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## **CHINA RONGZHONG FINANCIAL HOLDINGS COMPANY LIMITED**

**中國融眾金融控股有限公司**

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

**(Stock Code: 03963)**

### **MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF 51% EQUITY INTEREST IN THE TARGET COMPANY INVOLVING ISSUANCE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE**

#### **THE ACQUISITION**

On 26 June 2020 (after the trading hours), the Purchaser, the Vendors, Mr. Pan and Mr. Li entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell, the Sale Shares, representing 51% of the equity interest in the Target Company, at the Consideration of HK\$32,640,000, which shall be satisfied by the allotment and issue of the Consideration Shares at the Issue Price.

The Consideration Shares in the maximum amount of 98,909,989 represent approximately 23.98% of the issued share capital of the Company as at the date of this announcement and approximately 19.34% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares shall be allotted and issued pursuant to the Specific Mandate to be approved by the Shareholders at the EGM.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares, on the Stock Exchange.

Upon Completion, the Target Company will become a direct 51%-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated with those of the Group.

#### **IMPLICATIONS UNDER THE LISTING RULES**

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 25% but are less than 100%, the Acquisition constitutes a major transaction of the Company and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

## **DESPATCH OF CIRCULAR**

A circular containing, among other things, (i) further details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) financial information of the Group and the Target Group; (iii) the unaudited pro forma financial information of the Enlarged Group; (iv) the notice of the EGM; and (v) other information as required under the Listing Rules, is expected to be despatched to the Shareholders on or before 14 August 2020 in order to allow sufficient time for the preparation of the relevant information for inclusion therein.

**Completion of the Sale and Purchase Agreement is subject to the fulfilment or waiver (as the case may be) of the conditions precedent thereto, and accordingly may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

## **THE SALE AND PURCHASE AGREEMENT**

On 26 June 2020 (after the trading hours), the Purchaser, the Vendors, Mr. Pan and Mr. Li entered into the Sale and Purchase Agreement, the principal terms of which are set out as follows:

### **Date**

26 June 2020

### **Parties**

- (1) The Company, as the Purchaser
- (2) Alpha Focus International Limited, as one of the Vendors
- (3) Mr. Rozario Bobby Roberto, as one of the Vendors
- (4) Ever Art Investment Limited, as one of the Vendors
- (5) Forever Management Limited, as one of the Vendors
- (6) Mr. Pan, as guarantor to the Vendors and covenantor; and
- (7) Mr. Li, as covenantor

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, each of the Vendors, Mr. Pan, Mr. Li and their respective ultimate beneficial owners/associates are Independent Third Parties.

### **Assets to be acquired**

Pursuant to the Sale and Purchase Agreement, the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell, in aggregate, the Sale Shares, representing 51% of the equity interest in the Target Company.

## Consideration and Consideration Shares

The total Consideration of HK\$32,640,000 (subject to adjustments in accordance with the terms of the Sale and Purchase Agreement as referred to in the below section headed “Profit guarantee and adjustment to Consideration”) shall be satisfied by way of allotment and issue of the Consideration Shares in the maximum amount of 98,909,989 (subject to adjustment) at the Issue Price of HK\$0.33 per Consideration Share.

The Consideration Shares will be allotted and issued to the Vendors at the Agreed Proportion by tranches in the following manner:

- (i) as to 8% of the Consideration Shares (being 7,912,797 Consideration Shares) to be allotted and issued on the Completion Date (“**First Tranche Consideration Shares**”);
- (ii) subject to fulfilment of clause (a) in the below section headed “Profit guarantee and adjustment to Consideration”, as to a maximum of 23% of the Consideration Shares (being 22,749,298 Consideration Shares) (“**Second Tranche Consideration Shares**”) to be allotted and issued within 20 Business Days after the audited consolidated financial statements of the Target Group for the period from 1 July 2020 to 31 December 2020 becomes available (“**2nd Issue Period**”);
- (iii) subject to fulfilment of clause (b) in the below section headed “Profit guarantee and adjustment to Consideration”, as to a maximum of 23% of the Consideration Shares (being 22,749,298 Consideration Shares) (“**Third Tranche Consideration Shares**”) to be allotted and issued within 20 Business Days after the audited consolidated financial statements of the Target Group for the year ending 31 December 2021 becomes available (“**3rd Issue Period**”);
- (iv) subject to fulfilment of clause (c) in the below section headed “Profit guarantee and adjustment to Consideration”, as to a maximum of 23% of the Consideration Shares (being 22,749,298 Consideration Shares) (“**Fourth Tranche Consideration Shares**”) to be allotted and issued within 20 Business Days after the audited consolidated financial statements of the Target Group for the year ending 31 December 2022 becomes available (“**4th Issue Period**”);
- (v) subject to fulfilment of clause (d) in the below section headed “Profit guarantee and adjustment to Consideration”, as to a maximum of 23% of the Consideration Shares (being 22,749,298 Consideration Shares) (“**Fifth Tranche Consideration Shares**”) to be allotted and issued within 20 Business Days (“**5th Issue Date**”) after the audited consolidated financial statements of the Target Group for the year ending 31 December 2023 becomes available (“**5th Issue Period**”); and
- (vi) subject to the condition as set out in clause (e) in the below section headed “Profit guarantee and adjustment to Consideration”, additional Consideration Shares (“**Sixth Tranche Consideration Shares**”) shall be allotted and issued on the date on which the Fifth Tranche Consideration Shares are to be allotted and issued.

