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HUA LONG JIN KONG COMPANY LIMITED

華隆金控有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1682)

DISCLOSEABLE TRANSACTION, CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS RELATING TO THE ENTRY OF THE VIE AGREEMENTS

THE VIE AGREEMENTS

The Board are pleased to announce that on 4 October 2018 (after trading hours), the WFOE entered into the VIE Agreements with the OPCO and the PRC Equity Owners. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO. Upon the entry of the VIE Agreements, the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group and the OPCO will be a wholly-owned subsidiary of the Company.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the VIE Agreements exceed 5% and all the applicable percentage ratios are less than 25%, the entering into of the VIE Agreements constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Each of the PRC Equity Owners and the OPCO is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the VIE Agreements constitute the connected transactions and continuing connected transactions of the Company.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the transactions contemplated under the VIE Agreements is exceeds 5%, the transactions contemplated under the VIE Agreements are subject to the announcement, shareholders' approval, reporting and annual review requirements under Chapter 14A of the Listing Rules.

The Company has applied for a waiver pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the VIE Agreements for a period of not exceeding three years pursuant to Rule 14A.52 of the Listing Rules, and (ii) setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to the WFOE and the amount of loans to be made available by the WFOE to the OPCO and the PRC Equity Owners under the relevant VIE Agreements. An Independent Board Committee will be established to advise the Independent Shareholders in relation to the terms of the VIE Agreements.

An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the VIE Agreements. In accordance with Rule 14A.52 of the Listing Rules, the independent financial adviser will also explain why the duration of the VIE Agreements, which exceeds three years, constitutes a special circumstance under Rule 14A.52 of the Listing Rules and is required for the nature of the transactions, and whether it is normal business practice for contracts of this type to be of such duration.

A circular containing, among other things, (i) details about the VIE Structure, (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and (iv) the notice convening the SGM will be despatched to the Shareholders on or before 25 October 2018.

INTRODUCTION

On 4 October 2018 (after trading hours), the WFOE entered into the VIE Agreements with the OPCO and the PRC Equity Owners. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO.

VIE AGREEMENTS

A summary of the terms of the VIE Agreements is set out below:

(1) The Exclusive Business Co-operation Agreement

- Parties:
- (a) the WFOE;
 - (b) the OPCO;
 - (c) Chun'an Huaying; and
 - (d) Kaihua Huijin
- Term:
- Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated (i) by the WFOE at any time with thirty (30) days advance written notice to the OPCO; or (ii) upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO to the WFOE or such individuals/entities as designated by the WFOE pursuant to the Exclusive Purchase Right Agreement. The OPCO shall have no right to terminate this agreement.
- Subject:
- The OPCO shall engage the WFOE on an exclusive basis to provide the following technical support, consulting services and other services:
- (i) Granting the OPCO the right to use the intellectual property of the WFOE and its subsidiaries (if any), including but not limited to software licence and trademark licence;
 - (ii) Research and development, maintenance and update of software used by the OPCO for the purpose of its principal business;
 - (iii) Design, installation and maintenance of internet network system, databases and servers used by the OPCO for the purpose of its principal business;
 - (iv) Technical training and support for employees of the OPCO;
 - (v) Market research and marketing strategies;
 - (vi) Management and business strategy of the OPCO;
 - (vii) Leasing office equipment and other operation equipment; and
 - (viii) Other related services as agreed by the WFOE and the OPCO.

Fee: For the services provided by the WFOE under the Exclusive Business Co-operation Agreement, the OPCO shall pay, on a monthly basis, to the WFOE a service fee that is determined at the sole discretion of the WFOE, having taking into account the following considerations:

- (i) the complexity and difficulty of the services provided by the WFOE;
- (ii) the manpower provided by the WFOE for the provision of service;
- (iii) the actual services and the commercial value of the services provided by the WFOE;
- (iv) the prevailing market rates for the same type of services; and
- (v) the operating condition of the OPCO (such that the OPCO would not be in financial difficulty after the payment of the service fee).

(2) The Exclusive Purchase Right Agreement

Parties: (a) the WFOE;
(b) the PRC Equity Owners; and
(c) the OPCO

Term: Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated (i) by the WFOE at any time with thirty (30) days advance written notice to the OPCO; or (ii) upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO to the WFOE or such individuals/entities as designated by the WFOE pursuant to this agreement. The OPCO and the PRC Equity Owners shall have no right to terminate this agreement.

Subject: The PRC Equity Owners irrevocably grant the WFOE an exclusive right, at any time and from time to time, to purchase or nominate any individuals/entities to purchase all or part of their equity interests in the OPCO at the lowest price permissible (the “**Permissible Minimum**”) under the PRC Laws.

The OPCO irrevocably grant the WFOE an exclusive right to purchase or nominate any individuals/entities to purchase all or part of its assets at the lowest price permissible under the PRC Laws.

The PRC Equity Owners shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of their equity interests in the OPCO, or granting others a right to purchase such equity interests (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE, and shall procure to the above effect at the shareholders' meetings and the meetings of the board of directors.

The OPCO shall be prohibited from selling, transferring, pledging or otherwise disposing of all or part of its assets, or granting others a right to purchase such assets (except as provided in the Equity Pledge Agreement and Authorisation Agreement), without the prior written consent from the WFOE.

Where the purchase price is required by the relevant PRC Laws to be an amount other than a nil consideration, the PRC Equity Owners shall return the amount of purchase price they have received to the WFOE.

The WFOE have the sole discretion to decide when to exercise the purchase right, and whether to exercise the purchase right in part or in full. The key factor for WFOE to decide whether to exercise the purchase right is whether the current regulatory restrictions on foreign investment in the profitable internet information service business are removed in the future.

Undertakings and covenants:

The PRC Equity Owners and the OPCO jointly and severally agree and undertake that, without the prior written consent from the WFOE, the OPCO would not (and the PRC Equity Owners would not procure the OPCO to) enter into any transaction that may affect the OPCO's assets, obligations, business or operations, including but not limited to the following:

- (i) Conducting business beyond the usual and normal scope or inconsistent with past practice of the OPCO;
- (ii) Conducting merger, consolidation, acquisition or restructuring of the OPCO's main business or assets, or otherwise any kind of acquisition or investment;

- (iii) Providing loan to any third party or incurring any liability from any third party which is not within the usual and normal scope of business of the OPCO;
- (iv) Appointing, re-designating or dismissing any director, general manager, chief financial officer or any other senior management of the OPCO;
- (v) Selling, acquiring, mortgaging, licensing or otherwise disposing of any tangible or intangible assets of the OPCO outside its usual and normal scope of business;
- (vi) Incurring, inheriting, assuming or providing guarantee for any liability that is not within the OPCO's usual and normal scope of business, and providing any form of guarantee in favour of any third party with its assets or creating any other encumbrance on any of its assets;
- (vii) Supplementing or modifying the articles of association of the OPCO, increasing or decreasing the OPCO's registered capital or otherwise changing the OPCO's registered capital structure;
- (viii) Adjusting the OPCO's business model, marketing strategy, operation guidelines or customer relationship;
- (ix) Changing the OPCO's normal operating procedure or modifying its internal rules or guidance;
- (x) Distributing dividends or equity entitlements unless with written request from WFOE. After such distribution, the PRC Equity Owners shall within three business days inform the WFOE of such distribution and transfer all such dividends or equity entitlements to the WFOE at nil consideration;
- (xi) Entering into any material agreements (it is at the WFOE's discretion to determine what constitute "material agreements" and any agreements involving an amount of RMB100,000 or above will be deemed as material agreements);
- (xii) Selling, transferring, securing or otherwise disposing of the OPCO's business or income;

- (xiii) Dissolving or liquidating the OPCO and distributing its remaining assets; or
- (xiv) Procuring any OPCO's subsidiary or associated company to enter into any above-mentioned transaction or agreement, or executing other document that may result in the above-mentioned transaction.

