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**Zall Group Ltd.**

**卓爾集團股份有限公司**

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

**(Stock Code: 2098)**

## **VERY SUBSTANTIAL ACQUISITION**

### **THE PROPOSED TRANSACTIONS**

The Board is pleased to announce that after trading hours on 11 October 2017, the Purchaser and the Company entered into the Agreement with the Vendors, the Target Company and others in relation to a proposed acquisition of the Sale Shares and a proposed subscription of the Subscription Shares.

Pursuant to the Agreement, the Purchaser conditionally agreed to subscribe the Subscription Shares for an aggregate consideration of US\$14,342,336.31 (equivalent to approximately HK\$111,870,000) and conditionally agreed to purchase the Sale Shares for an aggregate consideration of US\$15,157,663.69 (equivalent to approximately HK\$118,230,000). The Subscription Shares and the Sale Shares represent, respectively, 19.72% and 32.76% of the issued share capital of the Target Company as enlarged by the Subscription Shares. The consideration for the Proposed Transactions will be settled in cash. Following Completion, the Purchaser will be interested in 52.48% of the issued share capital of the Target Company on a fully diluted and as-converted basis and members of the Target Group will become subsidiaries of the Company and their results will be consolidated in the results of the Company.

The Target Company, through its wholly-owned subsidiaries and the Existing Structured Contracts, are principally engaged in the businesses of trading and providing an online trading platform for chemical and plastic raw materials.

### **LISTING RULES IMPLICATIONS**

As one of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Proposed Transactions exceeds 100%, the Proposed Transactions constitute a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules. As such, the Agreement and the transactions contemplated thereunder are subject to the Shareholders' approval at the EGM.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Proposed Transactions and no Shareholder is therefore required to abstain from voting at the EGM in respect of the resolutions approving the Proposed Transactions.

## **GENERAL**

A circular containing, among other things, further details about the Proposed Transactions contemplated under the Agreement and the notice of the EGM will be despatched to the Shareholders. As the Company expects that it will need more time to collate the information to be included in the circular, the circular is expected to be despatched to the Shareholders on or before 30 November 2017.

**Shareholders and potential investors should note that completion of the Proposed Transactions is subject to fulfillment of certain conditions. The Agreement may or may not proceed to Completion. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.**

## **THE AGREEMENT**

The principal terms of the Agreement are set out below:

### **Date**

11 October 2017

### **Parties**

- (1) Zall Development (BVI) Holding Company Limited (as the Purchaser)
- (2) The Company
- (3) Xian Feng HZ, K2 Evergreen, Northern Light Entity, HSH Group and SIG China (as the Vendors)
- (4) Mr. Zhi Jianpeng
- (5) Target Company
- (6) OPCO

## **Subject Matter**

The Purchaser conditionally agreed to subscribe, and the Target Company conditionally agreed to allot and issue, the Subscription Shares representing 19.72% of the issued share capital of the Target Company as enlarged by the Subscription Shares and on a fully diluted and as-converted basis.

The Purchaser further conditionally agreed to purchase, and the Vendors conditionally agreed to sell, in aggregate, the Sale Shares representing approximately 32.76% of the issued share capital of the Target Company as enlarged by the Subscription Shares and on a fully diluted and as-converted basis.

## **Consideration for the Subscription**

The consideration for the Subscription is US\$14,342,336.31 (equivalent to approximately HK\$111,870,000) and will be settled in cash within five business days of Completion. The Company intends to finance its payment of the consideration for the Subscription by its internal resources and/or debt financing.

## **Consideration for the Acquisition**

The consideration for the Acquisition is US\$15,157,663.69 (equivalent to approximately HK\$118,230,000) and will be settled in cash by two instalments. The first installment in the amount of US\$6,957,143.085 will be made within five business days of Completion and the second installment will be made on 30 September 2018. The Company intends to finance its payment of the consideration for the Acquisition by its internal resources and/or debt financing. The remaining balance of US\$1,243,377.52 will be withheld for settlement of any shortfall arising from the Revenue and Net Profit Guarantee.

## **Basis for Consideration**

The Consideration was arrived at after arm's length negotiation between the Company and the Vendors with reference to the business and growth potentials, as well as the historical financial performance, of the Target Group as compared with the valuation of companies in similar businesses. In particular, the Company has considered the following factors:

- (i) the revenue of the Target Group for the years 2015 and 2016 were RMB264 million and RMB4,808 million respectively, representing an increase in revenue of approximately 1,721.21%;
- (ii) the net loss recorded by the Target Group for the years 2015 and 2016 were RMB23.9 million and RMB25.0 million respectively. The losses recorded were mainly due to the large amount of resources invested into the expansion of the Target Group's Information Services Business. Nonetheless, based on the management accounts provided by the Target Group, the net losses recorded for the six-month periods ended 30 June 2016 and 2017 were approximately RMB15.8 million and RMB 7.8 million respectively, which shows that the profit margin of the Target Group is significantly improving;

- (iii) since price-earnings ratio cannot be measured due to the losses recorded by the Target Group in previous years, the Company considered the Target Group's price-to-sales ratio of 0.08 times in 2016, which is lower than the range of 0.16 times to 0.52 times in respect of the price-to-sales ratios of other companies listed in Hong Kong and the PRC conducting similar business as the Target Group; and
- (iv) the Target Group's business is in line with the direction of the Company's business development. Following Completion, the Company can delve into the rapidly expanding chemical and plastic raw materials market in the PRC through the Target Group, and the Directors believe that the business and operation of the Target Group will have a synergy effect on the businesses and operations of the Group and the Company's goal in building a global smart trading platform could be achieved.

With the funding provided by the Company to the Target Group through the Subscription and the Bridge Loan, the Target Group intends to strengthen its businesses and expand into the sizeable market for chemical and plastic raw materials in the PRC, and further develop its supply chain management and financial information services businesses, as well as other value-added services businesses, which would continue to promote its sales revenue and profit growth.

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

### **Completion and conditions precedent**

Completion will take place on the day on which each of the following conditions precedent is satisfied (or waived, as the case may be, except for conditions (a), (f), (h), (i), and (m) which are not waivable) in full:

- (a) the passing of the necessary resolutions by the Shareholders at the EGM to approve, among other matters, the Agreement and the transactions contemplated thereby;
- (b) subject to the disclosure in the disclosure letter, each of the warranties made by the Vendors and the Target Group remaining true and accurate in all respects and not misleading in any respect as of the date of Completion by reference to the facts and circumstances subsisting as at the date of Completion;
- (c) the Purchaser being satisfied that there has not been any material adverse change in respect of any member of the Target Group;
- (d) each of the Vendors and/or the Target Group having complied fully with the pre-Completion obligations as set forth in the Agreement;
- (e) the existing shareholders of the Target Company having passed the relevant resolutions to adopt the new articles of association of the Target Company and such articles of association having been registered in accordance with applicable laws and regulations and are in full force and effect as at the date of Completion;

- (f) all necessary approvals, consents, registration, and licence required (if any) by any governmental authorities in respect of the Proposed Transactions having been obtained and remaining in full force and effect on the date of Completion, and such approvals and consents not having led to any material adverse change in respect of the Target Group and the Target Group's business;
- (g) in respect of the Proposed Transactions, each of the members of the Target Group having provided to the Purchaser relevant waiver of pre-emptive rights as required by the existing constitutional documents, existing shareholders' agreements or any other relevant laws and regulations from its shareholders;
- (h) to the satisfaction of the Purchaser, the Transaction Documents having been properly authorized, signed and delivered by the relevant parties thereto;
- (i) the Onshore Reorganisation having been completed;
- (j) pursuant to the Equity Pledge Agreement under the Structured Contracts, the relevant equity interests in OPCO and Changzhou Changsusheng having been pledged to WFOE, and the relevant registration procedures having been completed;
- (k) in relation to the Subscription Shares and the Sale Shares, the Target Company having issued or renewed the relevant ordinary share certificates, having updated the register of members, register of directors and other relevant documents;
- (l) all approvals and consents having been obtained under all the contractual arrangements to which each of the OPCO and the Operating Subsidiaries are party, including but not limited to, the Existing Structured Contracts, and such approvals and consents not having led to any material adverse change in respect of the Target Group and the Target Group's business;
- (m) there having been no laws, regulations, decisions, measures or actions by governmental authorities which would prohibit, restrict or practically delay the transactions contemplated under the Agreement or the continuing operations of the Target Group;
- (n) the passing of the necessary resolutions by the shareholders and/or the boards of directors of the Target Company, as required under the constitutional documents of members of the Target Group in connection with the Agreement and the transactions contemplated thereby;
- (o) the Target Company having allotted and issued 53,418,804 shares in its share capital to HSH Group to hold on behalf of the Target Group ESOP, and HSH Group having declared to the satisfaction of the Purchaser that it is holding such shares on behalf of the Target Group ESOP and that it will transfer such shares partially or in full pursuant to the Agreement and the Target Group's employee share option plan; and

- (p) the auditors designated by the Purchaser having completed and delivered to the Purchaser the audited consolidated financial statements of the Target Group for the financial years ended 31 December 2014, 31 December 2015, 31 December 2016 and for the six months ended 30 June 2017 and the relevant items shown in such financial statements (i.e. revenue and net profit) not being lower than 85% of the corresponding items shown in the financial statements provided by the Target Group and the Purchaser being satisfied that there has not been any material adverse change prior to Completion.

The Agreement shall be terminated automatically if any of the above conditions is not satisfied or waived (except for conditions (a), (f), (h), (i), and (m) which are not waivable) on or before the Long Stop Date and none of the parties shall have any claim against the other party save in respect of any antecedent breaches of the terms of the Agreement.

### **Onshore Reorganisation**

Before Completion, the Target Group will undertake the following internal reorganisation:

- (a) all the businesses of OPCO and the Operating Subsidiaries other than the Information Services Business will be transferred and assumed by the newly established wholly owned subsidiaries of WFOE;
- (b) following the transfer and assumption of the business in (a) above, the Operating Subsidiaries will terminate all their businesses other than the Information Services Business;
- (c) the New Structured Contracts will be executed by the parties to them;
- (d) the existing shareholders of OPCO will complete the transfer of an aggregate of 51% equity interest in OPCO to Zall Nominee;
- (e) OPCO will appoint four nominees of Zall Nominee as directors of OPCO; and
- (f) OPCO will complete the amendment to its articles to the satisfaction of the Purchaser.