Assuming full allotment and issue of the Consideration Shares, the Consideration Shares in the maximum amount of 98,909,989 represent:

- (i) approximately 23.98% of the issued share capital of the Company as at the date of this announcement; and
- (ii) approximately 19.34% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Consideration Shares, when allotted and issued, shall be credited as fully paid and rank *pari passu* in all respects with all the Shares in issue as at the date of allotment and issue.

### **Issue Price**

The issue price of HK\$0.33 per Consideration Share represents:

- (i) a discount of approximately 8.33% to the closing price of HK\$0.36 per Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;
- (ii) a discount of approximately 8.33% to the average closing price of HK\$0.36 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the Sale and Purchase Agreement;
- (iii) a discount of approximately 2.94% to the average closing price of approximately HK\$0.34 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the date of the Sale and Purchase Agreement; and
- (iv) a premium of approximately 6.45% over the average closing price of approximately HK\$0.31 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the date of the Sale and Purchase Agreement.

The Consideration (including the Issue Price) was determined after arm's length negotiations between the Purchaser and the Vendors with reference to (i) the implied average price-to-earnings ratio of approximately 7.72 times based on the average guaranteed profit (details of which are set out in the below section headed "Profit guarantee and adjustment to Consideration") over the Guaranteed Period per year; (ii) the price-to-earnings ratios of the companies of which shares are listed on the Stock Exchange with principal activities including finance leasing or factoring business with accounts receivable management/collection services, given that the Target Group is principally engaged in the provision of debt collection services; and (iii) the business prospect of the Target Group as discussed in the below section headed "Reasons for and benefit of the Acquisition".

### **Profit guarantee and adjustment to Consideration**

- (a) In the event that the sum of (i) the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the period from 1 July 2020 to 31 December 2020, as audited by the Auditor; and (ii) the interest expense arising from the Shareholders' Loan during the period from 1 July 2020 to 31 December 2020, shall be:
  - (i) HK\$3,000,000 or more, the maximum number of the Second Tranche Consideration Shares shall be allotted and issued to the Vendors at the Agreed Proportion; or

- (ii) less than HK\$3,000,000, the number of the Second Tranche Consideration Shares to be allotted and issued to the Vendors at the Agreed Proportion shall be adjusted and calculated as follows,

$$A = B \times \frac{C}{D}$$

where:

“A” means the final number of the Second Tranche Consideration Shares that will be allotted and issued to the Vendors during the 2nd Issue Period (rounded down to the nearest whole number). In the event that A is equal to or less than zero, the Vendors shall not be entitled to any of the Second Tranche Consideration Shares;

“B” means the maximum number of the Second Tranche Consideration Shares;

“C” means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the period from 1 July 2020 to 31 December 2020 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders’ Loan during the period from 1 July 2020 to 31 December 2020; and

“D” means HK\$3,000,000.

- (b) In the event that the sum of (i) the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the year ending 31 December 2021, as audited by the Auditor; and (ii) the interest expense arising from the Shareholders’ Loan during the year ending 31 December 2021, shall be:
- (i) HK\$6,000,000 or more, the maximum number of the Third Tranche Consideration Shares shall be allotted and issued to the Vendors at the Agreed Proportion; or
- (ii) less than HK\$6,000,000, the number of the Third Tranche Consideration Shares to be allotted and issued to the Vendors at the Agreed Proportion shall be adjusted and calculated as follows,

$$E = F \times \frac{G}{H}$$

where:

“E” means the final number of the Third Tranche Consideration Shares that will be allotted and issued to the Vendors during the 3rd Issue Period (rounded down to the nearest whole number). In the event that E is equal to or less than zero, the Vendors shall not be entitled to any of the Third Tranche Consideration Shares;

“F” means the maximum number of the Third Tranche Consideration Shares;

“G” means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the year ending 31 December 2021 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders’ Loan during the year ending 31 December 2021; and

“H” means HK\$6,000,000.

