters was observed by the Valuer during the site inspection.

In relation to the valuation assumption (ii), as represented by the financial controller of the Target Company, after completion of the construction of the subject buildings, since there is no need for financing by the Target Company by way of pledging the Building Ownership Certificate; and taking into account the costs and taxes implications for obtaining the Building Ownership Certificate, the Target Company did not complete the relevant procedures for obtaining the Building Ownership Certificate in a timely manner. The Building Ownership Certificate is expected to be obtained by the Target Company by April 2019. The cost for obtaining the Building Ownership Certificate is approximately RMB500,000 and such cost will be borne by the Vendor. Based on the situation statement issued by the Jiangsu Lianshui Economic Development Zone Management Committee dated 17 April 2018 and as advised by the PRC legal adviser, the application for Building Ownership Certificate is currently being processed and there is no legal impediment to obtain the Building Ownership Certificate; and the lack of Building Ownership Certificate will not affect the Target Company's possession and use of the subject buildings and its income and will have no impact on the Target Company's operation and financial position. Taking into account the above, the Board considers that the transaction is in the interest of the Company and the Shareholders as a whole.

In relation to the valuation assumption (v), both the Company and the Valuer have inspected the high voltage power transmission system physically on site to ensure the existence of such system. The Company has obtained a copy of the power user access engineering services agreement dated 18 October 2011 entered into between Jiangsu Lianshui Economic Development Zone Management Committee and a power supply company in the PRC, pursuant to which the power supply company agreed to construct the high voltage power transmission system at the expenses of Jiangsu Lianshui Economic Development Zone Management Committee, which is a system used exclusively by the Target Company for free. The Company has consulted the PRC legal adviser and is advised that the above services agreement is legal and binding and in compliance with the PRC laws. On 28 April 2018, Jiangsu Lianshui Economic Development Zone Management Committee issued a letter (the "**Letter**") to the Target Company, which stated that Jiangsu Lianshui Economic Development Zone Management Committee agreed to give the high voltage power transmission system to the Target Company for its exclusive use for free and confirmed that the legal title of the high voltage power transmission system would belong to the Target Company. The Company has consulted the PRC legal adviser and is advised that the Letter is legal and binding. In addition, the Company has consulted the Valuer and is advised that the high voltage power transmission system is valued at RMB18,100,000 based on replacement costs approach. In light of the above, the Company considers that the inclusion of the high voltage power transmission system as a subject asset in the Valuation is fair and reasonable.

Details of Comparables (for asset valued market approach only)

The following comparable industrial land transactions have been identified and considered in the valuation:

Date	Location	Area (m ²)	Price (RMB Mil)	Unit Rate (RMB/m ²)
15 Jan 18	Weijiu Road South, Lianxin Road West, Bixing Industrial Area, Lianshui County, the PRC (漣水縣薛行工業區漣新路西側緯九路南側)	62,965	9.50	151
16 Jan 18	Weijiu Road South, Jingyi Road West, Bixing Industrial Area, Lianshui County, the PRC (漣水縣薛行工業區經一路西側、緯九路南側)	34,008	5.10	150
16 Jan 18	Weishier Road North, Jingyi Road East, Bixing Industrial Area, Lianshui County, the PRC (漣水縣薛行工業區經一路東側、緯十二路北側)	3,232	0.49	152
28 Nov 17	Weiwu Road South, Jingyi Road East, Bixing Industrial Area, Lianshui County, the PRC (漣水縣薛行工業區經一路東側、緯五路南側)	33,278	5.00	150
16 Nov 17	Gaogou Town, Lianshui County, the PRC (漣水縣高溝鎮)	128,447	23.15	180

Value of inputs

Details of the value of inputs are as follow:

(i)	<i>Land Use Rights</i>			
	Site area (m ²):			114,168
	Market value (RMB/m ²):			160
(ii)	<i>Workshop Building</i>			
	Gross floor area (m ²):			15,962.92
	Replacement costs (RMB/m ²):			1,800
(iii)	<i>Administrative and Dormitory Buildings</i>			
	Gross floor area (m ²):			11,841.07
	Replacement costs (RMB/m ²):			2,800
(iv)	<i>Outdoor Driveway (within factory complex)</i>			
	Road area (m ²):			6,400
	Replacement costs (RMB/m ²):			300
(v)	<i>20kV Exclusive High-Voltage Power Transmission System</i>			
	Distance between power substation and the factory complex (km):			5
	Replacement costs (RMB):			18,100,000
(vi)	<i>Boundary Walls and Outdoor Lighting</i>			
	Replacement costs (RMB):			884,000

Adjusted net asset value of the Target Company

The Acquisition of the Target Company will be accounted for by the Company as acquisition of assets rather than business in accordance with IFRS 3 as (i) the purpose of the Acquisition is acquisition of land and factory to manufacture solar power related products for the Company's own solar power business; (ii) the Target Company disposed of technologically outdated production equipment and currently has no large-scale production capacity and the Company will appoint its own management and employ operation staff to operate the factory, upgrade the production equipment of the Target Company after completion of the Acquisition and use its own network to choose the supplier(s) and locate customers.

Fixed assets (including construction in progress and land use rights) of the Target Company after valuation adjustment have a total amount of RMB111.2 million from which total liabilities of RMB42.6 million is deducted to come up with an adjusted net asset value of RMB68.6 million.

Given the net book value of RMB34.0 million and the adjusted net asset value of RMB68.6 million, there is a price difference of approximately RMB34.6 million. Such price difference is attributable to the valuation gain of RMB8.3 million for the land parcels, valuation gain of RMB6.3 million for the buildings and structures and valuation amount of RMB20.0 million for the long distance high-voltage transmission system and on-site driveways.

As the Acquisition will be accounted for as acquisition of assets, the Company will account for the Acquisition with reference to its fair value at the date of Acquisition. Details of the Target Company's assets fair value are as follows:

	<i>RMB'000</i>
Land	18,200
Fixed Assets	10,200
Building and structures (including the high voltage power transmission system)	82,800
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Total fair value of assets determined by the independent professional valuer	111,200
Less: liabilities associated	42,600
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Consideration	69,000
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The Directors considered that the Consideration with reference to the fair value of assets determined by the Valuer and the valuation method adopted by the Valuer to be appropriate, and relied on the assumptions made by the Valuer in the valuation report in deriving the fair value of assets of the Target Company. The Company did not make any other assumption for the purchase price allocation. Given the information stated above, the auditors concur with the above accounting treatment and the Directors' views and assessments.

Based on the above, the Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

By order of the Board
Kingbo Strike Limited
Liu Yancheng
Chairman

Hong Kong, 11 May 2018

As at the date of this announcement, the Directors are:

Executive Directors:

Mr. Liu Yancheng (*Chairman*)
Mr. Yao Runxiong
Mr. Liu Xincheng
Mr. Peng Rongwu

Independent non-executive Directors:

Mr. Leung Po Hon
Mr. Li Jin
Dr. Luo Xiaodong

Non-executive Director:

Mr. Tam Tak Wah