## Undertakings

Pursuant to the Agreement, the Purchaser has given the following undertakings:

- (a) Within three business days of the date of the Agreement and upon HSH Group pledging its entire equity interest held in the Target Group in favor of the Purchaser, the Purchaser will procure a subsidiary of the Company to grant a loan in the amount of RMB20,000,000 to OPCO (the “**Bridge Loan**”), and OPCO undertakes to repay the Bridge Loan within: (i) 60 days after the full payment of the Consideration by the Purchaser or the termination of the Agreement if the Proposed Transactions are not completed due to reasons other than the Vendor’s default; (ii) 15 days after the termination of the Agreement if the Proposed Transactions are not completed due to the Vendor’s default; or (iii) a date mutually agreed between such subsidiary of the Company and OPCO; and
- (b) Upon Completion, the Purchaser will procure that a designated party will review credit applications from upstream and downstream customers of the Target Group in accordance with the current procedures in the ordinary course of its business, provided that, (i) such credit applications shall not exceed the amounts of RMB150,000,000 in 2018 and RMB300,000,000 in 2019 respectively; and (ii) the credit risk, capital gains and cost of lending in connection with the acceptance of such credit applications are commercially reasonable (for the avoidance of doubt, the designated party shall have the final decision regarding the credit applications to comply with applicable laws and its internal rules and regulations).

## Shareholders’ Agreement

At Completion, the Purchaser, the Vendors and Mr. Zhi Jianpeng will enter into a shareholders’ agreement with the Target Group, OPCO and the Operating Subsidiaries to set out the arrangements in relation to their participation and respective shareholdings in the Target Company. The major terms of the Shareholders’ Agreement are set out below:

- (a) the Purchaser shall be entitled to nominate four directors to the board of the Target Company out of a total of seven directors of the Target Company with the remaining three to be nominated by HSH Group and Mr. Zhi Jianpeng;
- (b) during the Guaranteed Periods, the Purchaser shall not, without the written consent of HSH Group and Mr. Zhi Jianpeng, transfer any shares of the Target Company directly or indirectly held or owned by it if such transfer may result in the change of control in the Target Company; and, upon expiry of the last Guaranteed Period on 31 December 2019, the Purchaser shall not, without giving HSH Group and Mr. Zhi Jianpeng 45 days written notice, transfer any shares of the Target Company directly or indirectly held or owned by it if such transfer may result in: (x) the change of control in the Target Company; (y) the Purchaser ceasing to be the majority shareholder of the Target Company; or (z) the decrease of the shareholding of the Purchaser in the Target Company to less than one third;



- (c) upon the written request from Xian Feng HZ, K2 Evergreen, Norther Light Venture Capital or SIG China made within the nine months following the publication of the Company's annual report for the financial year ended 31 December 2019, the Target Company shall purchase the shares in the Target Company then held by such party (being no more than 71,581,302 shares in total) at the price of US\$0.1829 per share, provided that, based on the financial statements of the Target Group prepared by the Group under International Financial Reporting Standards for each of the Guaranteed Periods, (i) the accumulated revenue and the accumulated net profit of the Target Company over the three Guaranteed Periods are not less than RMB76,000,000,000 and RMB 184,000,000 respectively; and, (ii) the revenue and the net profit of the Target Company for the last Guaranteed Period are not less than RMB 40,000,000,000 and RMB 120,000,000 respectively;
- (d) each of the Vendors, Mr. Zhi Jianpeng and the Purchaser shall have preemptive rights and rights of first refusal and each of Xian Feng HZ, K2 Evergreen, Northern Light Venture Capital and SIG China shall have rights of co-sale with respect to the shares of the Target Company; and
- (e) Mr. Zhi Jianpeng shall undertake that, during the Guaranteed Periods, without the written consent of the Purchaser, he would not, and would procure that his associates (except any members of the Target Group) would not, directly or indirectly, either on his own account or in conjunction with or on behalf of any person, firm or company, among other things, (x) possess, directly or indirectly, the power to direct or cause the direction of the management and business operation of any entity (other than the Target Group) whether through the ownership of any equity interest in such entity, directorship or otherwise; or (y) devote all of his working time to carry out the business operations of any other entity (whether such business is in competition with the business of Target Group or not).

### Revenue and Net Profit Guarantee

Subject to Completion, Mr. Zhi Jianpeng, HSH Group and Target Group jointly and severally guarantee to the Company that the audited consolidated revenue and the audited consolidated net profit of the Target Group (excluding any extraordinary items) for each of the financial years ending 31 December 2017, 31 December 2018 and 31 December 2019 shall not be less than the amount set opposite to each of the relevant Guaranteed Periods as defined in the table below (each the “**Guaranteed Revenue**” and “**Guaranteed Net Profit**” respectively):

<b>Guaranteed Period</b>	<b>Guaranteed Revenue</b>	<b>Guaranteed Net Profit</b>
1 January 2017 – 31 December 2017	RMB15,000,000,000	RMB10,000,000
1 January 2018 – 31 December 2018	RMB30,000,000,000	RMB70,000,000
1 January 2019 – 31 December 2019	RMB50,000,000,000	RMB150,000,000



Mr. Zhi Jianpeng and HSH Group have separately agreed to enter into, (i) a share pledge, under which HSH Group will pledge its shareholding in the Target Company upon Completion, i.e. a total of 106,962,447 shares representing 27% of the enlarged issued share capital of the Target Company, to the Purchaser (the “**Pledged Shares**”); and (ii) an escrow agreement, under which the Withheld Consideration will be held in escrow by the Purchaser. One third of the total number of Pledged Shares (i.e. 35,654,149 shares in the Target Company) and one third of the Withheld Consideration (i.e. US\$414,459.17) shall be reserved for the settlement of any shortfall arising from the Revenue and Net Profit Guarantee for each Guaranteed Period (the “**Guaranteed Period Reserve**”).

If the aggregate actual audited consolidated net profit of the Target Group (after deducting the non-recurring gains and losses, the “**Actual Net Profit**”) and the aggregate actual audited consolidated revenue of the Target Group (the “**Actual Revenue**”) for any of the Guaranteed Periods shall be less than the relevant Guaranteed Net Profit and the relevant Guaranteed Revenue, the Purchaser will be entitled to a proportion of the Guaranteed Period Reserve based on the following formula as set out in the Agreement:

$$A = (\text{number of Pledged Shares} \div 3) \times [1 - (\text{Actual Net Profit/Guaranteed Net Profit} + \text{Actual Revenue/Guaranteed Revenue}) \div 2] \times 1.1$$

$$B = (\text{Withheld Consideration} \div 3) \times [1 - (\text{Actual Net Profit/Guaranteed Net Profit} + \text{Actual Revenue/Guaranteed Revenue}) \div 2] \times 1.1$$

whereas A and B are the respective portions of the Pledged Shares and the Withheld Consideration which shall be transferred to the Purchaser within 90 days of the publication of the audited consolidated financial results of the Target Group in each relevant Guaranteed Period.

If the Guaranteed Revenue and Guaranteed Net Profit are met in the relevant Guaranteed Period and no compensation is to be made in such relevant Guaranteed Period, 10% of the Guaranteed Period Reserve (i.e. 3,565,415 shares from the Pledged Shares and US\$41,445.92 from the Withheld Consideration) shall remain in escrow and the remaining Guaranteed Period Reserve not transferred to the Purchaser in such relevant Guaranteed Period shall be released to HSH Group within 30 days of the publication of the audited consolidated financial results of the Target Group.

If A exceeds one-third of the Pledged Shares and/or B exceeds one-third of the Withheld Consideration in a Guaranteed Period, the excess will be made up by using the 10% of the Guaranteed Period Reserve held up from the preceding year and/or the Guaranteed Period Reserve for the following Guaranteed Periods. In any event, the compensation provided to the Purchaser by HSH Group under the Revenue and Net Profit Guarantee shall not exceed the total number of the Pledged Shares and the total amount of the Withheld Consideration.

## **INFORMATION ON THE PURCHASER AND THE COMPANY**

The Purchaser is an investment holding company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company.

The Company is an investment holding company and the Group is principally engaged in the development and operating of large-scale consumer product-focused wholesale shopping malls and the related value added business, such as warehousing, logistic, e-commerce and financial services in the PRC. As at the date of this announcement, the Company has not entered, or proposed to enter, into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether express or implied, and any negotiation (whether concluded or not) with an intention to dispose of or downsize its existing businesses.

## **INFORMATION ON THE VENDORS**

Each of the Vendors is an investment holding company principally engaged in the investment in and the holding of equity interest of its subsidiaries. To the best of the Director's knowledge, information and belief, having made all reasonable enquiries, each of the Vendors, its ultimate beneficial owners, and its subsidiaries is an Independent Third Party.

## **INFORMATION ON THE TARGET GROUP**

The Target Company is a company incorporated in the Cayman Islands with limited liability. It is an investment holding company which holds the entire issued share capital of the HSH HK, which is an investment holding company and, in turn, holds the entire equity interest in WFOE. WFOE will enjoy the entire economic interests and benefits of OPCO through the Structured Contracts.

OPCO is a company incorporated in the PRC and, along with the Operating Subsidiaries, is principally engaged in the trading of chemical and plastic raw materials and operating the Information Services Business. Other than the trading business, OPCP also provides online platform services which displays pricing information of chemical and plastic raw materials on its online platform to facilitate the trading services provided to both buyers and sellers of chemical and plastic raw materials. Through its electronic trading system, OPCO assists its users by matching orders received from buyers downstream with orders made to sellers upstream. In between the processes, OPCO assumes title to the products upon delivery by the sellers to its warehouses before distribution to the buyers.

