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Zall Smart Commerce Group Ltd.

卓爾智聯集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2098)

PROPOSED CONTINUING CONNECTED TRANSACTIONS STRATEGIC FRAMEWORK AGREEMENT WITH Z-BANK

The Board is pleased to announce that on 9 July 2018 the Company has entered into the Strategic Framework agreement with Z-Bank, pursuant to which the parties agreed that for the purpose of facilitating the development of the B2B trading platforms of, and the provision of supply chain finance services by, the Group, they shall cooperate in the following areas, namely: (1) provision of bank deposits service by Z-Bank to the Group; (2) provision of fund settlement, payment and other financial services by Z-Bank to the Group and; and (3) the Group referring customers to Z-Bank for loan and credit facilities services.

As at the date of this announcement, Z-Bank is owned as to 30% by Zall Holdings Ltd., which in turn is held as to 99.95% by Mr. Yan Zhi, the controlling Shareholder, the co-chairman and an executive Director of the Company. Accordingly, Z-Bank is a connected person of the Company as defined under Chapter 14A of the Listing Rules and the entering into of Strategic Framework Agreement constitutes a continuing connected transaction of the Company.

As the highest applicable percentage ratio for the Deposit Caps in respect of the placing of deposits with Z-Bank under the Strategic Framework Agreement is more than 0.1% but less than 5%, the placing of deposits with Z-Bank under the Strategic Framework Agreement is subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules and is exempt under Rule 14A.76(2) of the Listing Rules from circular and independent Shareholders' approval requirements.

As the Directors currently expect that the transaction amount payable by the Group to Z-Bank for the provision of fund settlement, payment and other financial services under the Strategic Framework Agreement on an annual basis will be less than HK\$3,000,000, the provision of such services under the Strategic Framework Agreement will fall within the de minimis threshold as stipulated under Chapter 14A of the Listing Rules and will therefore be exempt from all reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will comply with the relevant reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if and when the total fees payable by the Group to Z-Bank for the provision of other financial services under the Strategic Framework Agreement exceed the de minimis threshold.

BACKGROUND

The Board is pleased to announce that the Company has entered into the Strategic Framework agreement with Z-Bank, pursuant to which the parties agreed that for the purpose of facilitating the development of the B2B trading platforms of, and the provision of supply chain finance services by, the Group, they shall cooperate in the following areas, namely: (1) provision of bank deposits service by Z-Bank to the Group; (2) provision of fund settlement, payment and other financial services by Z-Bank to the Group and; and (3) the Group referring customers to Z-Bank for loan and credit facilities services.

THE STRATEGIC FRAMEWORK AGREEMENT

Date : 9 July 2018

Parties : (1) the Company (for itself and on behalf of the members of the Group)
(2) Z-Bank

Term

The Strategic Framework Agreement is conditional on the Company's compliance all announcement, shareholders' approval (if applicable) and other requirements under the Listing Rules and is effective from 9 July 2018 and will expire on 31 December 2020.

Services

Pursuant to the Strategic Framework Agreement,

- (1) The members of the Group will open bank accounts and place deposits with Z-Bank;
- (2) Z-Bank shall support the business development of the Group by providing fund settlement, payment and other financial services to them;
- (3) In relation to the customers referral to Z-Bank for loan and credit facilities services, the Company (for itself and on behalf of the members of the Group) agreed that:–
 - (i) they shall only refer customers which purchase goods through its B2B platform to Z-Bank. The loan and facilities, if so granted by Z-Bank, shall only be used for purchase of goods. The Group shall not be entitled to deduct any interests, fees or amounts from the proceeds provided by Z-Bank in favour of the customers;
 - (ii) they shall only introduce customers to Z-Bank on which the Group has an understanding and consider that such customers shall be able to repay based on their trading patterns and past dealings with the Group;

- (iii) they shall provide assistance to Z-Bank in collecting relevant credit information of customers and information relating to the use of loan proceeds as may be reasonably requested by Z-Bank;
 - (iv) they shall, based on the trading pattern of its customers, provide information to Z-Bank to facilitate Z-Bank's preparation of funds and forecast of funding needs for lending to customers, and allow Z-Bank to access their data for the purpose of verifying the information provided to Z-Bank;
 - (v) in the event that the customers introduced by the Group default in loan repayment, they shall assist Z-Bank in recouping the outstanding amounts;
 - (vi) they shall provide storage and escrow services to Z-Bank in respect of goods pledged by customers in favour of Z-Bank; and
 - (vii) Z-Bank shall give priority to customers introduced by the Group for providing loans and credit facilities subject to the compliance of the relevant laws, regulations and the Z-Bank's internal credit policy. The terms and conditions of the financing services provided by Z-Bank to such customers shall be subject to the entering into of definitive agreements.
- (4) Z-Bank is entitled to unilaterally suspend or terminate the cooperation with the Group in relation to the customers referral under the Strategic Framework Agreement, or enforce its rights under the Strategic Framework Agreement or any other relevant specific agreements and contracts to be entered into in the event that:–
- (i) decree against the customers introduced by the Group are laid down by any competent government agency in the PRC, and such decree not having been discharged or the default concerned not having been duly remedied by the customers;
 - (ii) the customers introduced by the Group having been involved in any material litigation or any event which has material adverse effect on the society; or
 - (iii) any indebtedness under the loan and credit facilities services provided by Z-Bank to customers of the Group is not paid when due and the aggregate amount in default exceeds 4% of the loan and credit facilities amount provided; and
- (5) The Company is entitled to unilaterally suspend or terminate the cooperation with Z-Bank under the Strategic Framework Agreement if it becomes aware that any loss of capital in the deposits placed with Z-Bank occurred.

