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**ZALL卓尔**

**Zall Group Ltd.**

**卓爾集團股份有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2098)**

## **CLARIFICATION ANNOUNCEMENT**

Reference is made to the report (the “**Report**”) issued by Glaucus Research Group (“**Glaucus**”) on 25 April 2017 in relation to Fullshare Holdings Limited (“**Fullshare**”), a company of which shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 607), which contains certain information relating to Zall Group Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”).

This announcement is made by the Company to clarify all the misstatements and false assertions concerning the Group in the Report as follows:

### **1. Manipulation of the Company’s stock price**

The Report sets out an intraday trading pattern of the Company’s stock and alleges that there is an unusual pattern of stock price appreciation in the final hour of trading, which suggests that the Company’s stock price is being manipulated.

#### ***The Company’s response***

To the best of the knowledge and belief of the Company, upon enquiry being made to the directors (the “**Directors**”) of the Company, the Company is not aware of any circumstance suggesting that the Company’s stock price is being manipulated. The Report wrongly attributes the increase in the Company’s stock price solely to Fullshare’s equity investment in the Company leading to the Company’s stock price being manipulated, and has completely neglected the Group’s efforts in its strategic and business transformation in the last three years, from a traditional real estate developer to a one-stop intelligent trading platform, which comprises of cloud market trading and service system combining online and offline businesses on the foundation of physical markets, logistics and properties, cross-border trading, customer-end business, integrated logistics and financial services as well as supply chain management and other related value-added businesses. The certain statements made in the Report reveals that Glaucus has failed to understand the business model of the Group transformed over the last three years and erred to conclude that the Company’s stock price is being manipulated based on selected but inappropriate and misleading information.

## 2. Issue of shares to Fullshare's chairman

The Report states that the Company issued HK\$781 million in stock to Fullshare's chairman to pay off the US\$100 million convertible bonds issued by the Company to avoid a default on the debt.

### *The Company's response*

The Company would like to clarify that it had not issued any new share to Fullshare's chairman. To the best of the knowledge and belief of the Company, at the material time, Mr. Yan, as the co-chairman of the Company and an executive Director, transferred approximately 7.83% of the then total number of shares of the Company in issue to Fullshare's chairman at a price of HK\$2.7 per share. The proceeds from such the transfer were applied by Mr. Yan towards his acquisition of an office building from the Group, being a non-core project of the Group, particulars of which were disclosed in the circular of the Company dated 31 December 2014. The Company further confirms that there had been no default on the outstanding debt under the US\$100 million convertible bonds issued by the Company.

## 3. Perverse effect of the cross-holdings between Fullshare and the Company

The Report asserts that the cross-holdings between Fullshare and the Company has the perverse effect of enabling each of Fullshare and the Company to recognize unrealized gains, which artificially inflates their respective net income. The Report highlights that in June 2015, the Company acquired 4.8% equity interest in Fullshare, and in November 2015, Fullshare acquired 8.2% of the total outstanding shares of the Company. The Report further asserts that Fullshare and the Company appear to have pledged their cross-holdings as collaterals to take out short term loans, which creates a highly unstable situation.

### *The Company's response*

As at the date of this announcement, the Company held as to 3.45% of the total shares in issue of Fullshare (the "**Fullshare Shares**").

The Company would like to clarify that the acquisition of the Fullshare Shares by the Company in June 2015 was a standalone transaction and was unrelated to the subsequent acquisition of the Company's shares by Fullshare from its chairman. The Fullshare Shares were allotted and issued to the Company as consideration to the Group's disposal of two companies principally engaged in residential and commercial property development, particulars of which were disclosed in the joint announcement of the Company and Fullshare dated 9 April 2015 and the announcements of the Company dated 25 June 2015 and 26 June 2015. The cross-holdings between Fullshare and the Company was unintended and did not form part of the transaction.

In addition, line with the Company's strategic and business transformation, the Group had made a series of acquisitions in recent years. Accordingly, the Group's funding requirements also increased, which led to the Group's pledge of its assets as an effective means to obtain third party financing. The Group's pledging of its shares in Fullshare as security of the Group's financing is one of most the common market practices within the corporate finance industry. The Report's exaggeration of the potential impact of such provision of collateral by the Group is unfounded and logically specious and has itself provided misleading message to the market and potential investors.

#### **4. Debt covenants**

The Report states that the Company was heavily indebted and that it was not in compliance with the debt covenants of certain of its debt instruments, including the convertible bond issuance and bank loans. Further, the Report asserts that the Company was and remains a deeply troubled company.

##### *The Company's response*

The Company would like to clarify that the non-compliances as referred in the Report was mainly violations of certain financial covenants set forth under the relevant debt instrument, including debt ratio and provision of guarantees to subsidiaries of the Company, etc.. The Group had obtained waivers of such non-compliance of financial covenants from the relevant financial institutions. Relevant information is also set forth in the Company's annual reports for the relevant financial years. At all material time, there was no default in repayment of the Group's debt financing and there was no demand of early repayment from the relevant financial institutions in relation to its debt financing.

Further, the Company would like to emphasize that the Group's financial position remains healthy and stable. The statement in the Report that the Company "remains a deeply troubled company" is untrue and unfounded.

The Company had made timely and detailed disclosure in relation to the Group's strategic and business transformation and its financial impact in its annual and interim reports in the recent years. Shareholders and potential investors of the Company are advised to read carefully of the information contained therein.

#### **CONCLUSION**

To reiterate, the Company denies all the misstatements and false assertions concerning the Group in the Report. The Report contains information made without due consideration for the underlying facts, which are inappropriate and misleading to the Company's shareholders and potential investors. The Company reserves the right to take legal action and other relief against such entity and/or associated individuals responsible for the Report.

**The Company has no information about the identity of Glaucus. As indicated in the Report, Glaucus is a short seller and therefore stands to realize significant gains in the event that the price of the Shares decline. In view of this, shareholders and investors should exercise extreme caution in reading and using the information in the Report. Further, the Report contains misleading statements and unfounded speculation which the Company believes are combined in the Report with a view to manipulate the price of the Shares and to undermine the Company's reputation.**

**Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.**

By order of the Board  
**Zall Group Ltd.**  
**Yan Zhi**  
*Co-Chairman*

Hong Kong, 26 April 2017

*As at the date of this notice, the Board comprises eight members, of which Mr. Yan Zhi, Dr. Gang Yu, Mr. Cui Jinfeng and Mr. Peng Chi, as executive directors of the Company; Mr. Cheung Ka Fai, Mr. Wu Ying, Mr. Wei Zhe, David and Mr. Zhu Zhengfu as independent non-executive directors of the Company.*