As at 31 December 2016, (i) the revenue derived from the trading business of the Target Group was RMB4,801,865,000, representing 99.87% of the total revenue of the Target Group; and (ii) the revenue derived from other value-adding business of the Target Group, including the Information Services Business, was RMB6,173,000, representing 0.13% of the total revenue of the Target Group. The Target Group is required to hold a valid Information Services Business licence to run the Information Services Business, which is currently possessed by OPCO and Changzhou Changsusheng.

Based on the latest financial information available to the Company as at the date of this announcement, set out below is the audited and consolidated financial information of the Target Group for the financial years ended 31 December 2015 and 31 December 2016, which were prepared in accordance with the PRC Accounting Standards for Business Enterprises:

	<b>For the year ended 31 December 2015</b>	<b>For the year ended 31 December 2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	264,772	4,808,038
Profit/(loss) before taxation	(23,868)	(25,013)
Profit/(loss) after taxation	(23,868)	(25,013)

The consolidated net asset value of the Target Group as at 31 December 2016 is approximately RMB41,503,000.

Upon completion of the Proposed Transactions, members of the Target Group will become non-wholly owned subsidiaries of the Company and according to the Company's auditors, as the Company will obtain control over the Target Group under International Financial Reporting Standards 10 "Consolidated Financial Statements", the financial results of the Target Group will be consolidated into the results of the Company.

## **INFORMATION ON OPCO**

OPCO is a company established in the PRC with limited liability on 29 May 2014 and wholly owns each of the Operating Subsidiaries (other than Shanghai Yinghao which is held as to 49% by OPCO and 51% by WFOE). To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, OPCO and each of the Operating Subsidiaries and their ultimate beneficial owners is an Independent Third Party. As advised by the PRC Legal Adviser, appropriate arrangements have been made to protect the Operating Subsidiaries' interests in the event of bankruptcy, or any circumstance that affects OPCO's exercising of the rights related to equity interest of the Operating Subsidiaries. Each of the Structured Contracts contains a provision which sets out that the respective agreement shall be legally binding on the legal assignees or successors of the parties thereto.

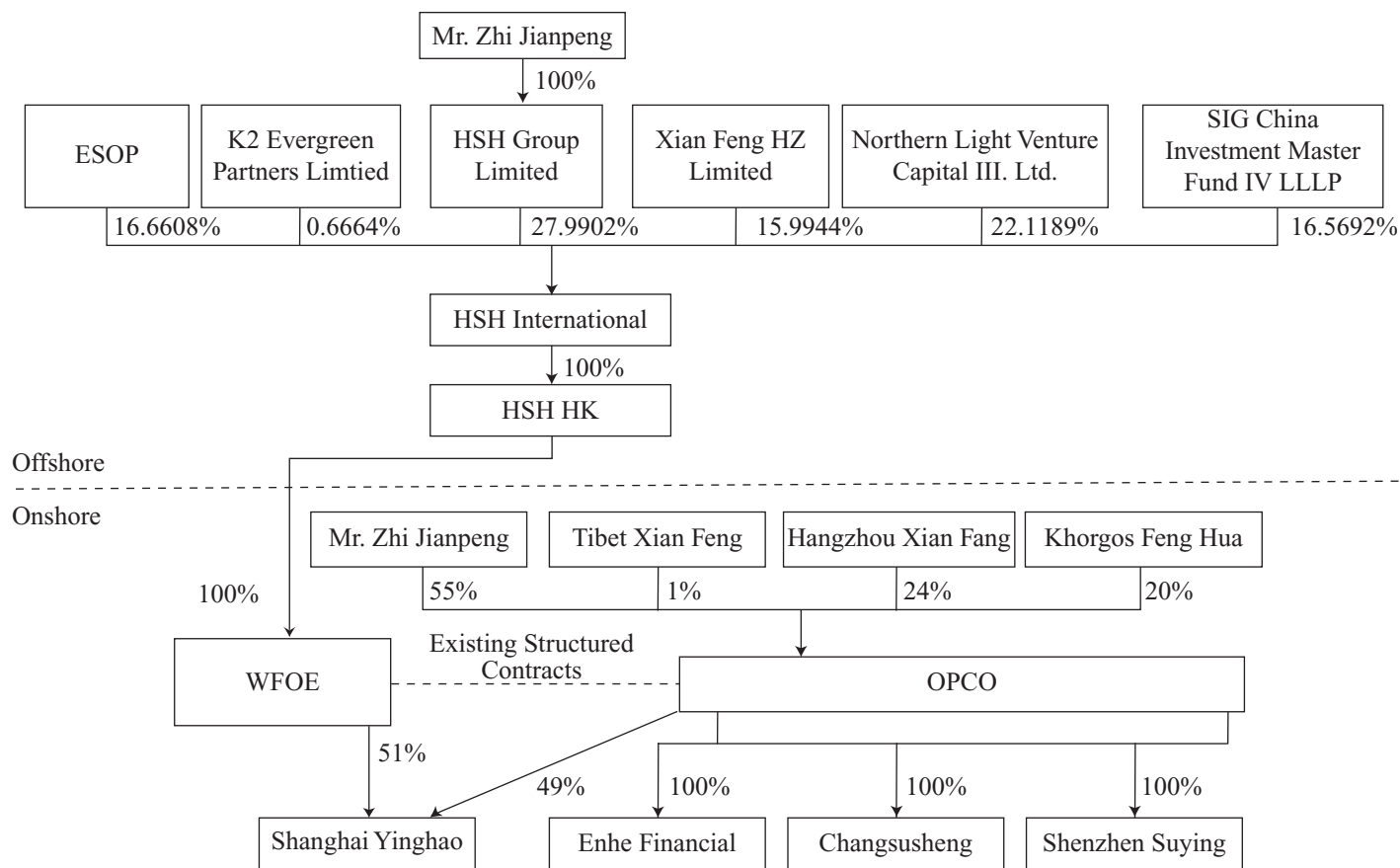
Pursuant to the Agreement, Mr. Zhi Jianpeng, Tibet Xian Feng, Hangzhou Xian Feng, Khorgos Feng Hua and Zall Nominee shall be the VIE Equity Owners on or before Completion, who shall be Independent Third Parties and, in the case of Tibet Xian Feng, Hangzhou Xian Feng, Khorgos Feng Hua, PRC-incorporated entities, or, in the case of Mr. Zhi Jianpeng and Zall Nominee, PRC citizens.

## INFORMATION ON THE STRUCTURED CONTRACTS

Pursuant to the applicable PRC laws, the Information Services Business is subject to restrictions on foreign investment. As such, WFOE, OPCO and its Operating Subsidiaries entered into the Existing Structured Contracts to enable the financial results, the entire economic benefits and risks of the businesses of OPCO and Operating Subsidiaries to flow into WFOE and to enable WFOE to gain the controlling rights of OPCO and its Operating Subsidiaries. In addition, prior to Completion, WFOE, OPCO and its Operating Subsidiaries will complete the Onshore Reorganisation and enter into the New Structured Contracts to enable the financial results, the entire economic benefits and risks of the businesses of OPCO and Changzhou Changsusheng to flow into WFOE and to enable WFOE to gain the controlling rights of OPCO and Changzhou Changsusheng.

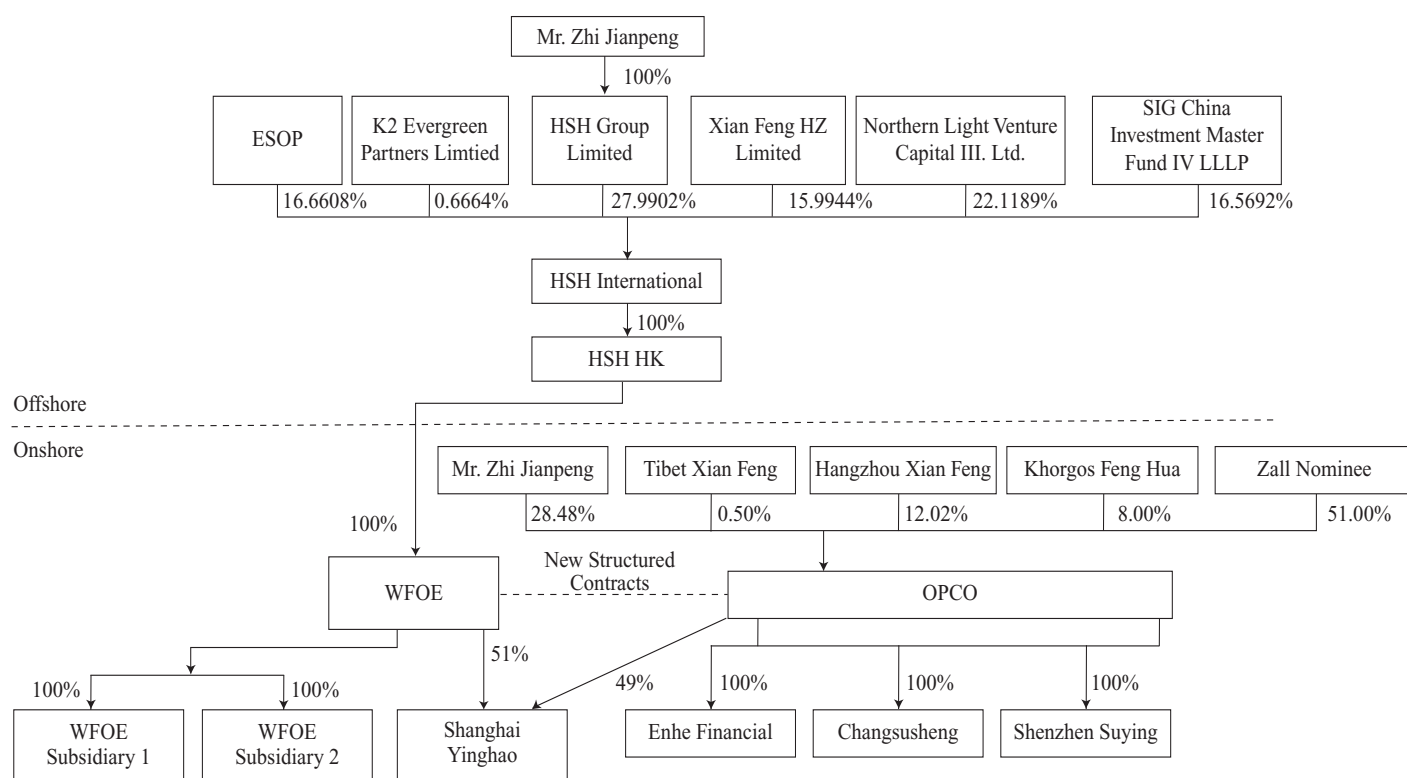
### Shareholding structure of the Target Group