(c) In the event the sum of (i) that the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the year ending 31 December 2022, as audited by the Auditor; and (ii) the interest expense arising from the Shareholders’ Loan during the year ending 31 December 2022, shall be:

- (i) HK\$8,000,000 or more, the maximum number of the Fourth Tranche Consideration Shares shall be allotted and issued to the Vendors at the Agreed Proportion; or
- (ii) less than HK\$8,000,000, the number of the Fourth Tranche Consideration Shares to be allotted and issued to the Vendors at the Agreed Proportion shall be adjusted and calculated as follows,

$$J = K \times \frac{L}{M}$$

where:

“J” means the final number of the Fourth Tranche Consideration Shares that will be allotted and issued to the Vendors during the 4th Issue Period (rounded down to the nearest whole number). In the event that J is equal to or less than zero, the Vendors shall not be entitled to any of the Fourth Tranche Consideration Shares;

“K” means the maximum number of the Fourth Tranche Consideration Shares;

“L” means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the year ending 31 December 2022 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders’ Loan during the year ending 31 December 2022; and

“M” means HK\$8,000,000.

(d) In the event the sum of (i) that the audited consolidated net profit after tax of the Target Company as shown in its consolidated financial statements for the year ending 31 December 2023, as audited by the Auditor; and (ii) the interest expense arising from the Shareholders’ Loan during the year ending 31 December 2023, shall be:

- (iii) HK\$12,000,000 or more, the maximum number of the Fifth Tranche Consideration Shares shall be allotted and issued to the Vendors at the Agreed Proportion; or
- (iv) less than HK\$12,000,000, the number of the Fifth Tranche Consideration Shares to be allotted and issued to the Vendors at the Agreed Proportion shall be adjusted and calculated as follows,

$$P = Q \times \frac{R}{S}$$

where:

“P” means the final number of the Fifth Tranche Consideration Shares that will be allotted and issued to the Vendors during the 5th Issue Period (rounded down to the nearest whole number). In the event that P is equal to or less than zero, the Vendors shall not be entitled to any of the Fifth Tranche Consideration Shares;

“Q” means the maximum number of the Fifth Tranche Consideration Shares;

“R” means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the year ending 31 December 2023 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders’ Loan during the year ending 31 December 2023; and

“S” means HK\$12,000,000.

- (e) In the event that the number of the Second Tranche Consideration Shares, the Third Tranche Consideration Shares, the Fourth Tranche Consideration Shares and/or the Fifth Tranche Consideration Shares allotted and issued or to be allotted and issued (as the case may be) to the Vendors have been adjusted in accordance with clause (a), clause (b), clause (c) and/or clause (d) above (as the case may be), based on the aggregate actual net profits achieved by the Target Company for the Guaranteed Period, the Sixth Tranche Consideration Shares to be allotted and issued to the Vendors at the Agreed Proportion on the 5th Issue Date shall be calculated as follows,

$$N = \left( \frac{T}{U} \right) \times (B + F + K + Q) - (A + E + J + P)$$

where:

“N” means the number of the Sixth Tranche Consideration Shares that will be allotted and issued to the Vendors on the 5th Issue Date (round down to the nearest whole number). In the event that N is equal to or less than zero, the Vendors shall not be entitled to any of the Sixth Tranche Consideration Shares;

“T” means the sum of (i) the actual amount of the audited consolidated net profits after tax of the Target Company for the period from 1 July 2020 to 31 December 2023 as shown in its audited consolidated financial statements; and (ii) the interest expense arising from the Shareholders’ Loan during the period from 1 July 2020 to 31 December 2023; and

“U” means HK\$29,000,000, provided that:

- (i) the maximum number of the Consideration Shares that the Vendors may receive in aggregate under the Sale and Purchase Agreement shall be capped at 98,909,989; and

$$\left( \frac{T}{U} \right) \times (B + F + K + Q)$$



shall be equal to or less than 90,997,192 (being approximately 92% of 98,909,989). In the event that it is larger than 90,997,192, it will be deemed to be 90,997,192 for the purpose of the above formula in calculating the number of the Sixth Tranche Consideration Shares that the Vendors, in aggregate, shall be entitled to.

In the event that the Consideration Shares (or any part thereof) to be allotted and issued to the Vendors (or any of them) involved fractions, the number of the Consideration Shares to be allotted and issued to such Vendor(s) will be rounded down to the nearest whole number.

For the purpose of clauses (a) to (e) above, the Vendors and the Purchaser shall jointly procure that, by no later than 70 Business Days after the financial year end date (i.e. 31 December) for each of the years ending 31 December 2020, 31 December 2021, 31 December 2022 and 31 December 2023, the consolidated financial statements of the Target Company (comprising the consolidated statement of financial position and the consolidated statement of profit or loss of the Target Company) for the relevant reporting period as referred to in clause (a), clause (b), clause (c) or clause (d) (as the case may be) be prepared in accordance with HKFRS, audited by the Auditor and be delivered to the Purchaser. The allotment and issue of the Second Tranche Consideration Shares, Third Tranche Consideration Shares, Fourth Tranche Consideration Shares, Fifth Tranche Consideration Shares and Sixth Tranche Consideration Shares shall be subject to the delivery of the audited consolidated financial statements of the Target Company (comprising the consolidated statement of financial position and the consolidated statement of profit or loss of the Target Company) for the relevant reporting periods to the Purchaser and being satisfactory to the Purchaser.