In addition, the OPCO agrees and covenants to the WFOE that it shall, and the PRC Equity Owners shall procure the OPCO to:

- (i) Unconditionally accept proposals raised by the WFOE, including but not limited to the engagement and replacement of employees, daily operations, dividend distribution and financial management systems of the OPCO and the OPCO shall strictly abide by and perform accordingly;
- (ii) Unconditionally transfer the business licence, company's seal and other important documents of the OPCO to the directors designated by the WFOE;
- (iii) Maintain the OPCO's corporate existence in accordance with good financial and business standards and usual practices by prudently and effectively operating its business and handling its affairs;
- (iv) Conducting the OPCO's business in the ordinary course of business to maintain the asset value of the OPCO and refraining from any act or omission that may adversely affect the OPCO's operation and asset value;
- (v) WFOE is entitled to inspect the OPCO's accounts regularly and at any time, and at the WFOE's request, providing the WFOE with relevant information, providing information regarding the OPCO's operation, business, customers, finance, staffing, etc for the WFOE, its auditors and/or other professionals for any audit and due diligence exercise, and allowing the WFOE and its shareholders to disclose such information in accordance with relevant securities regulations;

- (vi) If requested by the WFOE, purchase and maintain insurance in respect of the OPCO's assets and business from an insurer acceptable to the WFOE, at an amount and type of coverage which are typical for companies that operate similar business;
- (vii) If requested by the WFOE in writing, pledge all receivables and all other assets as security for performing its obligations to pay the services fees under the Exclusive Consultancy Services Agreement;
- (viii) Immediately notify the WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the OPCO's assets, business or revenue;
- (ix) Immediately notify the WFOE of the occurrence or possible occurrence of any circumstances which may have a material adverse effect on the OPCO's business and operations, and try its best to avoid such circumstances and/or mitigate the loss arising thereof; and
- (x) Executing all necessary or appropriate documents, taking all necessary or appropriate actions, and filing all necessary or appropriate complaints or raising necessary and appropriate defences against all claims so as to maintain OPCO's ownership of all its assets.

(3) The Loan Agreement

Parties: (a) the WFOE (as lender);
 (b) the PRC Equity Owners (each as one of the borrowers); and
 (c) the OPCO

Principal: The WFOE shall provide a non-interest bearing loan in an aggregate amount of RMB6,540,000, which represents the approximate net asset value of the OPCO Group as at 31 August 2018, to the PRC Equity Owners pro rata to their shareholdings in the OPCO. The Loan may be freely used by the PRC Equity Owners.

Term: Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO to the WFOE or such individuals/entities as designated by the WFOE pursuant to the Exclusive Purchase Right Agreement. The Loan is for an infinite term until termination at the sole discretion of the WFOE. The loan will become due and payable upon the WFOE's demand under any of the following circumstances:

- (i) the winding-up or liquidation of the OPCO;
- (ii) the dissolution of the OPCO;
- (iii) the OPCO or the PRC Equity Owners becoming insolvent or incurring any other significant personal debt which may affect the ability of the OPCO to repay the loan under the Loan Agreement, or
- (iv) the WFOE exercising its right to purchase all shares in the OPCO to the extent permitted by PRC Laws.

(4) The Equity Pledge Agreement

Parties: (i) the WFOE (as pledgee);
(ii) the PRC Equity Owners (as pledgors); and
(iii) the OPCO

Term: Effective upon execution and shall remain binding until (i) the PRC Equity Owners discharge all their obligations under the Prime Agreements in full; and (ii) the Secured Obligations are discharged in full.

Subject: The PRC Equity Owners agree to pledge all of their shares in the OPCO to the WFOE to secure the performance of all their obligations and the obligations of the OPCO under the VIE Agreements.

Any dividend and/or other distribution generated by the pledged equity interests during the term of the pledge shall be returned to the WFOE.

(5) The Authorisation Agreement

- Parties: (a) the WFOE;
(b) the PRC Equity Owners; and
(c) the OPCO
- Term: Effective upon execution and shall remain in effect until the WFOE terminates the Authorisation Agreement in writing, or all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO have been legally transferred to the WFOE or such individuals/entities as designated by the WFOE.
- Subject: Each of the PRC Equity Owners unconditionally and irrevocably authorises the WFOE or its successor (who may further delegate such rights to other individuals) to exercise all of their rights as shareholders of the OPCO under PRC Laws, including but not limited to:
- (i) Convening, attending and participating shareholders' meetings of the OPCO, receiving relevant notice or document relating to the shareholders' meetings;
 - (ii) Discussing and voting in shareholders' meetings of the OPCO;
 - (iii) Signing and delivering any written resolutions and minutes of shareholders' meetings of the OPCO and any other documents required to be signed by the shareholders of the OPCO, and submitting documents with relevant companies registry for filing purpose;
 - (iv) Selling, transferring, securing or disposing of the shares in the OPCO;
 - (v) Approving the register of new shareholders or the withdrawal of existing shareholders of the OPCO;
 - (vi) Directing directors and the legal representative of the OPCO to perform as requested;
 - (vii) Supervising the economic performance of the OPCO;
 - (viii) Exercising full usage right of the OPCO's financial information;

- (ix) Instituting any legal proceedings or taking any legal action against the OPCO's directors or shareholders who act against the interest of the OPCO and its shareholders;
- (x) Approving annual budget;
- (xi) Managing or disposing of the assets of the OPCO;
- (xii) Exercising full rights to control and manage the finance, accounting and daily operation of the OPCO;
- (xiii) Approving any documents that have to be submitted to the relevant government departments or supervising authorities for filing purpose; and
- (xiv) Exercising all other shareholders' rights under laws and regulations and articles of association of the OPCO.

The PRC Equity Owners irrevocably undertake that:

- (i) Unless with written consent from the WFOE, they will neither, directly or indirectly, participate or engage in any business which is or may be in competition with the business of the OPCO or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any conflict of interests between themselves and the WFOE;
- (ii) None of their actions or omissions will give rise to conflict of interests between themselves and the WFOE (including the shareholders of the WFOE); and
- (iii) In the event of any conflict of interests between them and the WFOE, which shall be decided at the sole discretion of the WFOE, they will take any actions as instructed by the WFOE to eliminate such conflict provided that such action is compliant with PRC Laws.