(a) Group structure of the Target Group immediately before the Onshore Reorganisation:



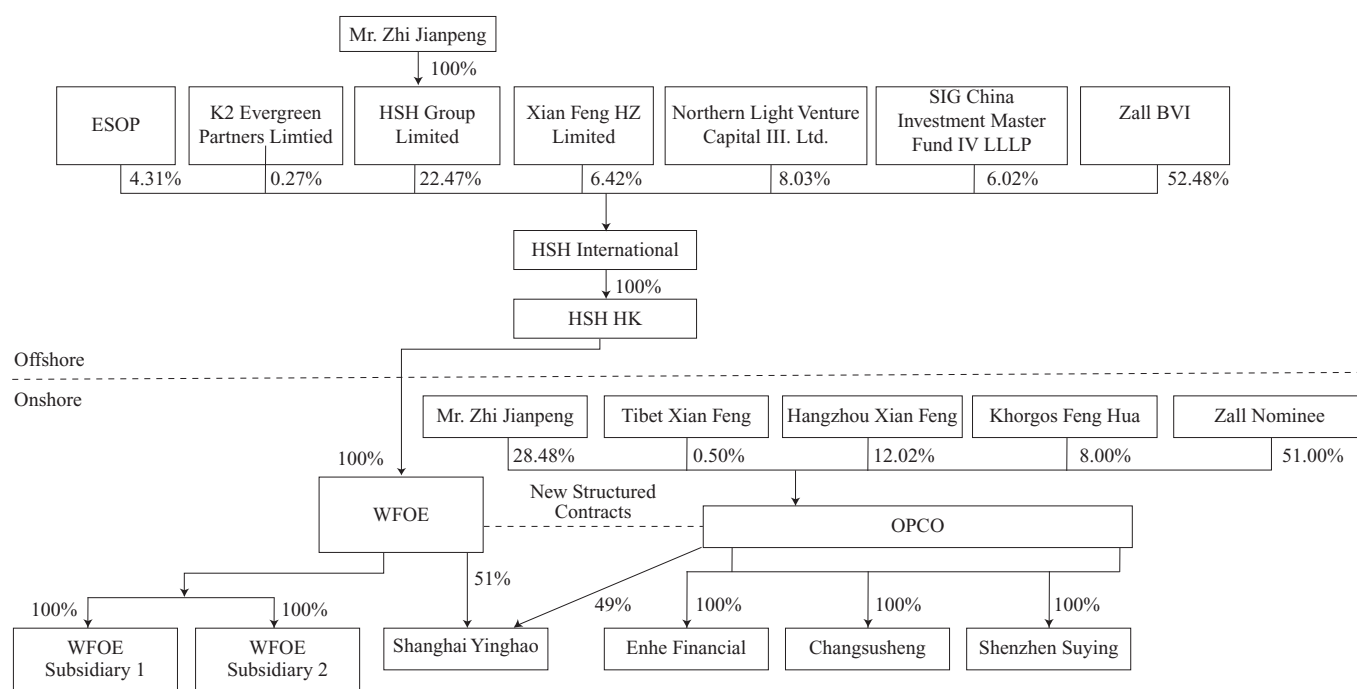
\* Note: Assuming all the outstanding share options held by the Target Group ESOP are exercised in full.

(b) Group structure of the Target Group immediately after the Onshore Reorganization:



*Note: The operations of Enhe Financial, Shenzhen Suying and Shanghai Yinghao will be transferred to the wholly owned subsidiaries of the WFOE. Following completion of the Onshore Reorganisation, Enhe Financial, Shenzhen Suying and Shanghai Yinghao and Changsusheng will be dissolved or disposed of.*

(c) Group structure of the Target Group immediately after Completion:



## The Structured Contracts

### *Exclusive Technological Support and Management Consulting Service Agreement*

WFOE and OPCO and Changzhou Changsusheng will enter into the Exclusive Technological Support and Management Consulting Service Agreement, pursuant to which OPCO and Changzhou Changsusheng agrees to engage WFOE as its exclusive consultant and service provider. Pursuant to the Exclusive Technological Support and Management Consulting Service Agreement, OPCO and Changzhou Changsusheng shall pay to WFOE a service fee that is equal to its 100% profits (net of operating and other tax expenses) on a monthly basis.

### *Exclusive Option Agreement*

WFOE, the VIE Equity Owners and OPCO will enter into the Exclusive Option Agreement, pursuant to which the VIE Equity Owners and OPCO irrevocably grant to WFOE or any person(s) designated by the WFOE, the exclusive option(s) to purchase, to the extent permitted by PRC laws and regulations, the VIE Equity Owners' and/or OPCO's equity interests or assets in the Operating Subsidiaries, entirely or partially, at an aggregate consideration of RMB1 or a minimum purchase price permitted by PRC laws and regulations (the "**Agreed Price**") for all option(s) exercised. Pursuant to the Exclusive Option Agreement, each of the VIE Equity Owners and/or OPCO have undertaken to reimburse WFOE (or the person as designated by WFOE), any of the difference between the actual consideration the WFOE (or the person as designated by the WFOE) paid pursuant to the exercise of the option(s) and the Agreed Price. The WFOE may exercise such options at any time until it or the person(s) designated by it has acquired the entire equity interest of OPCO.

In addition, without prior written consent from the WFOE, the VIE Equity Owners and the OPCO may not, among other things, (i) dispose of or procure other person(s) to dispose of any material assets of the OPCO (unless it arises in the ordinary course of business), or (ii) pass or approve any resolution with respect to the liquidation and dissolution of the OPCO.

#### *Business Cooperation Agreement*

WFOE, the VIE Equity Owners and OPCO will enter into the Business Cooperation Agreement, pursuant to which the VIE Equity Owners and OPCO agree to appoint persons to be designated by the WFOE to be the chairman of the board, directors/executive directors, general manager, chief financial controller and other senior management of OPCO. OPCO shall be operated in accordance with WFOE's instruction and OPCO has undertaken not to act in any manner that may affect the assets, business, personnel, obligations, rights or the operations of OPCO substantially, unless with the prior written consent of WFOE or its appointee. The VIE Equity Owners and OPCO will also agree in the Business Cooperation Agreement that, unless there is a prior written consent from the WFOE or its appointee, OPCO will not sell, transfer, lease any of the material assets or rights of OPCO or authorize any third party the right to use, including but not limited to, any know-how, trade secrets, domain names, trade marks, patents, copyright of OPCO, or any material assets or rights acquired by OPCO. In addition, under the Business Cooperation Agreement, WFOE shall have the right to obtain and review the business data, financial information and other information relevant to the operations and business of OPCO.

Under the Business Cooperation Agreement, each of the VIE Equity Owners has warranted to WFOE that appropriate arrangements will be made to protect WFOE's interests to avoid any practical difficulties in enforcing the Business Cooperation Agreement, which amongst others, stipulates that, in the case of Mr. Zhi Jianpeng and the Zall Nominee, in the event of (i) the VIE Equity Owner's reduced or loss of capacity, (ii) the death of the VIE Equity Owner, or (iii) divorce between the VIE Equity Owner and his spouse, the VIE Equity Owner and/or his spouse will unconditionally procure the transfer of the VIE Equity Owner and/or his spouse's entire equity interest in OPCO at nil consideration to WFOE or any appointees of the Company. In this regard, the spouse of the VIE Equity Owner will execute an irrevocable undertaking, whereby the spouse of the VIE Equity Owner acknowledged and agreed be bound by the undertakings of the VIE Equity Owner and the spouse of the VIE Equity Owner pursuant to the Business Cooperation Agreement. Each of the other VIE Equity Owners who is not a natural person has made all appropriate arrangements and signed all necessary documents to ensure that, in the event that it is dissolved or liquidated, or the exercise of its rights pursuant to its equity interest in OPCO are impacted due to merger, division, bankruptcy, dissolution, liquidation or other reasons, its liquidator, receiver or administrator will not affect or impede the operations of the Structured Contracts.



### *Equity Pledge Agreement*

The VIE Equity Owners, OPCO, Changzhou Changsusheng and WFOE will enter into the Equity Pledge Agreement, pursuant to which the VIE Equity Owners and/or OPCO shall pledge all of his equity interests in OPCO and/or Changzhou Changsusheng to WFOE to secure the performance of all their obligations and the obligations of OPCO under the Structured Contracts. Pursuant to the Equity Pledge Agreement, WFOE has a first priority pledge on all or any part of the equity interests in OPCO and/or Changzhou Changsusheng held by the VIE Equity Owners and/or OPCO. Under the Equity Pledge Agreement, if VIE Equity Owners and/or OPCO (together with Changzhou Changsusheng) breaches any obligation under the Structured Contracts, WFOE, as the pledgee, is entitled to request each of the VIE Equity Owners to transfer the pledged equity interests, entirely or partially to WFOE and/or any entity or person as designated by WFOE. In addition, pursuant to the Equity Pledge Agreement, each of the VIE Equity Owners and/or OPCO undertakes to WFOE, among other things, not to transfer his interests in OPCO and/or Changzhou Changsusheng and not to create any pledge thereon without WFOE's prior written consent.

### *Authorisation and Entrustment Agreement*

The VIE Equity Owners, OPCO and WFOE will enter into the Authorisation and Entrustment Agreement pursuant to which each of the VIE Equity Owners irrevocably and unconditionally agrees to entrust to the director(s), successor(s) or receiver(s) of WFOE all their voting rights in OPCO, among other things, (i) as the agent of the VIE Equity Owners, to convene and attend the shareholders' meetings of OPCO; (ii) to represent the VIE Equity Owners and discuss, approve and exercise the voting rights at the shareholders' meetings of OPCO; (iii) any other voting rights as authorized under the articles of association of OPCO (as amended from time to time); and (iv) to receive any general meeting notice, execute any meeting minutes or resolutions, and submit or file the relevant documents with the relevant PRC authorities on behalf of the VIE Equity Owners. Each of the VIE Equity Owners confirmed that no prior consent is required for exercising the aforesaid voting rights.