Price determination

- (1) The interests for deposits placed by the Group with Z-Bank shall be negotiated on an arm's length basis with regard to the interest rates charged by normal commercial banks in the PRC for comparable deposits and in any case, the interest rate for deposits shall not be lower than the rate prescribed by the PBOC for the same type of deposit and under similar terms, not lower than the interest rates of deposits of a similar nature provided to the Group and its subsidiaries by other independent commercial banks in the PRC.

- (2) The services fees charged by Z-Bank for the provision of the fund settlement, payment and other financial services are determined according to the fee rates fixed by the PBOC or the CBRC and if such fixed fee rates are not available, the service fees are negotiated on arm's length basis taking into account the market conditions and by reference to the fee rates charged by normal commercial banks in the PRC for comparable services.
- (3) The Group will not receive any fee from Z-Bank resulting from or in relation to members of the Group referring customers to Z-Bank.

Proposed annual caps

For the purpose of regulating the Strategic Framework Agreement and satisfying the needs of continuous development of the Group, the Company proposes that the annual caps for the Strategic Framework Agreement for the years ending 31 December 2018, 31 December 2019 and 31 December 2020, respectively be set as follows:

Maximum daily balance (including interests accrued thereon) of deposits placed by the Group with Z-Bank:

Proposed Deposit Caps for the year ending		
31 December 2018	31 December 2019	31 December 2020
RMB1,000 million (equivalent to approximately HK\$1,180 million)	RMB1,600 million (equivalent to approximately HK\$1,888 million)	RMB2,300 million (equivalent to approximately HK\$2,714 million)

The Deposit Caps have been determined by reference to the control of financial risks in selecting providers of deposit services and the cash flow of the Company, while taking into account the business development plans of the Group during the terms of the Strategic Framework Agreement.

INFORMATION ON THE GROUP AND Z-BANK

The Group

The Company is an investment holding company and the Group is a leading developer and operator of large-scale consumer product focused wholesale shopping malls in the PRC. The Group also provides supply chain management and trading services, e-commerce services, financial services, warehousing and logistics services for its customers in the online and offline markets.

Z-Bank

Z-Bank is a privately owned commercial bank licensed by CBRC, the headquarters of which is located in Wuhan, Hubei Province, the PRC. Z-Bank commenced business in 2017 and is principally engaged

in the provision of online and offline banking services, targeting particularly micro, small and medium enterprises and individuals involving in supply chain network transactions. It is owned as to 30% by Zall Holdings Ltd., which in turn is held as to 99.95% by Mr. Yan Zhi, the controlling Shareholder, co-chairman and an executive director of the Company. To the best of the Director's knowledge, information and belief, having made all reasonable enquiries, other shareholders of Z-Bank are not connected persons of the Company.

REASONS FOR ENTERING INTO THE STRATEGIC FRAMEWORK AGREEMENT

The Group has been building B2B trading platforms for trade of daily consumer goods, agricultural products, chemicals and plastic rawer materials, non-ferrous metals and others, and through such platforms, provides financial, storage, logistics and supply chain management services to its customers.

The Group considers that there is an increasing number of customers purchasing substantial amount of goods through such trading platforms and some of which may require financing services to facilitate the purchase of goods or to increase the purchasing amount. Nevertheless, traditional state-owned banks may not be able to provide trade financing services in favour of such customers which are usually micro, small and medium enterprises. Such customers, on the other hand, are the target customers of Z-Bank. In addition, Z-Bank principally focuses on providing services to companies involving supply chain network transactions. By entering into the Strategic Framework Agreement, the Group can introduce quality customers to Z-Bank which, in turn, can provide financing to such customers so that they can purchase more goods and products from or through the trading platforms and therefore may increase the revenue income of the Group.

In light of the synergy between the Group and Z-Bank, the Group considers that it is in its interest to further its relationship with Z-Bank, which is prepared to offer interest rate and other terms to the Group which are no less favorable than the interest rate and other terms that Z-Bank will offer to its other independent customers of similar scale and size for bank deposits of comparable tenure and amount at or about the time of placement, subject to the prevailing market conditions.

In addition, opening bank account and placing deposits with Z-Bank are solely on a voluntary and non-exclusive basis. There is no restriction under the Strategic Framework Agreement on the Group's ability to source the services from others banks and the Group is at its sole discretion to make its selection according to the relevant rates being offered and quality of services being delivered by the banks. It will also be cost effective and efficient if the transfers of fund between the Group and its customers can be settled at the same bank.