(6) The Spousal Consent Letter

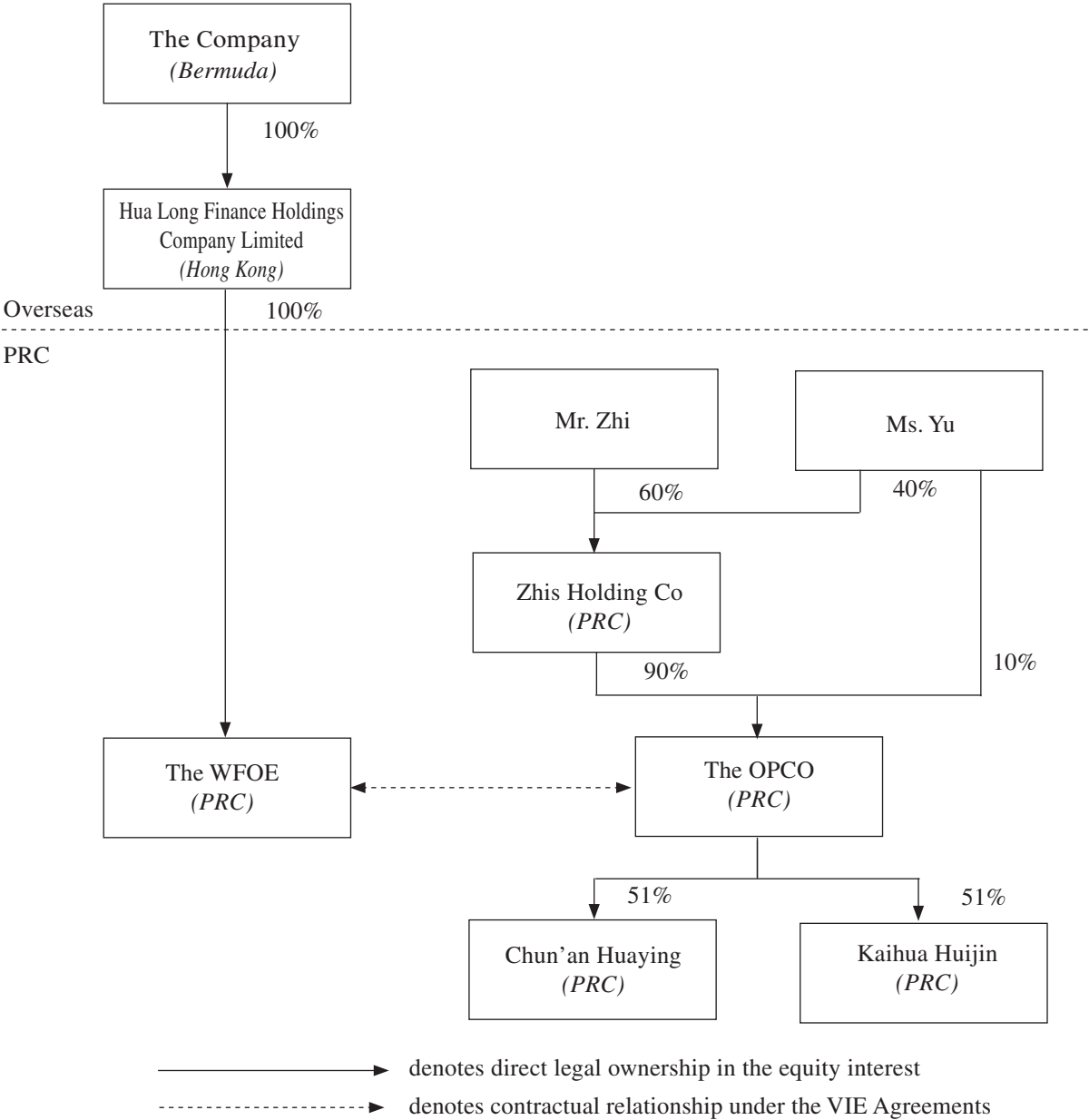
Party: The spouse of Ms. Yu, one of the PRC Equity Owners

Subject: The spouse of the individual PRC Equity Owner irrevocably agrees that:

- (i) All the equity interests held by the PRC Equity Owners in the OPCO and all the benefits generated from these equity interests do not form part of their matrimonial property;
- (ii) He/she unconditionally and irrevocably waives any rights or entitlements to the equity interests of the OPCO;
- (iii) All the benefits generated from the equity interests in the OPCO belong to the PRC Equity Owners and can be dealt with in any way by the PRC Equity Owners without the consent of their spouses;
- (iv) He/she shall be bound by the relevant VIE Agreements in the event that they obtain any equity interest in the OPCO held by the PRC Equity Owners for any reason;
- (v) He/she shall not take any action with the intent to interfere with the contractual arrangements, including making any claim that will give rise to hindrance over the performance by the shareholder spouse's obligations under the VIE Agreements; and
- (vi) He/she, his/her successor, guardian, creditor, spouse or any other person that may be entitled to assume rights in the equity interests of the OPCO held by him/she upon his/her death, incapacity, divorce or any circumstances that may affect his/her ability to exercise his/her shareholder's rights in the OPCO, will not, in any manner and in any circumstances, carry out any act that may affect or hinder the fulfilment of the shareholder spouse's obligations under the VIE Agreements.

DIAGRAM OF THE VIE STRUCTURE

The following diagram sets out the VIE Structure:



Information about the WFOE and the OPCO Group

The WFOE

The WFOE is a limited liability company established in the PRC on 13 December 2017 and an indirect wholly-owned subsidiary of the Company. It mainly engages in the business of assets management.

The OPCO Group

The OPCO is a limited liability company established in the PRC on 3 November 2014. The Group does not directly own any equity interest in the OPCO, which is currently held by Zhis Holding Co and Ms. Yu as to 90% and 10%, respectively, whereas Zhis Holding Co is currently held by Mr. Zhi and Ms. Yu as to 60% and 40%, respectively. The OPCO is primarily engaged in the P2P Financing business and operated as an online lending information intermediary institution (the “**P2P Financing Information Business**”). As advised by the PRC Legal Adviser and set out below, the OPCO has obtained ICP Licence (as defined below) under applicable laws and regulations in the PRC to operate the P2P Financing Information Business.

Chun’an Huaying is a limited liability company established in the PRC on 24 December 2015. The Group does not directly own any equity interest in Chun’an Huaying, which is currently held by the OPCO and Feng Xiaoshuang (豐曉霜), an Independent Third Party, as to 51% and 49%, respectively. Chun’an Huaying is primarily engaged in the provision of financial information service.

Kaihua Huijin is a limited liability company established in the PRC on 17 December 2015. The Group does not directly own any equity interest in Kaihua Huijin, which is currently held by the OPCO and two Independent Third Parties, namely, Teng Hui (滕輝) and Jiang Mei (江梅), as to 51%, 39% and 10%, respectively. Kaihua Huijin is primarily engaged in the provision of financial information technology subcontracting services.

Set out below is the financial information of the OPCO Group extracted from its audited financial statements for the two years ended 31 December 2016 and 2017 and its unaudited financial statements for the eight months ended 31 August 2018:

	For the year ended		For the
	31 December		eight months
	2016	2017	ended
	(audited)	(audited)	31 August
	(RMB’000)	(RMB’000)	2018
			(unaudited)
			(RMB’000)
Revenue	10,449	21,352	10,414
Net profit before tax	(401)	851	(984)
Net profit after tax	(401)	(365)	(2,036)
Net asset	8,037	7,672	6,545

BACKGROUND AND REASONS FOR USE OF THE VIE STRUCTURE

Background

The Group is principally engaged in (i) the garment sourcing business and (ii) provision of financial services which include, among others, asset management, finance lease, pawn, and money lending business. The Board considers that the demand for financial services is significant and the industry is vibrant in the PRC and Hong Kong hence the financial services business segment will provide a good opportunity for the Group to diversify its existing business portfolio, broaden its source of income, and enhance value to the Shareholders, which is expected to benefit the Company and the Shareholders as a whole.