Since the Group's control over OPCO is based on the contractual arrangement under the Structured Contracts, conflict of interests of the VIE Equity Owners will adversely affect the interests of the Company. Pursuant to the Authorisation and Entrustment Agreement, the VIE Equity Owners will irrevocably authorize the WFOE (or its director or successor or receiver) as his representative to exercise the voting rights of the shareholders of OPCO. Therefore, it is unlikely that there will be potential conflict of interests between the Company and the VIE Equity Owners.

### *Power of Attorney*

Each of the VIE Equity Owners will issue a power of attorney to WFOE, pursuant to which each of the VIE Equity Owners will irrevocably authorize WFOE to exercise all of its rights and powers as shareholder of OPCO.

## *Spousal Undertaking*

Each of the spouses of Mr. Zhi Jianpeng and Zall Nominee will give an undertaking in favour of WFOE, pursuant to which they irrevocably agree not to be involved in the equity interest held by Mr. Zhi Jianpeng and Zall Nominee in OPCO, and that they will execute all necessary documents and take all necessary actions to ensure that the Structured Contracts will be fulfilled and honoured in the event that they are assigned the equity interest held by Mr. Zhi Jianpeng and Zall Nominee in OPCO.

## **Compliance of Structured Contracts with PRC laws, rules and regulations**

Upon the legal advice from the PRC Legal Adviser, the Target Group has taken all possible actions or steps to confirm that the Structured Contracts comply with the PRC laws, rules and regulations applicable to the business of WFOE and OPCO and Changzhou Changsusheng, do not contravene the articles of WFOE and OPCO and Changzhou Changsusheng, and would not be deemed as “concealing illegal intentions with a lawful form” and void under the PRC contract law. Up to the date of this announcement, the Target Group has not encountered any interference or encumbrance from any governing bodies in operating its business through OPCO and Changzhou Changsusheng under the Structured Contracts. As a result, the Directors believe that the Structured Contracts shall be enforceable under the PRC laws and regulations. The PRC Legal Adviser confirmed that they have reviewed the relevant disclosures in relation to the Structured Contracts arrangement in this announcement and the Draft Law (as defined below).

## **Settlement of potential dispute arising from the Structured Contracts**

The Structured Contracts are governed by the PRC laws. When a dispute arises under any of the Structured Contracts, the relevant parties thereto shall settle the dispute through negotiation in an amicable manner. In case the dispute is not resolved, the Structured Contracts provide that such dispute to be submitted to the China International Economic and Trade Arbitration Commission for arbitration. The decision of such arbitration is final and binding on the parties concerned. The Structured Contracts contain dispute resolution clauses that (i) provide for arbitration and that arbitrators may award remedies over the equity interests or assets of OPCO and Changzhou Changsusheng, injunctive relief (for example, for the conduct of business or to compel the transfer of assets) or order the winding up of OPCO and Changzhou Changsusheng, and (ii) provide the courts of competent jurisdictions (including the PRC, Hong Kong and Bermuda) with the power to grant interim remedies in support of the arbitration pending formation of the arbitration panel.

## **Measures to mitigate potential conflict of interests between Changzhou Changsusheng and OPCO**

OPCO has undertaken in the Structured Contracts that it will not pay dividend from Changzhou Changsusheng without prior written consent and pay such interests to WFOE as the service fees, and it will perform all obligations in full compliance with the Structured Contracts and it will not affect the validity or enforceability of the Structured Contracts by any act or omission.

## **Internal control measures**

In order to have effective control over and to safeguard the assets of OPCO and Changzhou Changsusheng, the Structured Contracts provide that, without the prior written consent of WFOE, OPCO shall not at any time sell, transfer, mortgage or dispose of in any manner any assets, legitimate interests in the business or revenue of OPCO and Changzhou Changsusheng, or allow any encumbrance thereon of any security interest. OPCO and Changzhou Changsusheng shall always operate all of OPCO and Changzhou Changsusheng businesses of OPCO and Changzhou Changsusheng in the ordinary and usual course of business and shall maintain the asset value of OPCO and Changzhou Changsusheng and refrain from any action/omission that may adversely affect operating status and asset value of OPCO and Changzhou Changsusheng.

In addition to the abovementioned internal control measures as provided in the Structured Contracts, following Completion, the Company intends to implement, through WFOE, additional internal control measures on OPCO and Changzhou Changsusheng with reference to the internal control measures adopted by the Group from time to time, which may include (without limitation):

- requiring OPCO and Changzhou Changsusheng to make available monthly management accounts and submit key operating data and bank statements after each month-end and provide explanations on any material fluctuations to the WFOE;
- requiring OPCO and Changzhou Changsusheng to assist and facilitate WFOE to conduct internal audit on OPCO and Changzhou Changsusheng if so required by the Company; and
- if required, engaging legal advisers and or other professionals to deal with specific issues arising from the Structured Contracts and ensure that the operation of OPCO and Changzhou Changsusheng will from time to time comply with applicable laws and regulations.

## **Insurance to cover the risks relating to the Structured Contracts**

WFOE has not purchased any insurance to cover the risks relating to the enforcement of the Structured Contracts due to the unavailability of such insurance product in the market at the moment.

## **Potential exposure of the Company to losses**

To ensure that the cash flow requirements of ordinary operations of OPCO and Changzhou Changsusheng are met and/or to set off any loss accrued during such operations, the WFOE may, at its own discretion and only to the extent permissible under the PRC laws, provide financial support to OPCO and Changzhou Changsusheng, whether or not OPCO and Changzhou Changsusheng actually incur any such operational loss. WFOE's financial support to OPCO and Changzhou Changsusheng may take the form of bank entrusted loans. All intellectual properties or permits or other approvals for the value-added telecommunications business owned by OPCO and Changzhou Changsusheng shall be flawless, otherwise WFOE may bear the loss resulted from the flaw thereof.

## PRC Laws and Regulations Relating to the Value-Added Telecommunication Services

According to 《外商投資產業指導目錄（2017年修訂）》 (The Guidance Catalogue of Industries for Foreign Investment (as amended in 2017)\*) (the “**Catalogue**”), value-added telecommunications service business is restricted for foreign investors and foreign ownership in such business (except e-commerce) cannot exceed 50%. Moreover, under 《外商投資電信企業管理規定（2016年修訂）》 (The Provisions on the Administration of Foreign-Invested Telecommunications Enterprises (as amended in 2016)\*), the major foreign investor should possess a good track record and operational experience of the operations of value-added telecommunication services (the “**Qualification Requirements**”).

The Target Group is committed to working towards meeting the Qualification Requirements and will continue to give genuine efforts and financial resources to do so. The Target Group will make periodic inquiries to relevant PRC authorities following the Proposed Transactions to ascertain any regulatory developments and assess whether its level of overseas experience is sufficient to meet the Qualification Requirements.

The PRC Legal Adviser has advised that it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order for the Target Group to demonstrate to the relevant PRC authorities that it has met the Qualification Requirements. The PRC Legal Adviser has also opined that, despite the fact that the Company not meeting the Qualification Requirements, the Structured Contracts in relation to the operation of the value-added telecommunication businesses are valid, legal and binding and do not contravene PRC laws and regulations. According to the PRC Legal Adviser, under PRC laws and regulations, the failure to meet the Qualification Requirements by the Target Group does not render such businesses illegal in the PRC.

According to 《關於放開在線數據處理與交易處理業務（經營類電子商務）外資股比限制的通告》 (Circular on the Removal of Restrictions on Shareholding Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-commerce) Businesses\*) promulgated by the Ministry of Industry and Information Technology in the PRC, only restrictions on the “Online Data Processing and Transaction Processing Business” category have been removed. According to 《電信業務分類目錄(2015年)》 (Telecommunications Business Catalogue (2015)\*), “Online Data Processing and Transaction Processing Business” falls within category 1 under category II of the value-added telecommunications service business and is separate from the Information Services Business category which falls within category 5 under category II of the value-added telecommunications service business. OPCO and Changzhou Changsusheng currently hold the Information Services Business licences and are engaged only in the Information Services Business which remains in the restricted category. Based on the information provided by the Target Group, the business carried out by OPCO and Changzhou Changsusheng falls within the Information Services Business category instead of the “Online Data Processing and Transaction Processing Business” category.

## **Impact of Qualification Requirements and Contingency Plan**

In order to meet the Qualification Requirements, the Company intends to, subsequent to Completion, adopt a specific plan and begin to take concrete steps which the Company, in conjunction with the PRC Legal Adviser, reasonably believe are meaningful endeavors to demonstrate compliance with the Qualification Requirements.

Subsequent to Completion, the Company also intends to fine-tune the business model of the Target Group's businesses and expand the businesses outside of the PRC to (i) expand the business scope; and (ii) gain certain level of foreign experience sufficient to demonstrate compliance with the Qualification Requirements and obtain the qualification certificate or/and approval of the relevant governmental authorities for direct ownership in the Information Services Business in the future, such that the Structured Contracts may no longer need to be in place.

Furthermore, the Company will:

- (i) under the guidance of the PRC Legal Adviser, continue to keep the Company updated with regard to all relevant regulatory developments and guidance relating to the Qualification Requirements; and
- (ii) provide periodic updates in the annual and interim reports after completion of the Acquisition to inform the Shareholders of the efforts and actions undertaken to comply with the Qualification Requirements.

## **Information on Draft Law Regarding Foreign Investment in the PRC**

### ***Summary***

On 19 January 2015, the Ministry of Commerce of the PRC (the “**MOC**”) published the draft Foreign Investment Law (the “**Draft Law**”) to solicit public comment, which, when finally adopted, will have significant impact on the foreign investment regime of the PRC. The Draft Law was published accompanied by the MOC's notes (the “**Notes**”) on, among others, the background, guidelines and principle, and main content of the draft Foreign Investment Laws and elaboration on several issues including the treatment of the existing structured contracts arrangement (in other words, variable interest entities arrangements or contractual arrangements) which were established before the effectiveness of the Foreign Investment Laws.

