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Dafy Holdings Limited
達飛控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1826)

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO DESIGN AND
CONSTRUCTION AGREEMENT**

THE DESIGN AND CONSTRUCTION AGREEMENT

The Board is pleased to announce that on 8 June 2018, Fruit Design entered into the Design and Construction Agreement with Land Ease, pursuant to which Fruit Design has agreed to provide the Design and Construction Services to Land Ease.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Masterveyor is beneficially interested in 61,600,000 Shares and Mr. Ng beneficially owns the entire issued capital of Masterveyor. Mr. Ng is therefore deemed, or taken to be, interested in all 61,600,000 Shares held by Masterveyor for the purposes of the SFO. Mr. Ng is also the chief executive officer of the Company and an executive Director. Hence, Mr. Ng is a connected person of the Company under Chapter 14A of the Listing Rules.

Since Mr. Ng also beneficially owns the entire issued capital of Land Ease, Land Ease is an associate to Mr. Ng and a connected person of the Company under Chapter 14A of the Listing Rules.

As such, the Design and Construction Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios in respect of the annual caps of the transactions contemplated under the Design and Construction Agreement are more than 5%, such transactions are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will convene an extraordinary general meeting to seek approval of the Independent Shareholders for the Design and Construction Agreement and the transactions contemplated thereunder, including the proposed annual caps.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee has been established to make recommendation to the Independent Shareholders regarding the terms of the Design and Construction Agreement, the transactions contemplated thereunder and the proposed annual cap. VBG Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Design and Construction Agreement, the transactions contemplated thereunder and the proposed annual caps.

APPROVAL FROM INDEPENDENT SHAREHOLDERS AND DESPATCH OF CIRCULAR

An extraordinary general meeting will be convened for the Independent Shareholders to consider and, if thought fit, to approve the Design and Construction Agreement, the transactions contemplated thereunder and the proposed annual caps. Mr. Ng and his associates are required to abstain from voting on the resolution for approving the Design and Construction Agreement, the transactions contemplated thereunder and the proposed annual caps at the extraordinary general meeting. A circular containing, among other things, (i) details of the Design and Construction Agreement (including the proposed annual caps); (ii) a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; together with (iv) the notice of the EGM, is expected to be despatched to the Shareholders of the Company on or before 3 July 2018.

THE DESIGN AND CONSTRUCTION AGREEMENT

The Board is pleased to announce that on 8 June 2018, Fruit Design entered into the Design and Construction Agreement with Land Ease, pursuant to which Fruit Design has agreed to provide the Design and Construction Services to Land Ease.

Principal terms of the Design and Construction Agreement are set out below:

Date

8 June 2018

Parties

- (i) Fruit Design; and
- (ii) Land Ease

Provision of the Design and Construction Services

Under the Design and Construction Agreement, Fruit Design shall provide the Design and Construction Services to Land Ease.

Condition Precedent

The Design and Construction Agreement shall be effective upon the satisfaction of the following conditions (hereinafter called the “**Conditions Precedent**”):

- (1) The transactions contemplated under the SP Agreement having been completed;
- (2) The passing by the Shareholder(s) who are permitted to vote under the Listing Rules at a general meeting of the Company of resolutions to approve the Design and Construction Agreement and the transactions contemplated therein, including the proposed annual caps; and
- (3) all necessary approvals and consents in relation to the transactions contemplated under the Design and Construction Agreement having been obtained, such consents and approvals should include, without limitation, the consent and approval from the Target approving Land Ease to enter into the Design and Construction Agreement.

None of the Conditions Precedent is waivable. If it comes to the notice of Land Ease of any event that may prevent any of the Conditions Precedent from being fulfilled; or if any of the Conditions Precedent have not been fulfilled by 31 July 2018 (or such later time or date as may be agreed between Land Ease and Fruit Design in writing), Land Ease will have the right to declare the Design and Construction Agreement null and void and of no further effect, save for any antecedent breaches.

Duration and Termination

The Design and Construction Agreement is for the duration of 600 calendar days commencing from date upon which possession of the Land is handed over to the Company or otherwise extended or terminated in accordance with the terms of the Design and Construction Agreement.

Pricing

The amount of fees payable by Land Ease for the Design and Construction Services is HK\$182,000,000.00, which was determined after arm’s length negotiations between Land Ease and Fruit Design on normal commercial terms taking into account the following factors including (i) complexity of site works and design works involved; (ii) the estimated amount of time and materials required and personnel to be involved; (iii) the payment term specified in the Design and Construction Agreement; (iv) reference price of similar projects completed by the Company before; and (v) any risk leading to extension of service period or additional payment. The Group has also made reference to various construction costs data published from time to time by different firms of quantity surveyors including Rider Levett Bucknall and Arcadis Hong Kong Limited.