With the booming of the Fintech market, the Group sees the opportunities and intends to become one of the pioneers entering into the P2P Financing industry. The Directors consider that the P2P Financing Information Business would provide an opportunity for the Group to explore the possibility of the P2P Financing industry as well as to deepen the reach of the Group in the financial services business segment. The Directors are of the view that P2P Financing is a business with growth potential, and as Internet securities continue to improve in recent years, financial products transacted over the Internet will continue to gain popularity due to the convenience and privacy it provides. The Directors believed that the relevant experience in the money lending industry of the Group can promote synergies to the P2P Financing Information Business of the OPCO Group.

However, as outlined below, since the relevant business is classified as restricted foreign investment under the applicable PRC Laws and there is no clear guidance on or interpretation of any applicable Qualification Requirements (as defined below), the Group cannot hold any direct interest in the OPCO, which currently holds and will hold certain licences and permits required for the provision of the “profitable internet information services”.

Laws and regulations relating to the profitable internet information services in the PRC

The following is a summary of the principal laws and regulations that govern the profitable internet information services in the PRC.

Pursuant to the Notice of the General Office of the Ministry of Commerce on the Relevant Issues concerning the Examination, Approval and Administration of Projects of Foreign Investment in Internet and Vending Machine Sales (商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知) (the “**Notice**”) issued by the MOFCOM in August 2010, foreign-invested enterprises directly engaging in the sales of its own products with its online platform have to report to the relevant authorities for record, while foreign-invested enterprises providing online services for other parties with its online platform have to apply for the ICP Licence from the relevant authorities.

The Administrative Measures on Internet Information Services* (互聯網信息服務管理辦法) (the “**Measures**”) issued by PRC State Council on 25 September 2000 and amended on 8 January 2011 regulates the provision of internet information services. Under the Measures, profitable internet information service providers must obtain the value-added telecommunications business operation licence* (互聯網信息服務增值電信業務經營許可證), the ICP Licence, from the relevant authorities before engaging in the provision of profitable internet information services in the PRC.

According to the Catalogue of Telecommunications Business (2015)* (電信業務分類目錄 (2015年版)), the information service business* (信息服務業務) falls under the category of “value-added telecommunications business”* (增值電信業務) and is regarded as a “restricted” business according to the Guiding Catalogue of Industries for Foreign Investment (2017 Amended)* (外商投資產業指導目錄 (2017年修訂)) in which it provides that value-added telecommunications business (other than the e-commerce) is restricted for foreign investors. The foreign ownership in such business cannot exceed 50%. Accordingly, the WFOE is not eligible to apply for the ICP Licence for the value-added telecommunications business (other than the e-commerce).

According to the Regulations on the Administration of Foreign-invested Telecommunication Enterprises (2016 Amended)* (外商投資電信企業管理規定 (2016年修訂)), which were promulgated by the PRC State Council on 11 December 2001 and amended on 10 September 2008 and on 6 February 2016 respectively, (i) the ratio of investment by a foreign investor in a company providing value-added telecommunications services shall not exceed 50%, and (ii) a foreign investor who invests in a value-added telecommunications services company shall have a good track record and experience in providing value-added telecommunications business (the “**Qualification Requirement**”) in the PRC. Currently, no clear guidance as to the interpretation of the Qualification Requirement has been issued.

The Circular regarding Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business* (信息產業部關於加強外商投資經營增值電信業務管理的通知) (the “**Circular**”) issued by the PRC Ministry of Information Industry* (中華人民共和國信息產業部) on 13 July 2006 reiterates the regulations on foreign investment in telecommunications business. Under the Circular, a foreign investor who wishes to conduct any value-added telecommunications business in the PRC must first set up a foreign-invested enterprise and obtain an ICP Licence. The Circular further provides that a domestic company holding an ICP Licence is prohibited from leasing, transferring or selling the licence to foreign investors in any form, and providing any assistance to foreign investors for illegal operation of telecommunications business in the PRC.

Reasons for adopting the VIE Structure

First, the primary purpose for the Group to adopt the VIE Structure is to enable the Group to provide the profitable internet information service* (經營性互聯網信息服務) indirectly through the OPCO, thereby deepening the Group’s reach to the business

segment of financial services as well as widening the Group's customer base to cover the P2P Financing customers in the PRC. However, due to the foreign ownership restrictions under the PRC Laws as outlined above, the Group was not able to engage in the profitable internet information service directly without first adopting the VIE Structure.

In order to comply with the PRC Laws, the VIE Agreements were entered into among the WFOE, the OPCO and the PRC Equity Owners. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership.

The Company has discussed with its auditor and confirms that the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group under the prevailing accounting principles upon entering into the VIE Agreements.

On the basis of the aforesaid confirmation and pursuant to Rule 1.01 of the Listing Rules, the Company further confirms that the OPCO will be a wholly-owned subsidiary of the Company.

Secondly, in view of the need to meet the fast-growing demand for the P2P Financial business and to obtain the ICP Licence for the operation of the P2P Financing Information Business, the Company is of the view that it would be the most viable and commercial sensible approach to have effective control over the OPCO through the VIE Structure as well due to various reasons as explained below:

- (a) It would be most feasible for the OPCO to operate the P2P Financing Information Business taking into account that (i) the OPCO has obtained the requisite ICP Licence for the operation of the P2P Financing Information Business; and (ii) the OPCO currently owns the domain name for the operation of the P2P Financing Information Business.
- (b) Due to the lack of clear guidance or interpretation on the aforesaid Qualification Requirement, it would be difficult and uncertain for the Group to obtain the ICP Licence through holding equity interests (whether directly or indirectly) in a foreign-invested enterprise in the PRC, and hence there will be a prolonged process of application with unknown results, which would cause extra costs for the Group. Therefore, there exists great difficulty and uncertainty for a foreign-invested enterprise to obtain the ICP Licence from the relevant authority in the PRC. Adopting the VIE Structure can reduce the time and costs for obtaining the ICP Licence and allow the Group to accumulate the relevant experience to meet the Qualification Requirement, and therefore is in the interests of the Company and the Shareholders as a whole. Taking into account of the above, in order not to interrupt the daily operations of the Platform, the Group has to adopt the VIE Structure to control the entire equity interests of the OPCO.

COMPLIANCE OF VIE AGREEMENTS WITH PRC LAWS, RULES AND REGULATIONS

As advised by the PRC Legal Adviser, the VIE Agreements do not violate any PRC Laws, rules and regulations applicable to the business of the OPCO and would not be deemed as “concealing illegal intentions with a lawful form” and void under the PRC Contract Law* (中華人民共和國合同法). The VIE Agreements entered into by the WFOE, the OPCO and the PRC Equity Owners are legally binding on each party in accordance with their terms and provisions under the PRC Laws except certain terms of the VIE Agreements as set out in the paragraph headed “Risk factors in relation to the VIE Agreements – Certain terms of the VIE Agreements may not be enforceable under PRC Laws” below.

DISPUTES RESOLUTIONS, SUCCESSION AND LIQUIDATION UNDER THE VIE AGREEMENTS

Dispute Resolutions

The VIE Agreements are governed by and will be constructed in accordance with the PRC Laws. Any dispute arising from the VIE Agreements between the parties should first be resolved through negotiation. In case the dispute cannot be resolved within 30 days, any party may submit the said dispute to China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) in accordance with its arbitration rules. The arbitrators may award remedies over the equity interest or assets of the OPCO, injunctive relief (e.g. mandatory transfer of assets) and/or winding up of the OPCO. The results of the arbitration shall be final and binding. In addition, the VIE Agreements contain provisions to the effect that parties may seek interim remedies from any courts of competent jurisdiction. When the arbitral award is granted, any party can apply for its enforcement in any courts of competent jurisdiction such as courts in Hong Kong, Bermuda, the PRC and locations where the principal assets of the Company or the OPCO are located.