The Draft Law proposes to standardize the market entry requirements and procedures for foreign and domestic investors, replacing the existing requirements for approval of all foreign investments by the competent foreign investment authority, and aims to consolidate and streamline the various regulatory requirements on foreign investment. The Draft Law adopts a unified access system for foreign investors, and subject to the Catalogue of Special Administrative Measures, implements the management of the sectors where foreign investments are prohibited or restricted. Foreign investors, including those who directly or indirectly hold shares, equities, properties or other interests or voting rights in any domestic company, are not allowed to invest in any sector set out in the Catalogue of Prohibitions unless otherwise specified by the State Council. Foreign investors involved in any circumstance set out in the Catalogue

of Restrictions shall meet the conditions provided for in the Catalogue of Restrictions and apply for the foreign investment access permission to the competent authority.

The Draft Law also redefines the standard of foreign investors and foreign investment in terms of actual control. In particular, where the foreign investors incorporated under the laws of countries or regions other than the PRC, who are under the actual control of PRC investors, engage in any investment as set out in the catalogue of restrictions in the PRC, their investment may be viewed as an investment by PRC investors after the access permission review of the competent foreign investment authorities. The Draft Law defines “control” as any of the circumstance with respect to an enterprise: (1) holding, directly or indirectly, not less than 50% of shares, equities, share of properties, voting rights or other similar rights of the enterprise; (2) holding, directly or indirectly, less than 50% of shares, equities, share of properties, voting rights or other similar rights of the enterprise, but falling under any of the following circumstances: (i) having the right to directly or indirectly appoint not less than half of the members of the board of directors or other similar decision-making body of the enterprise; (ii) having the ability to ensure that its nominees occupy not less than half of the seats on the board of directors or other similar decision-making body of the enterprise; or (iii) holding voting rights sufficient to impose significant impacts on any resolution of the board of shareholders, at the general meeting of shareholders, or of the board of directors or other decision-making body of the enterprise; and (3) imposing decisive impacts on the operation, finance, personnel or technology of the enterprise by contract, trust, or other means.

However, there is no definition of “actual control” under the Draft Law but a definition of “actual controllers,” which refer to natural persons or enterprises that directly or indirectly control any foreign investor or foreign-invested enterprise. Besides, The Draft Law stipulates that the Foreign Investors like foreign enterprises established in the other country or region which are under the control of PRC investors, who, engage in any investment as set out in the Catalogue of Restrictions in the PRC, may, when applying for access permission, submit documentary evidence to apply for identifying their investment as an investment by PRC investors. The foreign enterprise shall be deemed to be invested by PRC investors after being approved by the competent authorities of foreign investment.

For the contractual arrangements which were established before the effectiveness of the Foreign Investment Laws, if such investment still falls within prohibited or restricted foreign investment after the coming into force of the Draft Law, there are opinions in the theory cycle and practice cycle on how to deal with such investments as follows:

- (i) reporting: where a foreign-invested enterprise that implements contractual arrangements declares to the competent authority of foreign investment its actual control by Chinese investors, the contractual arrangements will be permitted to continue following reporting to MOC that the foreign-invested enterprises are actually controlled by PRC investor(s); it may continue to retain the structure of contractual arrangements the relevant subjects may continue to carry out operating activities;
- (ii) verification: a foreign-invested enterprise that implements contractual arrangements shall apply to the competent authority of foreign investment to determine its actual control by Chinese investors; after the competent authority of foreign investment determines its actual control by Chinese investors, it may continue to retain the contractual arrangements and the relevant subjects may continue to carry out operating activities;



- (iii) approval: a foreign-invested enterprise that implements contractual arrangements shall apply to the competent authority of foreign investment for access permission and the competent authority of foreign investment in concert with the relevant departments will make a decision after comprehensively considering the actual controller of the foreign-invested enterprise and other factors.

However, the Notes also state that MOC will broadly seek advices from the public, conduct further research on this issue and then bring out suggestion on its treatment.

The above three approaches are set out to solicit public opinions on the treatment of existing structured contracts arrangements and have not been formally adopted and may be subject to revisions and amendments taking into account of the results of public consultation and/or further research and recommendation. There is no definite timeline when the Draft Law will come into effect.

### ***Potential Impact of the Draft Law on the Proposed Transactions***

As advised by the PRC Legal Adviser, as the date of this announcement, the Draft Law and the Notes are merely drafts released for the purpose of public consultation, and both of them have no legal effect. Given the aforementioned, the Company is of the view that it might not be appropriate at this stage to evaluate the potential impact of the Draft Law and to formulate any specific measures to keep the Operating Subsidiaries as controlled by PRC investors. In addition, as the main goal of the Draft Law is to standardize market entry requirements and procedures for foreign and domestic investors, rather than tightening foreign investment requirements or banning foreign investors, the Board believes that even if the Draft Law finally comes into effect, it would not have adverse impact on the Company's shareholding interest in the Target Group. Nevertheless, in the event that the Draft Law comes into effect and it includes strict clauses preventing foreign investment in PRC companies, which is unlikely in the Company's opinion as the current Draft Law does not contain these provisions, and if the Company were no longer controlled by PRC investors by then, the Company will first consider the then available options and in the worst circumstance, the Company might be requested to dispose of its interest in the Target Group's relevant business. Upon such disposal, if materializes, the Company would realize its investment in such relevant business would continue the operation of its then existing businesses.

As advised by the PRC Legal Adviser, upon Completion, the "actual controller" (as defined under the Draft Law) of OPCO and Changzhou Changsusheng will be the Company's Controlling Shareholder, Mr. Yan Zhi. To ensure that the Structured Contracts arrangement falls within the scope of "onshore investments" under the Draft Law and other applicable laws and regulations in the PRC, Mr. Yan Zhi will execute an undertaking letter in favour of the Company ("**Mr. Yan Zhi's Undertaking**"), pursuant to which Mr. Yan Zhi undertakes to the Company that:

- (i) for as long as he (or the companies controlled by him, if applicable) remains the Controlling Shareholder of the Company, he will continue to maintain his PRC nationality and citizenship;



- (ii) in compliance with the Draft Law and other applicable laws and regulations in the PRC (as amended from time to time), he will continue to maintain his shareholding in the Company as the Controlling Shareholder, or procure his successor(s) to provide the same undertakings under Mr. Yan Zhi's Undertaking in favour of the Company;
- (iii) prior to any event that would render him (or the companies controlled by him) no longer the Controlling Shareholder of the Company, he will ensure that the Structured Contracts arrangement remains within the scope of "onshore investments" as defined under the Draft Law and other applicable laws and regulations in the PRC; and
- (iv) he will not take any actions that would render the Structured Contracts illegal, void or immediately terminable under the applicable laws and regulations, and he undertakes to take all necessary actions and execute any documents necessary to protect the economic interests and benefits of the Company under the Structured Contracts.

Mr. Yan Zhi's Undertaking will be legally effective from the date of Completion until Mr. Yan Zhi ceases to be the Controlling Shareholder of the Company.

According to the PRC Legal Adviser's advice and Mr. Yan Zhi's Undertaking, the Directors are of the view that the Structured Contracts arrangement proposed by the Company will probably continue to be treated as onshore investment upon the completion of the Proposed Transactions if the Draft Law becomes effective in its current draft content. In addition, the Company will from time to time seek guidance from the PRC Legal Adviser to ascertain all relevant regulatory updates and developments and guidance relating to the Structured Contracts, and explore ways to continue the businesses of the Target Group without employing the Structured Contracts in the future (including but not limited to revising/optimizing the business models of the Target Group and revising the structures of the Target Group) as and when necessary to ensure compliance with all relevant rules and regulations in the PRC at all times.

#### ***Measures to Maintain Control Over and Receive Economic Benefits from the Target Group***

Following the completion of the Proposed Transactions, the Company will implement the following measures to maintain the control over OPCO and Changzhou Changsusheng through the Structured Contracts arrangement and the Company's compliance with the Structured Contracts:

- the Company will engage external legal advisers or professional advisers, if necessary, to pay close attention to the update status of relevant laws and regulations, and to assist the Board to review the implementation of the Structured Contracts, review the legal compliance of WFOE and OPCO and Changzhou Changsusheng to deal with specific issues or matters arising from the Structured Contracts.
- major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from governmental authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

- the Board will review the overall performance of and compliance with the Structured Contracts at least once a year; the Company will disclose the overall performance and compliance with the Structured Contracts in its annual/interim report to update the Shareholders and potential investors.

### **Implication under the Revised Catalogue of Industries for Guiding Foreign Investments**

On 28 June 2017, the National Development and Reform Commission (the “NDRC”) published the Revised Catalogue of Industries for Guiding Foreign Investments (the “**Revised Catalogue**”), which has taken effect on 28 July 2017. The Revised Catalogue provides that the proportion of foreign investment on the value-added telecommunications business shall not exceed 50%, and the e-commerce business is the exception. Though the Revised Catalogue cancels the restriction on the foreign investment proportion for e-commerce business, Qualification Requirements are still currently effective, which stipulates that the proportion of capital contributed by the foreign investor(s) in a foreign-invested telecommunications enterprise that is engaged in value-added telecommunications services shall not exceed 50% ultimately. In addition, as mentioned above regarding Information Services Business of OPCO and Changzhou Changsusheng, falls under is Information Services Business instead of “Online Data Processing and Transaction Processing Business (Operating E-commerce)”. Therefore, the business engaged by the Operating Subsidiaries may subject to the foreign investment restriction under the Revised Catalogue.

### **Board’s view on the Structured Contracts**

Based on the above, the Board is of the view that the Structured Contracts are narrowly tailored to achieve OPCO’s business purpose and to minimize the potential conflicts with and are enforceable under the relevant PRC laws and regulations. The Structured Contracts enable WFOE to gain significant control over OPCO and Changzhou Changsusheng, and to be entitled to the economic interests and benefits of OPCO and Changzhou Changsusheng. The Structured Contracts also provide that WFOE may unwind the Structured Contracts as soon as relevant PRC rules and regulations governing foreign investment in the operation of value-added telecommunications business are issued which allow the WFOE to register itself as the shareholder of OPCO.

