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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)**

## **UPDATE ANNOUNCEMENT IN RELATION TO HSH AND SHENZHEN SINOAGRI**

References are made to (i) the annual report of Zall Smart Commerce Group Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) for the financial year ended 31 December 2017 (“**FY2017**”) published on 27 April 2018 (the “**2017 Annual Report**”); (ii) the annual report of the Company for the financial year ended 31 December 2018 (“**FY2018**”) published on 26 April 2019 (the “**2018 Annual Report**”); (iii) the annual report of the Company for the financial year ended 31 December 2019 (“**FY2019**”) published on 14 May 2020 (the “**2019 Annual Report**”); (iv) the circular of the Company dated 14 February 2018 (the “**HSH Circular**”) in relation to the acquisition of HSH International Inc. and its subsidiaries, (“**HSH**”); and (v) the circular of the Company dated 15 February 2017 (the “**Shenzhen Sinoagri Circular**”) in relation to the acquisition of Shenzhen Sinoagri E-commerce Co., Ltd.\* (深圳市中農網股份有限公司) and its subsidiaries (“**Shenzhen Sinoagri**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the HSH Circular and the Shenzhen Sinoagri Circular.

The Company would like to provide additional information to the Shareholders and potential investors regarding HSH and Shenzhen Sinoagri.

### **HSH**

Reference is made to the paragraph headed “Revenue and Net Profit Guarantee” in the HSH Circular. As disclosed, Mr. Zhi Jianpeng (“**Mr. Zhi**”), HSH Group and HSH jointly and severally guarantee to the Company that for each of FY2017, FY2018 and FY2019, the Actual Revenue and Actual Net Profit of HSH shall not be less than the Guaranteed Revenue and Guaranteed Net Profit. If the revenue and net profit guarantee of HSH (the “**Performance Guarantee**”) for any of the Guaranteed Period was not fulfilled, the Purchaser shall be entitled to a proportion of the Guaranteed Period Reserve calculated based on the formula prescribed in the Agreement as compensation.

The table below sets forth the guaranteed financial performance of HSH as set out in the HSH Circular, as compared against the actual financial performance of HSH for FY2017, FY2018 and FY2019:

<b>Guaranteed Period</b>	<b>Guaranteed Revenue</b>	<b>Actual Revenue</b>	<b>Shortfall compared with the Guaranteed Revenue</b>	<b>Guaranteed Net Profit</b>	<b>Actual Net Loss</b>	<b>Shortfall compared with the Guaranteed Net Profit</b>
FY2017	RMB15,000 million	RMB7,044 million	RMB7,956 million	RMB10 million	RMB80.63 million	RMB90.63 million
FY2018	RMB30,000 million	RMB13,500 million	RMB16,500 million	RMB70 million	RMB38.43 million	RMB108.43 million
FY2019	RMB50,000 million	RMB8,890 million	RMB41,110 million	RMB150 million	RMB17.2 million	RMB167.2 million

As the Actual Revenue and the Actual Net Loss did not meet the Guaranteed Revenue and Guaranteed Net Profit for FY2017, FY2018 and FY2019 respectively, the Performance Guarantee was not fulfilled. Therefore, for FY2017 and FY2018, Mr. Zhi and HSH Group had fulfilled their obligations in accordance with the Agreement and respective proportion of the Guaranteed Period Reserve had already been enforced by the Purchaser as compensation. As for FY2019, the enforcement of the respective proportion of the Guaranteed Period Reserve has not been completed yet due to the outbreak of the COVID-19 pandemic in 2020 and the Group anticipates that such compensation shall be fully enforced by the Purchaser in or around the end of November 2020.

The failure of HSH to meet the Performance Guarantee in FY2019 was mainly due to (i) the lower market price of methanol and ethylene glycol in the PRC (being the main chemical raw materials supplied by HSH to its customers) in 2018 and 2019, which affected its revenue growth; (ii) the new risk control policy adopted by HSH to optimize its business structure by carefully selecting the customers based on stricter selection criteria, which resulted in lower revenue from its supply chain management business than expectation; and (iii) the change in management team which has a short-term effect on the business operations of HSH.

The Board (including the independent non-executive Directors) is of the view that, (i) the Agreement provides the Purchaser with a mechanism to adjust the Consideration; (ii) Mr. Zhi and HSH Group have fulfilled their obligations in accordance with the Agreement; and (iii) the Group is not provided with any option to sell the acquired equity interest of HSH back to any of the Vendors.

## **Impairment loss on HSH**

Taking into account the failure of HSH to meet the Performance Guarantee, and in accordance with IAS 36 Impairment of Assets, the Company has engaged an independent firm of surveyors (the “**Valuer**”) to perform impairment assessment of the recoverable amount of the cash generating unit (“**CGU**”) of HSH. Accordingly, with reference to the valuation report of equity interest of the Group in HSH for FY2019, impairment loss of approximately RMB25.3 million was recognised by the Company for the CGU of HSH based on the shareholding of the Company.

## **SHENZHEN SINOAGRI**

Reference is made to the announcement of the Company dated 14 May 2020 (the “**Announcement**”) in relation to the performance guarantee of Shenzhen Sinoagri. As disclosed in the Announcement, the Target Performance of Shenzhen Sinoagri was not fulfilled for FY2019.

The failure of Shenzhen Sinoagri to meet the Target Performance in FY2019 was mainly due to (i) the lower market price of sugar in the PRC (being the main agricultural product supplied by Shenzhen Sinoagri to its customers) in 2018 and 2019, which resulted in lower revenue than expectation; and (ii) the more conservative risk control policy adopted by Shenzhen Sinoagri to its supply chain partners, which resulted in reduction of operation scale of its supply chain finance business and lower profits than expectation.

Taking into account the failure of Shenzhen Sinoagri to meet the Target Performance, and in accordance with IAS 36 Impairment of Assets, the Company has engaged the Valuer to perform impairment assessment of the recoverable amount of the CGU and trademark of the Shenzhen Sinoagri. Accordingly, with reference to the valuation reports of (i) equity interest of the Group in Shenzhen Sinoagri and (ii) trademark owned by Shenzhen Sinoagri for FY2019, impairment loss of approximately RMB233.0 million and approximately RMB20.3 million were recognised by the Company for the CGU and trademark of Shenzhen Sinoagri based on the shareholding of the Company, respectively.

The additional information provided in this announcement does not affect other information contained in the 2017 Annual Report, the 2018 Annual Report and the 2019 Annual Report.

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

Hong Kong, 3 September 2020

*As at the date of this announcement, the Board comprises nine members, of which Mr. Yan Zhi, Dr. Gang Yu, Mr. Wei Zhe, David, Mr. Qi Zhiping, Mr. Cui Jinfeng and Ms. Min Xueqin are executive Directors; Mr. Cheung Ka Fai, Mr. Wu Ying and Mr. Zhu Zhengfu are independent non-executive Directors.*