Succession

The provisions set out in the VIE Agreements are also binding on the successors of the PRC Equity Owners, as if the successor were a signing party to the VIE Agreements. Although the VIE Agreements do not specify the identity of successors to such PRC Equity Owners, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the VIE Agreements.

In addition, the spouse of the individual PRC Equity Owner has made certain consents, confirmations and the undertakings, details of which are set out in the paragraph headed “VIE Agreements – (6) The Spousal Consent Letter” in this announcement.

Liquidation

Pursuant to the Exclusive Purchase Right Agreement, when the WFOE exercises its right to dissolve and liquidate the OPCO, if the PRC Equity Owners receive any residual assets and proceeds upon dissolution or liquidation, they shall return such residual assets and proceeds to the WFOE at nil consideration.

Conflict of interests

The Company confirms that appropriate arrangements have been made to address the potential conflict of interests between the PRC Equity Owners and the Group. Each of the PRC Equity Owners has made certain consents, confirmations and the undertakings, details of which are set out in the paragraph headed “VIE Agreements – (5) The Authorisation Agreement” in this announcement.

In addition, the Authorisation Agreement provides that (i) the PRC Equity Owners will not act in collusion with the persons authorised by the WFOE, against the interest of the WFOE; and (ii) the authorisations will only be granted to the Directors or officers of the Company who are unrelated to the PRC Equity Owners and Mr. Zhi to avoid any conflict of interests.

INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP

The VIE Agreements contained certain provisions in order to exercise effective control over and to safeguard the assets of the OPCO.

In addition to the internal control measures as provided in the VIE Agreements, it is the intention of the Company, through the WFOE to adopt additional internal control measures against the OPCO as appropriate, having regard to the internal control measures to be adopted by the Group from time to time, which may include but not limited to:

Management controls

- (a) the Group will appoint an executive Director or senior management (the “**Representative**”) to the board of the OPCO mainly responsible for exercising all management controls of the OPCO. The Representative is required to conduct monthly reviews on the operations of the OPCO and shall submit the monthly reviews to the Board. The Representative is also required to check the authenticity of the monthly management accounts of the OPCO;
- (b) the Representative shall station at the OPCO and shall be actively involved in various aspects of the daily managerial and operational activities of the OPCO;

- (c) the Representative shall report any major events of the OPCO to the chief financial officer of the Company (the “CFO”), who must in turn report to the Board through the secretary of the Company (the “Company Secretary”);
- (d) the CFO shall conduct regular site visits to the OPCO and conduct personnel interviews quarterly and submit reports to the Board; and
- (e) all seals, chops, incorporation documents and all other legal documents, to the extent permitted by the PRC law, of the OPCO must be kept at the office of the WFOE.

Financial controls

- (a) the CFO shall collect monthly management accounts, bank statements and cash balances and major operational data of the OPCO within 15 days after each month end for review. The financial team of the Company will seek explanations from the senior management of the OPCO on any material fluctuations of the aforesaid collected items. Upon discovery of any suspicious matters, the CFO must report to the Board through the Company Secretary;
- (b) if the payment of the services fees by the OPCO to WFOE is delayed, the CFO must meet with the PRC Equity Owners of the OPCO to investigate, and should report any suspicious matters to the Board through the Company Secretary. In extreme cases, the PRC Equity Owners of the OPCO will be removed and replaced.
- (c) the OPCO must submit copies of latest bank statements for every bank accounts of the OPCO within 15 days after the end of each month; and
- (d) the OPCO must assist and facilitate the Company to conduct all on-site internal audits if required by the Company.

Legal review

- (a) the Representative will consult the Company’s PRC legal adviser from time to time to check if there are any legal developments in the PRC affecting the arrangement contemplated under the VIE Agreements, and should immediately report to the Board so as to allow the Board to determine if any modification or amendment are required to be made;
- (b) as part of the internal control measures, major issues arising from implementation and performance of the VIE Agreements will be reviewed by the Board on a regular basis which will be no less frequent than on a quarterly basis. The Board will determine, as part of its periodic review process, whether legal advisors and/or other professionals will need to be retained to assist the Group to deal with specific issues arising from the VIE Agreements;

- (c) matters relating to compliance and regulatory enquiries from governmental authorities, if any, will be discussed by the Board on a regular basis which will be no less frequent than on a quarterly basis;
- (d) the relevant business units and operation divisions of the Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of the Company on the compliance and performance conditions under the VIE Agreements and other related matters; and
- (e) the Company shall comply with the conditions prescribed under the waiver granted by the Stock Exchange in connection with the continuing connected transactions contemplated under the VIE Agreements.

THE BOARD'S VIEW ON THE VIE AGREEMENTS

Based on the above, the Board is of the view that the VIE Agreements are narrowly tailored to achieve the OPCO's business purpose and to minimise the potential conflicts with and are enforceable under the relevant PRC Laws. The VIE Agreements enable the WFOE to gain control over the OPCO and to be entitled to the economic interests and benefits of the OPCO. Pursuant to the relevant provisions of the VIE Agreements, the WFOE has the right to unwind the VIE Agreements as soon as the relevant PRC Laws allow the WFOE to register itself as the shareholder of the OPCO. The Directors further believe that save as disclosed, the VIE Agreements are enforceable under the relevant PRC Laws, and that the VIE Agreements will provide a mechanism that enables the WFOE to exercise effective control over the OPCO. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the date of the announcement, the OPCO has not encountered any interference or encumbrance from any governing bodies in operating its business.

APPLICATION FOR WAIVER

The Company has applied for a waiver pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the VIE Agreements for a period of not exceeding three years pursuant to Rule 14A.52 of the Listing Rules; and (ii) setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to the WFOE and the amount of loans to be made available by the WFOE to the PRC Equity Owners under the relevant VIE Agreements. The aforesaid waiver is still under process as at the date of this announcement. Further announcement as to the waiver application will be made by the Company in accordance with the applicable rules and regulations as and when appropriate.

RISK FACTORS IN RELATION TO THE VIE AGREEMENTS

There is no assurance that the VIE Agreements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the VIE Agreements do not comply with applicable regulations

Despite there is currently no indication that the VIE Agreements will be interfered or objected by any PRC regulatory authorities, the PRC Legal Adviser has advised that there is a possibility that the relevant PRC regulatory authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the VIE Agreements comply with the current PRC Laws or those that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the VIE Agreements.

Background of the Draft Foreign Investment Law

On 19 January 2015, the MOFCOM published the draft PRC Foreign Investment Law* (中華人民共和國外國投資法(草案徵求意見稿)) and the Explanation on the draft PRC Foreign Investment Law* (關於《中華人民共和國外國投資法(草案徵求意見稿)》的說明) (collectively, the “**Draft Law**”), which contain changes to the PRC foreign investment legal regime and the treatment of the VIE arrangement. The Draft Law clearly defines the VIE arrangement as a form of foreign investment. When the Draft Law is adopted, the PRC Foreign Investment Law* (中華人民共和國外國投資法) shall apply to investments using the VIE arrangements and may have a material impact on the PRC foreign investment legal regime.