To the best of the Director’s knowledge, information and belief, having made all reasonable enquiries, as at the date of the announcement, each of OPCO and Changzhou Changsusheng has not encountered any interference or encumbrance from any governing bodies in operating its business.

### **Risk factors**

WFOE does not have any direct equity ownership in OPCO and Changzhou Changsusheng and has relied on the Structured Contracts to control, operate, and be entitled to the economic benefits and risks arising from the value-added telecommunications services business in the PRC conducted through OPCO and Changzhou Changsusheng. However, there are risks involved with the operations of WFOE’s value-added telecommunications business under the Structured Contracts.

***There is a lack of clear guidance or interpretation on the Qualification Requirements which may cast uncertainty to the Group when the foreign ownership restriction in value-added telecommunications is relaxed***

In respect of the Qualification Requirements, there is no clear formal guideline and provision on what constitutes “a good track record” and “operational experience”. Despite the lack of clear guidance or interpretation on the Qualification Requirements, the Company intends to acquire the entire equity interests in OPCO when the PRC laws allow foreign investors to invest in value-added telecommunications enterprises in the PRC. The Group plans to take steps to build up its track record of overseas value-added telecommunications business operations in an attempt to comply with the Qualification Requirements, so as to be qualified to acquire the entire equity interests in OPCO when the restrictions on the percentage of foreign ownership in value-added telecommunications services and on foreign ownership in value-added telecommunication enterprises are lifted. The Company, however, cannot assure that such measures are ultimately sufficient to comply with the Qualification Requirements. If the restriction on foreign ownership in companies providing value-added telecommunications services under the current PRC laws is lifted, the Group may still not be in a position to comply with the Qualification Requirements and not qualified to acquire the entire equity interests in OPCO.

***The Structured Contracts may not be as effective in providing control over and entitlement to the economic interests in OPCO and Changzhou Changsusheng as direct ownership***

The Structured Contracts may not be as effective in providing WFOE with control over and entitlement to the economic interests in OPCO and Changzhou Changsusheng as direct ownership. If the WFOE had direct ownership of OPCO and Changzhou Changsusheng, WFOE would be able to directly exercise its rights as a shareholder to effect changes in the board of directors of each of OPCO and Changzhou Changsusheng. However, under the Structured Contracts, WFOE can only look to and rely on OPCO and Changzhou Changsusheng to perform its contractual obligations under the Structured Contracts such that the WFOE can exercise effective control over each of OPCO and Changzhou Changsusheng. OPCO may not act in the best interests of WFOE or may not perform its/obligations under the Structured Contracts. WFOE may replace the Zall Nominee by its other nominees pursuant to the Structured Contracts. However, if any dispute relating to the Structured Contracts remains unresolved, WFOE will have to enforce its rights under the Structured Contracts and seek to interpret the terms of the Structured Contracts in accordance with the PRC laws and will be subject to uncertainties in the PRC legal system. The Structured Contracts are governed by the PRC laws. When a dispute arises under any of the Structured Contracts, the relevant parties thereto shall settle the dispute through negotiation in an amicable manner. In case the dispute is not resolved, the parties to the dispute may have to rely on legal remedies under the PRC laws. The Structured Contracts provide that dispute will be submitted to the China International Economic and Trade Arbitration Commission for arbitration to be conducted in Beijing. The decision of such arbitration is final and binding on the parties to the dispute.

Since the legal environment in the PRC is different from that in Hong Kong and other jurisdictions, the uncertainties in the PRC legal system could limit the ability of WFOE to enforce the Structured Contracts. There is no assurance that such arbitration result will be in favour of WFOE and/or that there will not be any difficulties in enforcing any arbitral awards granted, including specific performance or injunctive relief and claiming damages by WFOE. As WFOE may not be able to obtain sufficient remedies in a timely manner, its ability to exert effective control over each of OPCO and Changzhou Changsusheng and the conduct of the value-added telecommunication business could be materially and adversely affected, and may disrupt the business of WFOE and have a material adverse impact on WFOE's business, prospects and results of operation.

Upon Completion, the Board will proceed to change OPCO as soon as practicable so as to gain as much control as practicable over each of OPCO and Changzhou Changsusheng.

***Potential conflicts of interest among WFOE, OPCO and Changzhou Changsusheng may exist***

WFOE shall rely on the Structured Contracts to exercise control over and to draw the economic benefits from OPCO and Changzhou Changsusheng. WFOE may not be able to provide sufficient incentives to the OPCO for the purpose of encouraging it/them to act in the best interests of WFOE, other than stipulating the relevant obligations in the Structured Contracts. OPCO may breach the Structured Contracts in the event of conflicts of interest or deterioration of its/their relationship with WFOE, the results of which may have a material adverse impact on WFOE's business, prospects and results of operation. It is not assured that if conflicts arise, OPCO will act in the best interests of WFOE or that the conflicts will be resolved in favour of WFOE. If OPCO fails to perform its obligations under the respective Structured Contracts, WFOE may have to rely on legal remedies under the PRC laws through legal proceedings, which may be expensive, time-consuming and disruptive to WFOE's operations and will be subject to uncertainties as discussed above.

***The Structured Contracts may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed***

The Structured Contracts may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed on WFOE. WFOE may face adverse tax consequences if the PRC tax authorities determine that the Structured Contracts were not entered into based on arm's length negotiations. If the PRC tax authorities determine that the Structured Contracts were not entered into on an arm's length basis, they may adjust the income and expenses of WFOE for the PRC tax purposes, which could result in higher tax liabilities on the WFOE. The operation results of WFOE may be materially and adversely affected if the tax liabilities of OPCO and Changzhou Changsusheng or those of WFOE increase significantly or if they are required to pay interest on late payments.

The Board will closely monitor any laws, regulations or rules changes in the PRC in relation to tax imposed on Structured Contracts and upon receiving any such information, it shall discuss with the PRC Legal Adviser to evaluate the impact on the business and operation of the Target Group and potential resolutions. As at the date of this announcement, the Target Group is only subject to normal tax liabilities in the PRC such as the Enterprise Income Tax and the Value Added Tax.

***The WFOE's ability to acquire the entire equity interests in OPCO and Changzhou Changsusheng may be subject to various limitations and substantial costs***

In case WFOE exercises its options to acquire all or part of the equity interests of OPCO and Changzhou Changsusheng under the Exclusive Option Agreement, the acquisition of the entire equity interest in OPCO and Changzhou Changsusheng may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals and relevant procedures under applicable PRC laws. In addition, the abovementioned acquisitions may be subject to a minimum price limitation (such as an appraised value for the entire equity interest in the Operating Subsidiaries) or other limitations as imposed by applicable PRC laws. Further, a substantial amount of other costs (if any), expenses and time may be involved in transferring the ownership of OPCO and Changzhou Changsusheng, which may have a material adverse impact on the WFOE's businesses, prospects and results of operation.

**Reasons for adopting the Structured Contracts**

Paragraph 16(a)(i) of the Guidance Letter GL77-14 published by the Stock Exchange in May 2014 in relation to listed issuers using contractual arrangements for their businesses (the “**Guidance Letter**”) requires that structured contracts shall be narrowly tailored to achieve the issuer's business purpose and authorize the potential for conflict with relevant PRC laws and regulations. As advised by the PRC Legal Adviser, according to the PRC laws and regulations, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services. In addition, according to the PRC laws and regulations, a foreign investor who invests in the Information Services Business category of the value-added telecommunications business in the PRC must possess Qualification Requirements. Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. However, to the best knowledge of the Company and the PRC Legal Adviser, if a foreign-owned enterprise like WFOE applies for an Information Services Business licence, WFOE's foreign investor must possess the Qualification Requirements.

According to the verbal inquiry made by the PRC Legal Adviser to the relevant authority governing the value added telecommunications business (i.e. 上海市通信管理局 (the Shanghai Communications Administration\*)) and the written confirmation provided by the Target Group, a foreign-invested enterprise will have difficulty in applying for the licences required for restricted categories of value-added telecommunications business if its foreign investors do not have prior experience and a good track record in operating value-added telecommunications business. Based on the Target Group's confirmation, WFOE is a holding company which does not have any operations; therefore, WFOE does not have the relevant experience and track record in operating value-added telecommunications business. Additionally, due to the lack of clear guidance and interpretation on the Qualification Requirements, if WFOE directly holds equity interest in OPCO and Changzhou Changsusheng, OPCO and Changzhou Changsusheng will have difficulty in applying for or maintaining the Information Services Business licences currently held by them. Taking into account of the above, in order not to interrupt the daily operations of the Operating Subsidiaries, the Target Group has to adopt the Structured Contracts to own the entire equity interests of the Operating Subsidiaries.

The WFOE agrees that it will unwind the Structured Contracts as soon as the law allows the value-added telecommunications business in the PRC to be operated without the Structured Contracts.

## **REASONS FOR AND THE BENEFITS OF THE PROPOSED TRANSACTIONS**

Given the Target Group is principally engaged in e-commerce and supply chain management businesses for chemical and plastic raw materials in the PRC, it has a professional management team and rich management experience in operating the Information Services Business and supply chain management businesses. The Directors are of the view that the Proposed Transactions can strengthen the Group's existing B2B e-commerce, including supply chain management and trading businesses, by enlarging the Group's client base and increasing the Group's revenue in the long run.

The Directors consider that the terms of the Proposed Transactions are on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

As one of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Proposed Transactions exceeds 100%, the Proposed Transactions constitute a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules. As such, the Agreement and the Proposed Transactions contemplated thereunder are subject to the Shareholders' approval at the EGM.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Proposed Transactions and no Shareholder and his associates are therefore required to abstain from voting at the EGM in respect of the resolutions approving the Proposed Transactions.

## **GENERAL**

A circular containing, among other things, further details about the Proposed Transactions contemplated under the Agreement and the notice of the EGM will be despatched to the Shareholders. As the Company expects that it will need more time to collate the information to be included in the circular, the circular is expected to be despatched to the Shareholders on or before 30 November 2017.