### **Conditions precedent**

Completion shall be subject to and conditional upon the fulfilment (or waiver, where applicable) of the following conditions on or before the Long Stop Date:

- (i) the Vendors' title to the Sale Shares being in order and free from all encumbrances;
- (ii) all the warranties remaining true and accurate and not misleading as at Completion and no events having occurred that would result in any breach of any of the warranties or provisions of the Sale and Purchase Agreement by Mr. Pan and/or by the Vendors (or any of them);
- (iii) the Vendors having assisted the Purchaser to undertake a legal, financial and business due diligence investigation in respect of the Target Group, and the results of such due diligence investigation being reasonably satisfactory to the Purchaser;
- (iv) legal opinion having been duly issued by legal advisor as to the laws of the PRC and addressed to the Purchaser (in the form satisfactory to the Purchaser) in respect of the due execution, validity, binding effect and enforceability of the ALLF Agreements;
- (v) all necessary consents, confirmations, permits, approvals, licenses and authorisations from all relevant governmental, regulatory and other authorities, agencies and departments in Hong Kong, the PRC, Singapore or elsewhere or otherwise required from any third parties in connection with the transactions contemplated under the Sale and Purchase Agreement, including but not limited to the approval of the Stock Exchange for the listing of, and the permission to deal in, any Consideration Shares which may be issued to the Vendors on or after Completion, having been obtained;



- (vi) the Shareholders having approved the Sale and Purchase Agreement and the transactions contemplated thereunder and having granted the Specific Mandate at the EGM as required by and in accordance with the Listing Rules;
- (vii) the Vendors having delivered the audited consolidated financial statements of the Target Group for the year ending 31 December 2019 to the Purchaser; and
- (viii) there being no material litigation or winding-up petition with respect to the Target Group disclosed under the litigation and winding up search against the Target Group to be conducted by the Vendors within 10 Business Days prior to the Completion Date.

The above conditions precedent may be waived by the Purchaser, save for conditions (v) and (vi) which cannot be waived by any parties. If any of the above conditions precedent (save for condition (ii) which shall be fulfilled as at Completion) has not been fulfilled or waived on or before the Long Stop Date, then unless the parties to the Sale and Purchase Agreement otherwise agree in writing, all rights and obligations of the parties to the Sale and Purchase Agreement shall cease and terminate, save for any antecedent breach thereof.

### **Distribution of interim dividend prior to Completion**

Pursuant to the Sale and Purchase Agreement, the Purchaser acknowledged and agreed that the Vendors shall procure the Target Company to declare an interim dividend for the year ending 31 December 2020 and the interim dividend shall be distributed to the Vendors following the date of the Sale and Purchase Agreement and prior to the Completion Date based on their respective shareholding interests in the Target Company as at the date of the Sale and Purchase Agreement. The Vendors further agreed to retain the respective portions of the interim dividend payable to them in the form of shareholder's loan owed by the Target Company, which shall be no less than HK\$1 million and no more than HK\$5 million. In the event that the interim dividend payable to the Vendors shall be less than HK\$1 million, Vendor B shall advance further amount of shareholder's loan on the date of distribution of the interim dividend to cover such shortfall in order to ensure sufficient cash level for the Target Company's business operation prior to the provision of the Shareholders' Loan by the Purchaser following Completion.

### **Completion**

Completion shall take place on the Completion Date after all the conditions precedent to the Sale and Purchase Agreement have been fulfilled (or waived, where applicable).

### **Shareholders' Loan Agreement**

The Shareholders' Loan Agreement shall be entered into between the Purchaser and the Target Company on the Completion Date pursuant to which the Purchaser shall advance a shareholders' loan in the principal amount of up to HK\$8,000,000 at the interest rate of 5% per annum, which may be convertible into new shares of the Target Company at the price of HK\$80 per share. The Shareholders' Loan shall be available for drawdown from the date of the Shareholders' Loan Agreement to up to three years after the date of the first drawdown (the "**Repayment Date**"), provided that the first drawing shall occur within 18 months from the date of the Shareholders' Loan Agreement. The interests shall accrue from the date of each withdrawal and shall be repaid every three months after the date of each withdrawal until the corresponding balance has been paid off. The outstanding balance of the Shareholders' Loan (including the accrued interests thereon which shall be payable quarterly) shall be repaid on or before the Repayment Date and transferred to the Purchaser's designated bank accounts.