There is no concrete guidance on how the existing and new VIE arrangements should be treated in the Draft Law. For investments using the VIE arrangements which exist before the Draft Law is adopted and becomes law, if the underlying businesses are still being categorised as prohibited or restricted foreign investment businesses after the Draft Law is adopted and becomes law, there are three suggested available alternatives (the “**Suggested Alternatives**”) in dealing with such VIE arrangements pursuant to the Draft Law:

- (a) the foreign investment enterprise under the VIE arrangement shall declare to the foreign investment authority under the State Council of the PRC that it is effectively controlled by PRC investors. After such declaration, the VIE arrangement can be retained and the relevant parties can continue the operation;

- (b) the foreign investment enterprise under the VIE arrangement shall file an application with the foreign investment authority under the State Council of the PRC for being recognised as a party under the effective control of PRC investors. If the foreign investment authority recognises it as being effectively controlled by PRC investors, the VIE arrangement can be retained and the relevant parties can continue the operation; or
- (c) the foreign investment enterprise under the VIE arrangement shall apply for entry permit from the foreign investment authority under the State Council of the PRC, and the foreign investment authority and relevant authorities will consider factors including the actual controller of the foreign investment enterprise and make a decision on how the relevant VIE arrangement should be handled.

For the purpose of the Draft Law, “control” refers to the circumstances that any of the following conditions is met with respect to an enterprise: (i) holding, directly or indirectly, not less than 50% of shares, equities, share of properties, voting rights or other similar rights of the enterprise; (ii) 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: (a) 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; (b) 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 (c) holding voting rights sufficient to impose significant impacts on any resolution of the meetings of shareholders, at the general meeting of shareholders, or of the board of directors or other decision-making body of the enterprise; or (iii) imposing decisive impacts on the operation, finance, personnel or technology of the enterprise by contract, trust, or other means. For the purpose of the Draft Law, “actual controllers” refer to natural persons or enterprises that directly or indirectly control any foreign investor or foreign-invested enterprise.

As defined in the Draft Law, “PRC investors” refer to the following subjects: (i) natural persons with PRC nationality; (ii) the PRC government and the departments or agencies there under; or (iii) domestic enterprises under the control of the subjects as mentioned in the preceding two categories. Meanwhile, “foreign investors” refer to the following subjects making investments within the territory of the PRC: (i) natural persons without the PRC nationality; (ii) enterprises incorporated under the laws of countries or regions other than the PRC; (iii) the governments of countries or regions other than the PRC and the departments or agencies thereunder; or (iv) international organisations. Domestic enterprises under the control of foreign investors as mentioned in the preceding sentence are deemed as foreign investors.

The Potential Impact of the Draft Law on the Company

Assuming the Draft Law is adopted and becomes law and one of the Suggested Alternatives is adopted by the PRC government, in the event that the business of value-added communications still falls within the restricted or prohibited lists of the final foreign investment law (the “**FIL**”), the Group will have to:

- (a) report to the competent authorities if the reporting regime is finally adopted. The existing VIE structure will be permitted to continue following reporting to the MOFCOM that the VIE structure is ultimately controlled by a PRC investor. However, the Draft Law has not mentioned how to deal with the existing VIE structures ultimately controlled by a foreign investor and whether the relevant entity could continue its business operations under the reporting regime;
- (b) obtain recognition from the competent authorities if the recognition regime is finally adopted. The existing VIE structure will be permitted to continue following recognition, on the application of the investor, by the MOFCOM of the VIE structure being ultimately controlled by a PRC investor. However, the Draft Law has not mentioned how to deal with the existing VIE structure ultimately controlled by a foreign investor and whether the relevant entity could continue its business operations under the recognition regime; or
- (c) obtain entry permit from the competent authorities if the entry permit regime is finally adopted. The existing VIE structure will be permitted to continue following the entry permit is granted by the MOFCOM after taking into account a number of considerations including, without limitation, the identity (whether PRC investor or foreign investor) of the ultimate control person.

There is no guarantee that the Group will be able to obtain such recognition or entry permit. If the Group is unable to obtain such recognition or entry permit, the Group may be required to terminate the VIE Agreements and dispose of the business carried out by the OPCO Group. As a result, the Group will lose control over the OPCO, which could negatively affect the Group’s ability to conduct its business. In the event that the Company no longer has a sustainable business after such disposal, the Stock Exchange may delist the Company.

According to the PRC Legal Adviser, the Draft Law has not yet been effective or legally binding. As there are uncertainties on the final content and interpretations of the Draft Law, there is no assurance that the VIE Agreements will comply with the Draft Law when it is adopted and becomes law. If the PRC government finds that the VIE Agreements do not comply with PRC laws and regulations, or if these laws and regulations or their interpretations change in the future, the Company could be subject to severe penalties or be forced to relinquish its interests received through the VIE Agreements.

Measures adopted by the Company to mitigate against any potential risk arising from the FIL

The Draft Law was circulated in January 2015 for comments and there has been no indication as to when it will be promulgated and come into effect and it does not contain a concrete guidance to deal with the existing VIE structures. Also, the Draft Law is currently in draft form only and remains subject to changes. As such, as advised by the PRC Legal Adviser, the Board will closely monitor the development of the Draft Law and if there is any development, they will discuss with the Company's PRC legal adviser in order to assess any possible impact arising from the change of the Draft Law or the FIL on the VIE Agreements and the business operation of the Group. In case there would be material and adverse effect on the Group or the business of the OPCO Group arising from the Draft Law or the FIL, the Company will timely announce (i) any updates or material changes to the Draft Law; (ii) in the event that the FIL has been promulgated, a clear description and analysis of the law, specific measures taken by the Company to be in compliance with the FIL with the support of a PRC legal opinion; and (iii) any material impact of the FIL on the Company's operations and financial position. However, since the Draft Law has not been finalized and requirements under the FIL may be difference from those set out in the Draft Law, the above-mentioned measures may not be effective.

Current Status of promulgation of the Draft Law

According to the PRC Legal Adviser, the Draft Law was circulated for comment and has not been legislated by the relevant authority. As the Draft Law is currently in draft form only, it is uncertain whether or when the Draft Law will be promulgated and come into effect, and if so, whether it is to be promulgated in the current draft form after it undergoes through further enactment process. MOFCOM and the State Council of the PRC may amend the Draft Law in light of any feedbacks or comments at the drafting stage. It may be further amended after being tabled if comments are raised by the Standing Committee of the National People's Congress or the National People's Congress. Furthermore, MOFCOM has not issued any definite rule or regulation to govern existing contractual arrangements.

The VIE Agreements may not be as effective as direct ownership in providing control over the OPCO

The Group relies on the contractual arrangement under the VIE Agreements to operate the business of the OPCO. Such contractual arrangement may not be as effective in providing the WFOE with control over the OPCO as direct ownership. If the WFOE has direct ownership of the OPCO, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of the OPCO, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the VIE Agreements, the Group relies on the performance by the PRC Equity Owners of their obligations under the VIE Agreements to exercise control over the OPCO. Therefore, the VIE Agreements with the PRC Equity Owners may not be as effective in ensuring the WFOE's control over the OPCO as direct ownership would be.