**Shareholders and potential investors should note that completion of the Proposed Transactions is subject to fulfillment of certain conditions. The Agreement may or may not proceed to Completion. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.**



## DEFINITION

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

“Acquisition”	the proposed acquisition of the Sale Shares by the Purchaser pursuant to the Agreement
“Actual Net Profit” and “Actual Revenue”	have the meanings set forth in the subsection headed “Revenue and Net Profit Guarantee” under the section headed “The Agreement” in this announcement respectively
“Agreement”	the conditional share purchase and subscription agreement in relation to the Acquisition and the Subscription entered into among the Company, the Purchaser and the Vendors on 11 October 2017
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Authorisation and Entrustment Agreement”	the authorisation and entrustment agreement among WFOE, OPCO and Changzhou Changsusheng
“Board”	the board of Directors
“Bridge Loan”	has the meaning set forth in the subsection headed “Undertakings” under the section headed “The Agreement” in this announcement
“Business Cooperation Agreement”	the exclusive business cooperation agreement among OPCO, WFOE and the VIE Equity Owners
“BVI”	the British Virgin Islands
“Changzhou Changsusheng”	Changzhou Changsusheng e-Commerce Company Limited* (常州常塑盛電子商務有限公司)
“Company”	Zall Group Ltd. (卓爾集團股份有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Acquisition and Subscription
“Consideration”	the aggregate consideration for the Acquisition and the Subscription



“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules, and in the context of this announcement means the controlling shareholder of the Company, Mr. Yan Zhi
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder
“Enhe Financial”	Shanghai Enhe Financial Information Services Company Limited* (上海恩鶴金融信息服務有限公司)
“Equity Pledge Agreement”	the equity pledge agreement among WFOE, OPCO, Changzhou Changsusheng and the VIE Equity Owners
“Exclusive Option Agreement”	the exclusive option agreement among OPCO, WFOE and the VIE Equity Owners
“Exclusive Technological Support and Management Consulting Service Agreement”	the Exclusive Technological Support and Management Consulting Service Agreement to be entered into among WFOE, OPCO and the Changzhou Changsusheng
“Existing Structured Contracts”	the Structured Contracts currently in place among WFOE, the Operating Subsidiaries and OPCO prior to Completion
“Group”	the Company and its subsidiaries
“Guaranteed Net Profit”, “Guaranteed Period”, “Guaranteed Period Reserve” and “Guaranteed Revenue”	have the meanings set forth in the subsection headed “Revenue and Net Profit Guarantee” under the section headed “The Agreement” in this announcement respectively
“Hangzhou Xian Feng”	Hangzhou Xian Feng Investment Partners Corporation (Limited Partnership)* (杭州險峰投資合夥企業(有限合夥)), a wholly-owned foreign enterprise established in the PRC with limited liability
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“HSH Group”	HSH Group Limited, a company incorporated in the BVI with limited liability and is wholly-owned by Mr. Zhi Jianpeng
“HSH HK”	HSH Hongkong Limited, a company incorporated in Hong Kong and is wholly-owned by the Target Company
“IFRS Financial Statements”	has the meaning set forth in the subsection headed “Completion and conditions precedent” under the section headed “The Agreement” in this announcement
“Independent Third Party(ies)”	an individual or a company and the ultimate beneficial owner who are third parties independent of the Company and its connected persons
“Information Services Business”	the information services business operated by OPCO and Changzhou Changsusheng, which is a restricted category and requires a licence under 《外商投資產業指導目錄(2017年修訂)》(The Guidance Catalogue of Industries for Foreign Investment (As amended in 2017)*) in the PRC
“K2 Evergreen”	K2 Evergreen Partners Limited, a company incorporated in Hong Kong with limited liability
“Khorgos Feng Hua”	Khorgos Feng Hua Shareholding Investment Management Partners (Limited Partnership)* (霍爾果斯鋒華股權投資管理合夥企業(有限合夥)), a partnership established and registered under the laws of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 March 2018 or such later date as the parties to the Agreement may agree in writing
“Mr. Yan Zhi’s Undertaking”	has the meaning set forth in the subsection headed “Potential Impact of the Draft Law on the Proposed Transactions” under the section headed “Information on Draft Law Regarding Foreign Investment in the PRC” in this announcement
“New Structured Contracts”	the new Structured Contracts to be entered into among WFOE, OPCO and Changzhou Changsusheng upon Completion
“Northern Light Entity”	Northern Light Venture Capital and Khorgos Feng Hua
“Northern Light Venture Capital”	Northern Light Venture Capital IV, Ltd., a venture capital firm formed under the laws of the Cayman Islands

“Onshore Reorganisation”	the internal reorganisation to be undertaken by the Target Group, details of which are set out in the section headed “Onshore Reorganisation” of this announcement
“OPCO”	Shanghai Susheng e-Commerce Company Limited* (上海塑盛電子商務有限公司) a company established in the PRC with limited liability and is owned as to 55% by Mr. Zhi Jianpeng, 1% by Tibet Xian Feng, 24% by Hangzhou Xian Feng, and 20% by Khorgos Feng Hua
“Operating Subsidiaries”	the PRC-incorporated subsidiaries of OPCO, namely, Shanghai Yinghao Supply Chain Management Company Limited* (上海鷹皓供應鏈管理有限公司) (which is held as to 49% by OPCO and 51% by WFOE), Shanghai Enhe Financial Information Services Company Limited* (上海恩鶴金融資訊服務有限公司), Changzhou Changsusheng e-Commerce Company Limited* (常州常塑盛電子商務有限公司), Shenzhen Suying Commercial Management Company Limited* (深圳塑盈商業保理有限公司), each an “Operating Subsidiary”
“Pledged Shares”	has the meaning set forth in the subsection headed “Revenue and Net Profit Guarantee” under the section headed “The Agreement” in this announcement
“Power of Attorney”	the power of attorney issued by the VIE Equity Owners to WFOE
“PRC”	the People’s Republic of China
“PRC GAAP Financial Statements”	has the meaning set forth in the subsection headed “Completion and conditions precedent” under the section headed “The Agreement” in this announcement
“PRC Legal Adviser”	Jingtian & Gongcheng, the legal adviser to the Company as to the Laws of the PRC
“Proposed Transactions”	the Acquisition and the Subscription
“Purchaser” or “Zall BVI”	Zall Development (BVI) Holding Company Limited, a company incorporated in the BVI with limited liability, a wholly-owned subsidiary of the Company
“Revenue and Net Profit Guarantee”	the performance guarantee jointly given by Mr. Zhi Jianpeng and HSH Group to the Purchaser
“RMB”	Renminbi, the lawful currency of the PRC

“Sale Shares”	130,831,251 shares of HSH International, representing approximately 32.76% of the total equity interest of HSH International as enlarged by the Subscription Shares
“Shanghai Yinghao”	Shanghai Yinghao Supply Chain Management Company Limited* (上海鷹皓供應鏈管理有限公司)
“Shareholder(s)”	the holders of issued shares of the Company
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into by and among the Purchaser, the Target Group, the Vendors, Mr. Zhi Jianpeng, OPCO and the Operating Subsidiaries at Completion
“Shenzhen Suying”	Shenzhen Suying Commercial Factoring Company Limited* (深圳塑盈商業保理有限公司)
“SIG China”	SIG China Investments Master Fund IV, LLLP, a fund established in Delaware, United States
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Contracts”	collectively, the Exclusive Technological Support and Management Consulting Service Agreement, the Power of Attorney, the Authorisation and Entrustment Agreement, the Equity Pledge Agreement, the Business Cooperation Agreement, the Exclusive Option Agreement, and depending on the context, refers to the Existing Structured Contracts or the New Structured Contracts
“Subscription”	the proposed subscription of the Subscription Shares by the Purchaser pursuant to the Agreement
“Subscription Payment”	the payment of the consideration for the Subscription to be made pursuant to the Agreement
“Subscription Shares”	the 78,750,000 new ordinary shares of HSH International, representing 19.72% of the enlarged issued share capital of HSH International
“Target Company” or “HSH International”	HSH International Inc., a company incorporated in the Cayman Islands with limited liability
“Target Group”	the Target Company and its subsidiaries

“Target Group ESOP”	the employee share option plan established by the Target Group holding 53,418,804 share options entitled to subscribe for 53,418,804 ordinary shares of the issued capital of HSH International for the benefits of the members of the core management of the Target Group
“Tibet Xian Feng”	Tibet Xian Feng Hua Xing Chang Qing Investment Company Limited* (西藏險峰華興長青投資有限公司), a company established in the PRC with limited liability
“Transaction Documents”	collectively, (i) the Agreement, (ii) the Shareholders’ Agreement, (iii) the fourth amended and restated memorandum of association of HSH International, (iv) the New Structured Contracts, (v) the executed documents to effectuate the Onshore Reorganisation, (vi) other agreements to be entered into by the parties to the Agreement, and (vii) any amendments or supplemental agreements of the foregoing
“US\$”	United States dollar, the lawful currency of the United States of America
“Vendors”	Xian Feng HZ, K2 Evergreen, Northern Light Entity, HSH Group, and SIG China
“VIE Equity Owners”	Mr. Zhi Jianpeng, Tibet Xian Feng, Hangzhou Xian Feng, Khorgos Feng Hua and the Zall Nominee, each a “VIE Equity Owner”
“WFOE”	Shanghai Sulai Communications Technology Company Limited* (上海塑來信息技術有限公司), a wholly owned foreign enterprise established in the PRC with limited liability and is wholly-owned by HSH HK
“Withheld Consideration”	the amount of US\$1,243,377.52 withheld from the Consideration for settlement of any shortfall arising from the Revenue and Net Profit Guarantee
“Xian Feng HZ”	Xian Feng HZ Limited, a company incorporated in the BVI with limited liability
“Zall Nominee”	the person to be nominated by the Company to be the equity owner(s) of OPCO on or before Completion, who will not be a connected person of the Company and will be a PRC citizen

“%”

per cent.

By order of the Board

**Zall Group Ltd.**

**Yan Zhi**

*Co-chairman*

Hong Kong, 11 October 2017

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

*\* The English translations of the Chinese names and words are for illustrative purpose only.*