## Non-competition and ALLF Agreements

As at the date of this announcement, ALLF are interested as to 25% and 25% by Mr. Pan and Mr. Li, respectively with the remaining stakes held by two other independent partners equally. Prior to the entering into of the Sale and Purchase Agreement, ALLF has, in the course of providing legal services to the clients, also provided certain related services such as debt dispute mediation and debt collection services through non-litigation means, conducting of due diligence and credit investigation, KYC investigation services and risk control services using big data (the “**Debt Recovery Business**”), the nature of which are similar to certain services provided by Alpha (Guangzhou). Pursuant to the Sale and Purchase Agreement, each of Mr. Pan and Mr. Li, as covenantors to the Sale and Purchase Agreement, jointly and severally, and irrevocably undertook to the Purchaser that, save for the arrangement under the ALLF Agreements (as detailed below), each of them shall not, and shall procure their respective close associates not to, directly or indirectly (i) engage in or otherwise participate in any business which compete or may compete with the business of the Target Group; (ii) solicit clients from any members of the Target Group with respect to the Debt Recovery Business; and (iii) utilise any of the confidential information of the Target Group unless written consent is obtained from the Purchaser.

In consideration of the implementation of the non-competition obligations as undertaken by Mr. Pan and Mr. Li, the ALLF Agreements shall be executed upon Completion, with details set out below.

Pursuant to the Letter of Undertaking, (1) the services under the Debt Recovery Business (excluding the relevant legal services required therein, if any) required by existing and new clients of the Target Group (including those mutual clients referred by ALLF) (the “**Target Group’s Clients**”) shall be directly handled by the Target Group since the date of the Letter of Undertaking, except for the circumstances stated in (3) below; (2) ALLF shall not directly or indirectly contact the clients of the Target Company and Alpha (Guangzhou) (save for the mutual clients) and their respective shareholders, directors, senior management or staff for the purpose of soliciting the same or similar business as that of the Target Company and/or Alpha (Guangzhou) since the date of the Letter of Undertaking; (3) ALLF shall no longer engage in the Debt Recovery Business and shall not solicit new clients for the purpose of engaging in the Debt Recovery Business, or otherwise shall refer and introduce such new clients to the Target Group for the signing of the engagement letter between them in respect of the provision of the services under the Debt Recovery Business, or in the event that ALLF would act as the signing party to the engagement letter with the Target Group’s Clients at the request of such clients, it should be proceeded under the supervision of the Target Company and Alpha (Guangzhou) where ALLF shall assign Alpha (Guangzhou) as the exclusive service provider with respect to debt collection services, and the service fee generated therefrom shall be payable to Alpha (Guangzhou) through ALLF in accordance with the terms under the Master Cooperation Agreement.

## Shareholders' Agreement

The Shareholders' Agreement shall be entered into between the Purchaser, Vendor B, Vendor C and the Target Company on the Completion Date to regulate, inter alia, the management and operations of business of the Target Company upon Completion. Set out below are the proposed principal terms of the Shareholders' Agreement:

- (i) the Target Company shall, on its own or through its subsidiaries, conduct debt recovery business in the name of "Alpha & Leader";
- (ii) the management shall be responsible for the daily operation of the Target Company while the board of directors shall be responsible for the overall management of the Target Company, setting up of its overall policy and objectives and shall be decisional on all affairs material to the Target Company and/or its subsidiaries;
- (iii) the Purchaser shall use its best endeavours to procure additional funding for the Target Company, for the three years ending 31 December 2022, which shall be used as working capital and/or for business expansion of the Target Company. For the avoidance of doubt, such amount shall exclude the Shareholders' Loan in the principal amount of HK\$8,000,000 to be granted by the Purchaser to the Target Company pursuant to the Shareholders' Loan Agreement;
- (iv) the board of the Target Company shall be composed of not more than four directors, where the Purchaser shall have the right to appoint or remove two directors and Vendor B and Vendor C shall collectively have the right to appoint or remove two directors;
- (v) subject to the terms of the Shareholders' Agreement, with respect to any board meeting of the Target Company, each director shall hold one vote while one of the two directors appointed by the Purchaser shall hold an extra vote;
- (vi) Vendor B shall be appointed as the chairman of the board of the Target Company by the board of directors on the date of the Shareholders' Agreement;
- (vii) the Purchaser shall, at its full discretion, have the right to, from time to time and upon serving of an advance notice, assign appropriate personnel to understand and discuss with the management about the business and the financial operation of the Target Company; and
- (viii) if any shareholder(s) of the Target Company (the "**Selling Shareholder(s)**") proposes to transfer all or any portion of its shares in the Target Company to any third parties, each other shareholder(s) of the Target Company shall (a) have a right of first refusal to acquire such shares from the Selling Shareholder; and (b) have a tag-along right to sell all of its shares in the Target Company, while in the event that the Selling Shareholder shall be the Purchaser and the right of first refusal is not exercised by the other shareholder(s) as described in (a), the Purchaser shall have a drag-along right to require each other shareholder(s) of the Target Company to sell their shares of the Target Company on the same terms and conditions as offered to the Purchaser.