For the above reasons, the Directors (excluding Mr. Yan Zhi who has a material interest in the Strategic Framework Agreement and who has abstained from voting on the relevant board resolutions of the Company) are of the view that the Strategic Framework Agreement has been entered into on normal commercial terms or better and in the ordinary and usual course of the Group's business, and that the transactions contemplated thereunder (together with the relevant annual caps) are fair and reasonable and in the interests of the Company and its shareholders as a whole.

RISK MANAGEMENT AND INTERNAL CONTROL MEASURES IN RELATION TO THE PLACING OF DEPOSITS WITH Z-BANK UNDER THE STRATEGIC FRAMEWORK AGREEMENT

To mitigate the financial risks which may be exposed to the Company to the largest extent, and safeguard the interests of the Company and its shareholders, the Company has put in place the following internal control and risk management measures:–

- (1) According to the Strategic Framework Agreement, the Group has the right to monitor the deposits in Z-Bank from time to time to ensure their security and liquidity. Z-Bank shall cooperate with the reasonable requirements proposed by the Group in respect of the aforesaid. If any loss of capital occurred, the Company is entitled to terminate the Strategic Framework Agreement unilaterally.
- (2) In respect of the deposits placed by the Group with Z-Bank, if there occurs any breach of contract or other improper use or non-compliance by Z-Bank which result in Z-Bank not being able to satisfy the free withdrawal requirements of the Group regarding such deposits (including accrued interest), the Group may set off such amount against the balance of the loans and accrued interest from Z-Bank to the extent permissible under the laws and regulations within three working days after the Company becomes aware of such breach, improper use or non-compliance.
- (3) The Company will consider the following factors including but not limited to: (a) the expected cash flow of the Group; and (b) the pricing or interest rate terms of Z-Bank and other commercial banks before the Company or any of its subsidiaries entering into any separate agreements with Z-Bank or other commercial banks or financial institutions in the PRC for the placing of deposits.

The Directors consider that the above internal control and risk management measures are adequate and effective in monitoring the deposit transactions in all material respects.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Z-Bank is owned as to 30% by Zall Holdings Ltd., which in turn is held as to 99.95% by Mr. Yan Zhi, the controlling Shareholder, the co-chairman and an executive Director of the Company. Accordingly, Z-Bank is a connected person of the Company as defined under Chapter 14A of the Listing Rules and the entering into of Strategic Framework Agreement constitutes a continuing connected transaction of the Company.

Placing of deposits

As the highest applicable percentage ratio for the Deposit Caps in respect of the placing of deposits with Z-Bank under the Strategic Framework Agreement is more than 0.1% but less than 5%, the placing of deposits with Z-Bank under the Strategic Framework Agreement is subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules and is exempt under Rule 14A.76(2) of the Listing Rules from circular and independent Shareholders' approval requirements.

Fund settlement, payment and other financial services

As the Directors currently expect that the transaction amount payable by the Group to Z-Bank for the provision of fund settlement, payment and other financial services under the Strategic Framework Agreement on an annual basis will be less than HK\$3,000,000, the provision of such services under the Strategic Framework Agreement will fall within the de minimis threshold as stipulated under Chapter 14A of the Listing Rules and will therefore be exempt from all reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will comply with the relevant reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if and when the total fees payable by the Group to Z-Bank for the provision of other financial services under the Strategic Framework Agreement exceed the de minimis threshold.

DEFINITIONS

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

“B2B”	Business-to-business
“Board”	the board of Directors
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“Company”	Zall Smart Commerce Group Ltd. (卓爾智聯集團有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Deposit Caps”	the aggregate maximum balance of the deposits placed by the Group with Z-Bank on any given day as set out in this announcement
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PBOC”	The People's Bank of China
“percentage ratio(s)”	has the meanings ascribed to it under Rule 14.07 of the Listing Rules
“PRC”	the People's Republic of China (for the purpose of this announcement, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan)

“RMB”	Renminbi, the lawful currency of the PRC
“Strategic Framework Agreement”	a strategic framework agreement dated 9 July 2018 entered into between the Company and Z-Bank
“Shareholder(s)”	holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Z-Bank”	武漢眾邦銀行股份有限公司 (Wuhan Zhongbang Bank Co. Ltd.*) a licenced bank in Wuhan, Hubei Province, the PRC
“Zall Holdings Ltd.”	卓爾控股有限公司 (Zall Holdings Ltd.*), a company established in the PRC with limited liability and held as to 99.95% by Mr. Yan Zhi

In this announcement, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.18. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

By order of the Board
Zall Smart Commerce Group Ltd.
Yan Zhi
Co-chairman

Hong Kong, 9 July 2018

** for identification purposes only*

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. Qi Zhiping and Mr. Cui Jinfeng are executive Directors of the Company; Mr. Cheung Ka Fai, Mr. Wu Ying and Mr. Zhu Zhengfu are independent non-executive Directors of the Company.