Payment

Land Ease shall pay for the Design and Construction Services provided by Fruit Design. Payment will be made on a monthly basis with reference to the estimated value of the work properly carried out including any design work carried out by the Fruit Design and of the materials and goods delivered to or adjacent to the Works for use thereon, which is similar to those offered to independent third parties in relation to similar contracting service rendered by the Group. As such, the Directors are of the view that terms of payment stipulated under the Design and Construction Agreement are equal and/or not better than the terms which would otherwise be granted to independent third parties.

ANNUAL CAPS AND BASIS OF DETERMINATION

The proposed annual caps for the transactions contemplated under the Design and Construction Agreement for the three financial years ending 31 December 2018, 2019 and 2020, respectively, are as follows:

For the year ending 31 December		
2018	2019	2020
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
62,000	100,000	20,000

Such annual caps are determined with reference to: (i) the estimated size and scale of the Design and Construction Services to be provided by Fruit Design; (ii) the expected manpower and materials required for the Design and Construction Services to be rendered by the Fruit Design; (iii) the estimated progress of the Design and Construction Services; and (iv) the historical service fees or contract sums for the provision of comparable Design and Construction Services by the Group to independent third parties. As Land Ease has provided with the Group with detailed requirements for the Design and Construction Services including the scope of the specific design, the gross floor area and construction floor area required for providing the Design and Construction Services as well as the proposed general building plans of the Works, the Group was able to determine the size and scale of the Design and Construction Services to be provided, the expected manpower required and the estimated amount of materials and goods required.

There was no previous transaction in relation to the provision of design and construction services by the Group to Land Ease.

In light of the above, the Directors confirm that the terms of the Design and Construction Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL

The Company has adopted the following internal control measures with regard the Design and Construction Agreement:

- (i) A cost plan has been prepared for the Design and Construction Services which sets out the cost target. Such cost plan has been agreed between the project manager and the quantity surveyor of the Group. Execution of the Design and Construction Agreement, including subletting (if any), will be carried out in accordance with the cost plan;
- (ii) Actual expenses incurred and cash flow status will be monitored by the project team in an ongoing basis. Actual expenses incurred will be reported by the project team to the Directors and the senior management and the finance department. Revision to cost plan, which requires approval from a project director of the Company who is principally responsible for organisation, management and supervision of the Company's contracting project, and/or one of the Directors (other than Mr. Ng), may be made in order to control the cost target. To approve the revisions to cost plan, such revisions shall also (i) identify the causes of the increase in cost; and (ii) set out the measures to be taken to control of the cost; and
- (iii) Since Mr. Ng has a potential conflict of interest in the Design and Construction Services, Mr. Ng has not, and would not be involved in the execution, supervision and management of the Design and Construction Services.

The Board would review the effectiveness of the above-mentioned mechanisms on a regular basis. Based on the above, the Board believes that the above-mentioned methods and procedures can ensure the transactions under the Design and Construction Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

Annual review

As required by the Listing Rules, the independent non-executive Directors will review the continuing connected transactions contemplated under the Design and Construction Agreement and confirm in the annual report of the Company whether the said transactions have been entered into in the ordinary and usual course of business of the Company; on normal or better commercial terms and in accordance with the relevant agreements governing the transactions; and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company undertakes to engage its auditors to report annually on the continuing connected transactions contemplated under the Design and Construction Agreement. The auditors will provide their view as to, inter alia, whether the transaction of Design and Construction Services, as set out in the "Pricing" section of this announcement, were or were not, in all material respects, in accordance with the pricing policy of the Design and Construction Agreement.

Information of the Company

The principal business activity of the Company is investment holding. The Group is principally engaged in (i) contracting service for alteration and addition works, maintenance specialist works and new development; and (ii) consulting service for alteration and addition works, new development, licensing, building services, and architectural design for buildings in Hong Kong.

Information of Fruit Design

Fruit Design is incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of the Company. It is principally engaged in contracting business and provision of building consultancy services.

Information of Land Ease

Land Ease is incorporated in Hong Kong with limited liability and is principally engaged property development and project management.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS AND BENEFITS EXPECTED TO ACCRUE TO THE COMPANY

The Group possesses the expertise and experience to deliver solutions that may add value to its projects. The Group is developing its contracting and consulting business by undertaking more projects for alteration and addition works as well as new building works.