## INFORMATION OF THE VENDORS AND THE PURCHASER

As at the date of this announcement, Vendor B is an individual investor while Vendor A is a company incorporated in the BVI with limited liability principally engaged in investment holding, and each of Vendor C and Vendor D is an investment holding company incorporated in Hong Kong with limited liability. As at the date of this announcement, Vendor A is ultimately owned as to 50% by Mr. Pan, 35% by Mr. Li and 15% by Vendor B, respectively; Vendor C is beneficially and wholly owned by Mr. Lam; and Vendor D is ultimately owned as to 70% by Mr. Wang and 30% by Mr. Lin, respectively.

As at the date of this announcement, the Purchaser, being the Company, is an exempted company incorporated in the Cayman Islands with limited liability, and is principally engaged in investment holding.

## INFORMATION OF THE TARGET GROUP

As at the date of this announcement, the Target Company is (i) a company incorporated in Hong Kong with limited liability, and together with its subsidiaries, are principally engaged in provision of debt and accounts receivable management and collection services in the PRC, Hong Kong and Singapore and (ii) owned as to 35% by Vendor A, 33% by Vendor B, 23% by Vendor C and 9% by Vendor D, respectively. As at the date of this announcement, the Target Company holds the entire equity interest in each of Alpha (Guangzhou), Wave Leader and Alpha (Singapore), respectively.

Alpha (Guangzhou) is a company incorporated in the PRC with limited liability principally engaged in provision of consulting, credit investigation and analysis services, with branches stationed at Guangzhou, Beijing, Shanghai, Chengdu, Hangzhou, Xiamen, Qingdao, Nanjing and Chongqing, the PRC. Wave Leader is a dormant company incorporated in Hong Kong with limited liability. Alpha (Singapore) is a company incorporated in Singapore with limited liability principally engaged in provision of debt collection services. The Target Group and other affiliated companies such as ALLF have been serving clients in the name of “Alpha & Leader” with one-stop solution focusing on resolving clients’ receivables and nonperforming loan issues through the provision of legal and debt collection services.

The unaudited consolidated financial information of the Target Group for the two financial years ended 31 December 2019 is set out below:

	<b>For the year</b>	
	<b>ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(approximate)</i>	<i>(approximate)</i>
Profit/(loss) before taxation and extraordinary items	4,434	(1,598)
Profit/(loss) after taxation and extraordinary items	4,414	(1,608)

As at 31 December 2019, the unaudited consolidated net assets of the Target Group amounted to approximately HK\$18.7 million.

Pursuant to the Sale and Purchase Agreement, it is proposed that an interim dividend in the maximum amount of HK\$5 million would be declared by the Target Company for the year ending 31 December 2020 and distributed to the Vendors prior to the Completion Date based on their respective shareholding interests in the Target Company as at the date of the Sale and Purchase Agreement. Assuming the interim dividend of HK\$5 million will be declared prior to Completion, the unaudited consolidated net assets of the Target Group as at 31 December 2019 would amount to not less than approximately HK\$13.7 million.

Upon Completion, the Target Company will become a direct 51%-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated with those of the Group.

## PROPOSED GRANT OF SPECIFIC MANDATE

The Consideration Shares shall be allotted and issued pursuant to the Specific Mandate to be approved by the Shareholders at the EGM. An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

## EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming there will not be any change in the issued share capital of the Company from the date of this announcement up to the date of allotment and issue of the Consideration Shares in full, set out below is the shareholdings structure of the Company as at the date of this announcement and immediately after the allotment and issue of the Consideration Shares in full:

Shareholders	As at the date of this announcement		Immediately after full allotment and issue of the First Tranche Consideration Shares		Immediately after full allotment and issue of the Second Tranche Consideration Shares	
	<i>Number of shares</i>	<i>Approximate %</i>	<i>Number of shares</i>	<i>Approximate %</i>	<i>Number of shares</i>	<i>Approximate %</i>
Ms. Michelle Wong, Ms. Jacqueline Wong and their associates ( <i>Note 1</i> )	202,543,525	49.10	202,543,525	48.18	202,543,525	45.70
Mr. Zhao ( <i>Note 2</i> )	84,752,255	20.55	84,752,255	20.16	84,752,255	19.12
Vendor A	–	–	5,430,352	1.29	21,042,616	4.75
Vendor B	–	–	403,397	0.10	1,563,165	0.35
Vendor C	–	–	682,672	0.16	2,645,356	0.60
Vendor D	–	–	1,396,376	0.33	5,410,958	1.22
Other public Shareholders	125,213,220	30.35	125,213,220	29.78	125,213,220	28.26
<b>Total</b>	<b>412,509,000</b>	<b>100.00</b>	<b>420,421,797</b>	<b>100.00</b>	<b>443,171,095</b>	<b>100.00</b>