The PRC Equity Owners may potentially have a conflict of interests with the Group

The Group's control over the OPCO is based on the contractual arrangement under the VIE Agreements. Therefore, conflict of interests of the PRC Equity Owners will adversely affect the interests of the Company. Pursuant to the Authorisation Agreement, the PRC Equity Owners will irrevocably appoint any PRC nationals as designated by the WFOE as their representative to exercise the voting rights of the shareholders of the OPCO. Therefore, it is unlikely that there will be potential conflict of interests between the Company and the PRC Equity Owners. However, in the unlikely event that conflict of interests arises and cannot be resolved, the Company will consider removing and replacing the PRC Equity Owners.

The contractual arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed

The Group could face material adverse tax consequences if the PRC tax authorities determine that the arrangements under the VIE Agreements were not entered into based on arm's length negotiations. If the PRC tax authorities determine that these agreements were not entered into on an arm's length basis, they may adjust income and expenses of the WFOE and/or the OPCO for PRC tax purposes, which could result in higher tax liabilities on the WFOE and/or the OPCO.

The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of the OPCO or those of the WFOE increase significantly or if they are required to pay interest on late payments and other penalties.

Certain terms of the VIE Agreements may not be enforceable under PRC Laws

The VIE Agreements provide that the arbitration tribunal of the PRC may award remedies over the equity interests or assets of the OPCO or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the OPCO. The VIE Agreements also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, Bermuda, the PRC and the location where the principal assets of the Company or the OPCO are located.

However, the PRC Legal Adviser is of the view that pursuant to the PRC Laws, the arbitration tribunal may have no power to grant the aforementioned remedies or injunctive relief or to order the winding up of the OPCO. In addition, even though the VIE Agreements provide that overseas courts (e.g. courts in Hong Kong and Bermuda) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC Laws. As a result, in the event that the OPCO or any of the PRC Equity Owners breaches the terms of the VIE Agreements, the Company may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the OPCO could be materially and adversely affected.

Furthermore, notwithstanding the relevant contractual provisions contained in the VIE Agreements, courts of competent jurisdiction may grant interim remedies only to the extent as permitted under the PRC Laws. Therefore, such interim remedies may not be available under the PRC Laws.

A substantial amount of costs and time may be involved in transferring the ownership of the OPCO to the Group under the Exclusive Purchase Right Agreement

In case the WFOE exercises its option to acquire all or part of the equity interests in the OPCO under the Exclusive Purchase Right Agreement, such acquisition 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 the applicable PRC Laws. In addition, the abovementioned acquisitions may be subject to a minimum price limitation (such as an appraised value for the equity interests in the OPCO) or other limitations as imposed by the applicable PRC Laws. Further, a substantial amount of taxes, other necessary costs (if any), expenses and time may be involved in transferring the ownership of the OPCO, which may have a material adverse impact on the Group's business, prospects and results of operation.

The Company does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the VIE Agreements and the transactions contemplated thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the relevant agreements for the transactions contemplated thereunder and the operation of VIE Agreements, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. The Company will continue evaluating the feasibility, the cost and the benefit of insuring the transactions contemplated under the VIE Agreements.

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

In respect of the Qualification Requirement, 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 Requirement, the Company intends to acquire the entire equity interests in the 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 Requirement, so as to be qualified to acquire the entire equity interests in the 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 Requirement. 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 Requirement and not qualified to acquire the entire equity interests in the OPCO.

COMMERCIAL BENEFITS OF THE TRANSACTIONS

As outlined in the section headed “Background and Reasons for Use of the VIE Structure” in this announcement, the Group needs to adopt the VIE Structure (namely, entering into the VIE Agreements) so that it can provide the “profitable internet information service” to the third-parties through online platforms (such as websites and mobile-based apps).

Apart from the regulatory benefits, adopting the VIE Structure will bring the following commercial benefits to the Group:

1. It allows the Group to have effective control over the finance and operation of the OPCO and to enjoy the entire economic interests and benefits granted by the OPCO. By introducing the P2P Financing Information Business, the OPCO will create a new business driver to the Company and generate a long-term return to the Shareholders.
2. It enables the Group to obtain the ICP Licence necessary for conducting the profitable internet information services business, which will facilitate further deployment of the Group in the Fintech industry in the PRC. Specifically, with the ICP Licence for provision of the profitable internet information service, it would enable the Group to widen its customer base to cover the P2P Financing customers and to further develop and implement new future businesses in the financial services business in the future, which will enhance the competitiveness and adaptability of the Group in the market.

3. As a result of the information service shared between the Group and the independent third-parties lenders and borrowers, and with analysing the big data collected, the Group can better understand the needs of market players and consumers in the P2P Financing industry, such that the Group will be able to plan ahead its positioning in marketing and promotion.

In light of the above, the Group believes the entry of the VIE Agreements will bring more profits to the Group and create more value for the Shareholders.

The Board (other than the independent non-executive Directors who will give their views after considering the opinion from the independent financial adviser) considers that the terms of the VIE Agreements and the transactions contemplated thereunder were determined after arm's length negotiation between the parties thereto and the Board is of the view that (i) the VIE Agreements are fundamental to the OPCO's legal structure and business operations; and (ii) the terms of the VIE Agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the VIE Agreements exceed 5% and all the applicable percentage ratios are less than 25%, the entering into of the VIE Agreements constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Mr. Zhi, who holds 60% equity interest in Zhis Holding Co, which in turn holds 90% equity interest in the OPCO, is an executive Director. Pursuant to Chapter 14A of the Listing Rules, Mr. Zhi is a connected person of the Company.

As the OPCO is legally owned as to 90% by Zhis Holding Co, the OPCO is a connected person of the Company by virtue of being an associate of Mr. Zhi. The VIE Agreements constitute connected transactions and continuing connected transactions respectively pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the transactions contemplated under the VIE Agreements exceeds 5%, the transactions contemplated under the VIE Agreements shall be subject to the announcement, shareholders' approval, reporting and annual review requirements under Chapter 14A of the Listing Rules.

The Company has applied for, a waiver pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the VIE Agreements for a period of not exceeding three years pursuant to Rule 14A.52 of the Listing Rules; and (ii) setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to the WFOE and the amount of loans to be made available by the WFOE to the PRC Equity Owners under the relevant VIE Agreements. The aforesaid waiver is still under process as at the date of this announcement. Further announcement as to the waiver application will be made by the Company in accordance with the applicable rules and regulations as and when appropriate.

In addition, it is foreseeable that agreements, other than the VIE Agreements, will be entered into between the OPCO Group and the Group. Given that the financial results of the OPCO Group will be consolidated into the Group's financial statements and will be treated as subsidiaries of the Company by virtue of the VIE Agreements and therefore not treated as connected persons of the Company, thus the transactions between the OPCO Group and the Group will not be treated as connected transactions.

GENERAL

An Independent Board Committee will be established to advise the Independent Shareholders in relation to the terms of the VIE Agreements. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the VIE Agreements. In accordance with Rule 14A.52 of the Listing Rules, the independent financial adviser will also explain why the duration of the VIE Agreements, which exceeds three years, constitutes a special circumstance under Rule 14A.52 of the Listing Rules and is required for the nature of the transactions, and whether it is normal business practice for contracts of this type to be of such duration.

An SGM will be convened for the Independent Shareholders to approve the VIE Structure (including the transactions contemplated under the VIE Structure). In view of Mr. Zhi's equity interests in the Company, Mr. Zhi and his respective associates are deemed to have material interests in the entry of VIE Agreements and are required to abstain from voting at the SGM for the ordinary resolutions in respect of the entry of VIE Agreements.