By providing the Design and Construction Services to Land Ease, which is a new customer to the Group, the Group can further expand its contracting and consulting business and maintain its competitive edge over the competitors in the industry.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Design and Construction Agreement, the transactions contemplated thereunder and the proposed annual caps are fair and reasonable and on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Masterveyor is beneficially interested in 61,600,000 Shares and Mr. Ng beneficially owns the entire issued capital of Masterveyor. Mr. Ng is therefore deemed, or taken to be, interested in all 61,600,000 Shares held by Masterveyor for the purposes of the SFO. Mr. Ng is also the chief executive officer of the Company and an executive Director. Hence, Mr. Ng is a connected person of the Company under Chapter 14A of the Listing Rules.

Since Mr. Ng also beneficially owns the entire issued capital of Land Ease, Land Ease is an associate to Mr. Ng and a connected person of the Company under Chapter 14A of the Listing Rules.

As such, the Design and Construction Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios in respect of the annual caps of the transactions contemplated under the Design and Construction Agreement are more than 5%, such transactions are subject to reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will convene an extraordinary general meeting to seek approval of the Independent Shareholders for the Design and Construction Agreement and the transactions contemplated thereunder, including the proposed annual caps.

Mr. Ng has abstained from voting on the relevant board resolution of the Company in relation to the Design and Construction Agreement, the transactions contemplated thereunder and the proposed annual caps.

Save as disclosed above, none of the Directors has a material interest in the Design and Construction Agreement and the transactions contemplated thereunder and none of them has abstained from voting on the relevant board resolutions of the Company.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee has been established to make recommendation to the Independent Shareholders regarding the terms of the Design and Construct Agreement, the transactions contemplated thereunder and the proposed annual cap. VBG Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Design and Construction Agreement, the transactions contemplated thereunder and the proposed annual caps.

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DEFINITIONS

“associate(s)”	has the meaning ascribed to this term under the Listing Rules;
“Board”	means the board of Directors;
“Company”	means Dafy Holdings Limited 達飛控股有限公司, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the main board of the Stock Exchange (stock code: 1826);
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules;
“Design and Construction Agreement”	means the design and construction agreement dated 8 June 2018 entered into between Land Ease and Fruit Design in relation to the provision of the Design and Construction Services by Fruit Design to Land Ease;
“Design and Construction Services”	means the services for design, the carrying out and completion of the construction of the Works as referred to in the Design and Construction Agreement;
“Director(s)”	means the director(s) of the Company;
“Fruit Design”	means Fruit Design & Build Limited, a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of the Company;
“Group”	means the Company and its subsidiaries from time to time;
“HK\$”	means Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	means the independent committee of the Board comprising of all the independent non-executive Directors established for the purpose of advising the Independent Shareholders in respect of the Design and Construction Agreement, the transactions contemplated thereunder and the proposed annual caps;

“Independent Financial Adviser”	means VBG Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, Chapter 571 of the Laws of Hong Kong, which has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in respect of the Design and Construction Agreement, the transactions contemplated thereunder and the proposed annual caps;
“Independent Shareholders”	means the Shareholders other than those Shareholders who have a material interest in the transactions contemplated under the Design and Construction Agreement and their respective associates;
“Land”	means Kwun Tong Inland Lot 281 now known as 46 Tsun Yip Street, wholly-owned by the Target;
“Land Ease”	means Land Ease Limited, a company incorporated in Hong Kong with limited liability wholly owned by Mr. Ng;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange;
“Masterveyor”	Masterveyor Holdings Limited, a company incorporated in the British Virgin Islands with limited liability wholly owned by Mr. Ng;
“Mr. Ng”	means Mr. Ng Kin Siu, (i) the chief executive officer of the Company; and (ii) an executive Director;
“PRC”	means the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Quick Lucky”	means Quick Lucky Development Limited, a company incorporated in Hong Kong with limited liability wholly owned by Mr. Ng;
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	means the ordinary shares of HK\$0.01 each in the share capital of the Company;
“Shareholder(s)”	means the holder(s) of the Share(s);

“SP Agreement”	means the sale and purchase agreement dated 7 May 2018 entered into between Quick Lucky as purchaser and an independent third party as vendor for the sale and purchase of the entire issued shares and shareholders’ loan of the Target;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Target”	means Eagle Crown Holdings Limited, a company incorporated in Hong Kong with limited liability;
“Works”	means the proposed industrial development to be constructed on the Land; and
“%”	means per cent.

By Order of the Board
Dafy Holdings Limited
Gao Yunhong
Chairman of the Board and executive Director

Hong Kong, 8 June 2018

As at the date of this announcement, the executive Directors are Mr. Gao Yunhong, Ms. Zhu Wenhui, Mr. Qi Gang and Mr. Ng Kin Siu; and the independent non-executive Directors are Mr. Chan Yuk Sang, Mr. Wan Chi Wai Anthony and Mr. Lau Kwok Fai Patrick.