Shareholders	Immediately after full allotment and issue of the Third Tranche Consideration Shares		Immediately after full allotment and issue of the Fourth Tranche Consideration Shares		Immediately after full allotment and issue of the Fifth Tranche Consideration Shares	
	Number of shares	Approximate %	Number of shares	Approximate %	Number of shares	Approximate %
Ms. Michelle Wong, Ms. Jacqueline Wong and their associates ( <i>Note 1</i> )	202,543,525	43.47	202,543,525	41.45	202,543,525	39.60
Mr. Zhao ( <i>Note 2</i> )	84,752,255	18.19	84,752,255	17.34	84,752,255	16.57
Vendor A	36,654,880	7.87	52,267,144	10.70	67,879,408	13.27
Vendor B	2,722,933	0.58	3,882,701	0.79	5,042,469	0.99
Vendor C	4,608,040	0.99	6,570,724	1.34	8,533,408	1.67
Vendor D	9,425,540	2.02	13,440,122	2.75	17,454,704	3.41
Other public Shareholders	125,213,220	26.88	125,213,220	25.63	125,213,220	24.49
<b>Total</b>	<b>465,920,393</b>	<b>100.00</b>	<b>488,669,691</b>	<b>100.00</b>	<b>511,418,989</b>	<b>100.00</b>

*Notes:*

- Among the 202,543,525 Shares, (i) 10,127,176 Shares are held by Legend Crown International Limited (“**Legend Crown**”) and 10,107,066 Shares are held by Plenty Boom Investments Limited (“**Plenty Boom**”), respectively, of which the entire issued share capital of each of Legend Crown and Plenty Boom are held by a discretionary trust whose trustee is Ace York Investment Management, a company owned as to 50% by Ms. Jacqueline Wong and 50% by Ms. Michelle Wong, respectively; and (ii) 143,805,903 Shares are held by Perfect Honour Limited, a wholly-owned subsidiary of Goldbond Group Holdings Limited (“**Goldbond**”) the shares of which are held as to 30.99% and 26.06% by Allied Luck Trading Limited (a company wholly-owned by the Allied Luck Trust) and Ace Solomon Investments Limited (a company jointly owned by Allied Goldin Investment Limited and Ace York Investment Limited which in turn are wholly-owned by the Ace York Trust), respectively, where Ms. Michelle Wong and Ms. Jacqueline Wong are the beneficiaries of the Allied Luck Trust and Ace York Trust; and (iii) 38,503,380 Shares are held by Solomon Glory Limited, a wholly-owned subsidiary of Goldbond.
- The 84,752,255 Shares are held by Silver Creation Investments Limited which is wholly-owned by Hony Capital Fund 2008, L.P. which is controlled by its sole general partner, Hony Capital Fund 2008 GP, L.P., which in turn is controlled by its sole general partner, Hony Capital Fund 2008 GP Limited, a company wholly-owned by Hony Group Management Limited, which is owned as to approximately 80% by Hony Managing Partners Limited which is in turn wholly-owned by Exponential Fortune Group Limited, a company owned as to approximately 49% by Mr. Zhao.

The Company will ensure that it will comply with the requirements on public float under Rule 8.08 of the Listing Rules from time to time, such that no allotment and issue of the Consideration Shares would result in the Company not meeting the minimum public float requirement under the Listing Rules. Pursuant to the Sale and Purchase Agreement, any unissued Consideration Shares as a result of which will be substituted and paid by the Company to the Vendors in cash.



## REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the business of provision of financial leasing services, including sales and leaseback leasing and direct financial leasing, in Hubei Province, PRC.