A circular containing, among other things, (i) details about the VIE Structure; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice convening the SGM will be despatched to the Shareholders on or before 25 October 2018.

DEFINITIONS

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

“associate”	has the meaning as ascribed thereto in the Listing Rules
“Authorisation Agreement”	the authorisation agreement (股東表決權委託協議) entered into among the WFOE, the PRC Equity Owners and the OPCO, details of which are set out in the section headed “VIE Agreements” in this announcement
“Board”	the board of Directors
“Chun’an Huaying”	Chun’an Huaying Financial Information Service Co., Ltd.* (淳安華贏金融信息服務有限公司), a company established in the PRC with limited liability on 24 December 2015, which is a direct subsidiary of the OPCO being owned as to 51%
“Company”	Hua Long Jin Kong Company Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning as ascribed thereto in the Listing Rules
“connected transaction(s)”	has the meaning as ascribed thereto in the Listing Rules
“continuing connected transaction(s)”	has the meaning as ascribed thereto in the Listing Rules
“controlling shareholder(s)”	has the meaning as ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“e-commerce”	commercial transactions conducted electronically on the Internet
“Equity Pledge Agreement”	the equity pledge agreement (股份質押協議) entered into between the WFOE, the PRC Equity Owners and the OPCO, details of which are set out in the section headed “VIE Agreements” in this announcement

“Exclusive Business Co-operation Agreement”	the exclusive business co-operation agreement (獨家業務合作協議) entered into between the WFOE, the OPCO, Chun’an Huaying and Kaihua Huijin, details of which are set out in the section headed “VIE Agreements” in this announcement
“Exclusive Purchase Right Agreement”	the exclusive purchase right agreement (獨家購買權協議) entered into among the WFOE, the PRC Equity Owners and the OPCO, details of which are set out in the section headed “VIE Agreements” in this announcement
“Fintech”	an abbreviation of “financial technology”, an industry composed of companies that use new technology and innovation to leverage available resources in order to compete in the marketplace of traditional financial institutions and intermediaries in the delivery of financial services
“Group”	the Company and its subsidiaries
“ICP Licence”	a value-added telecommunications business operation licence (互聯網信息服務增值電信業務經營許可證) with a service scope of information services of Category 2 value-added telecommunication services by the relevant PRC government authorities
“Independent Board Committee”	a committee under the Board which will be established for the purpose of advising the Independent Shareholders on the entry of the VIE Agreements, including independent non-executive Directors, Mr. Li Hui, Mr. Chau On Ta Yuen and Dr. Lam Lee G
“Independent Shareholder(s)”	Shareholder(s) other than Mr. Zhi and his respective associates
“Independent Third Party(ies)”	third party(ies) independent of, and not connected with, the Company and its connected persons
“Kaihua Huijin”	Kaihua Huijin Financial Information Service Co., Ltd.* (開化惠金金融信息服務有限公司), a company established in the PRC with limited liability on 17 December 2015, which is a direct subsidiary of the OPCO being owned as to 51%
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Loan”	a non-interest bearing loan in an aggregate amount of RMB6,540,000 provided by the WFOE to the PRC Equity Owners subject to the terms of the Loan Agreement
“Loan Agreement”	the loan agreement (借款協議) entered into among the WFOE, the PRC Equity Owners and the OPCO, details of which are set out in the section headed “VIE Agreements” in this announcement
“Mr. Zhi”	Mr. Zhi Hua (支華), being a person with the PRC nationality who holds 60% equity interest in Zhis Holding Co, is an executive Director and the spouse of Ms. Yu
“Ms. Yu”	Ms. Yu Xiaoling (俞曉玲), being one of the PRC Equity Owners holding 10% equity interest in the OPCO and a shareholder holding 40% equity interest in Zhis Holding Co, is the spouse of Mr. Zhi
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“OPCO”	Hangzhou Huazhiying Investment Management Co., Ltd.* (杭州華之贏投資管理有限公司), a company established in the PRC with limited liability on 3 November 2014, which is legally owned as to 90% and 10% by Zhis Holding Co and Ms. Yu, respectively
“OPCO Group”	the OPCO and its subsidiaries, namely, Chun’an Huaying and Kaihua Huijin, to be controlled by the WFOE through the VIE Agreements
“P2P Financing”	peer-to-peer financing, a method of debt financing that enables the borrowers and lenders to borrow and lend money without the use of an official institution as an intermediary
“PRC”	the People’s Republic of China, which shall, for the purposes of this announcement, exclude Hong Kong, Macau and Taiwan
“PRC Equity Owners”	the persons with the PRC nationality who hold the entire equity interest of the OPCO, namely Zhis Holding Co and Ms. Yu

“PRC Laws”	any and all laws, regulations, statutes, rules, orders, decrees, circulars, notices, supreme court’s judicial interpretations and subsidiary legislations currently in force and publicly available in the PRC as of the date hereof
“PRC Legal Adviser”	Zhejiang Sudi Law Firm* (浙江蘇堤律師事務所), the PRC legal adviser to the Company
“Prime Agreement(s)”	the Exclusive Business Co-operation Agreement, the Loan Agreement, the Exclusive Purchase Right Agreement and the Authorisation Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Secured Obligations”	the Loan under the Loan Agreement and all direct, indirect, incidental, subordinate loss and expected loss suffered by the WFOE as pledgee due to any breach of the Prime Agreements by the OPCO and the PRC Equity Owners
“SGM”	the special general meeting to be convened to approve the VIE Structure (including the transactions contemplated under the VIE Structure)
“Share(s)”	share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Spousal Consent Letter(s)”	the spousal consent letter(s) (配偶同意函) entered into by the spouse of the individual PRC Equity Owner, details of which are set out in the section headed “VIE Agreements” in this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VIE”	variable interest entity, being an entity (the investee) in which the investor holds a controlling interest that is not based on the majority of voting rights
“VIE Agreements”	collectively, the Exclusive Business Co-operation Agreement, the Loan Agreement, the Exclusive Purchase Right Agreement, the Equity Pledge Agreement, the Authorisation Agreement and the Spousal Consent Letter, details of which are set out in the section headed “VIE Agreements” in this announcement

“VIE Structure”	the structure established through the entering into of the VIE Agreements, which enables the Group to effectively hold and control the OPCO
“WFOE”	Linglong (Hangzhou) Asset Management Co., Ltd.* (玲隆(杭州)資產管理有限公司), a company established in the PRC with limited liability on 13 December 2017, which is an indirect wholly-owned subsidiary of the Company
“Zhis Holding Co”	Zhis Holding Group Co., Ltd.* (支氏控股集團有限公司), being one of the PRC Equity Owners holding 90% equity interest in the OPCO, is a company established in the PRC with limited liability on 17 September 2015, which is legally owned as to 60% and 40% by Mr. Zhi and Ms. Yu, respectively
“%”	per cent

By Order of the Board
Hua Long Jin Kong Company Limited
Zhi Hua
Chairman

Hong Kong, 4 October 2018

As at the date of this announcement, the Board comprises Mr. Zhi Hua, Mr. Lam Kai Yeung and Mr. Ma Jun as executive directors, Mr. Li Hui, Mr. Chau On Ta Yuen and Dr. Lam Lee G as independent non-executive directors; and Mr. Chan Kin as non-executive director.

* *for identification purposes only*