The Target Group is principally engaged in the debt collection business based in the PRC which, together with the Group's existing financial leasing operation, are business branches under the same roof (i.e. financial service industry). According to the statistics from the National Bureau of Statistic of China, total accounts receivable of industrial enterprises in the PRC reached RMB13,480 billion, RMB14,340 billion and RMB17,400 billion in 2017, 2018 and 2019, respectively, representing a compound annual growth rate of approximately 13.6%. While based on an official research conducted by the State Administration of Industry and Commerce of the PRC (國家工商行政管理總局) (subsequently merged and known as the State Administration for Market Regulation (國家市場監督管理總局)) and the Ministry of Commerce of the PRC, defaulted economic contracts accounted for around 30% annually, implying an overdue accounts receivable of around RMB5,220 billion as of 2019. According to the Monthly Statistical Bulletin (June 2020 – Issue No. 310) released by Hong Kong Monetary Authority in June 2020, the total amount of domestic loans in Hong Kong reached approximately HK\$25,095 billion, HK\$26,896 billion and HK\$28,137 billion as of 31 December 2017, 31 December 2018 and 31 December 2019, respectively, representing a compound annual growth rate of approximately 5.89%. Hence, it is observed that there is a scalable demand for management of receivables as well as debt recovery services with respect to overdue receivables. With reference to “The Chinese NPL market in 2020” issued by PricewaterhouseCoopers in 2020, collection of the non-performing loans in the PRC via litigation and enforcement process took a period between 12 and 30 months on average, the duration of which was beyond the investors' estimate. The debt recovery service via dispute mediation, as provided by the Target Group, could play a key role as an alternative for the investors in the debt collection market. On the other hand, as overdue/defaulted payment forms part of the inherent risk of the financial leasing business currently engaged by the Group, the acquisition of the Target Group which specialises in debt recovery actions is expected to augment the Group's business. In view of (i) the potential demand for debt collection service in particular with respect to commercial accounts receivable; (ii) the established reputation of “Alpha & Leader” and geographical coverage of the Target Group in the PRC and Hong Kong, being the major revenue contributors for the year ended 31 December 2019, as well as its customer base built by the management team comprising specialists with extensive experience accumulated over the past years; and (iii) the improving performance of the Target Group, the Company believes that the Acquisition would diversify the income sources of the Group and improve its cash flow, thereby enhancing the Shareholder's value as a whole.

The entering into of the Letter of Undertaking and the Master Cooperation Agreement would enable the Target Group to secure exclusive roles from certain clients of ALLF who needs debt collection services, in addition to the existing client base of the Target Group, which is expected to diversify the customer base and broaden the income stream of the Target Group. Upon obtaining of the Shareholders' Loan upon Completion, the Target Group plans to expand its business by recruiting more staff to enhance its one-stop debt collection service and/or setting up new regional offices in Taiwan and Kuala Lumpur. Coupled with the Target Group's continuous efforts to expand and diversify its client portfolio and the opportunities within the debt recovery service sector, it is expected that the Target Group would broaden its revenue base in the coming years.

Considering that save for the Shareholders' Loan to be provided to the Target Group after Completion pursuant to the Shareholders' Loan Agreement, no material cash outlay with respect to the Consideration would be involved for the Acquisition, which offers financial flexibility to the Group considering its cash position, while through the Acquisition, the Company would engage the Vendors (including Vendor B and Mr. Lam who beneficially and wholly owned Vendor C who have been and will continue to be primarily engaged in the Target Group's business) to become a shareholder and strategic partner to the Group to cooperate and facilitate the operations of the Target Group upon Completion, the Company is of the view that the allotment and issue of the Consideration Shares as payment for the Acquisition is fair and reasonable.

Having considered the above, the Directors are of the view that the terms of the Sale and Purchase Agreement, and the Acquisition are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **IMPLICATIONS UNDER THE LISTING RULES**

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 25% but are less than 100%, the Acquisition constitutes a major transaction of the Company and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

## **DESPATCH OF CIRCULAR**

A circular containing, among other things, (i) further details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) financial information of the Group and the Target Group; (iii) the unaudited pro forma financial information of the Enlarged Group; (iv) the notice of the EGM; and (v) other information as required under the Listing Rules, is expected to be despatched to the Shareholders on or before 14 August 2020 in order to allow sufficient time for the preparation of the relevant information for inclusion therein.

## **DEFINITIONS**

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

“Acquisition”	the proposed acquisition of the Sale Shares by the Purchaser in accordance with the terms and conditions of the Sale and Purchase Agreement
“Agreed Proportion”	the proportion in relation to the Sale Shares to be sold by the respective Vendors expressed as percentages, being (i) approximately 68.63% to Vendor A; (ii) approximately 5.10% to Vendor B; (iii) approximately 8.62% to Vendor C; and (iv) approximately 17.65% to Vendor D

“ALLF”	collectively, Alpha & Leader Law Firm, Alpha & Leader (Shanghai) Law Firm, Alpha & Leader (Beijing) Law Firm and Alpha & Leader (Wuhan) Law Firm which are interested as to 25% and 25% Mr. Pan and Mr. Li, being substantial shareholders of Vendor A
“ALLF Agreements”	collectively, the Master Cooperation Agreement and the Letter of Undertaking
“Alpha (Guangzhou)”	Alpha & Leader Business Management Consulting (Guangzhou) Co. Ltd., a wholly-owned subsidiary of the Target Company as at the date of this announcement
“Alpha (Singapore)”	Alpha & Leader Risk and Asset (Singapore) Pte. Ltd., a wholly-owned subsidiary of the Target Company as at the date of this announcement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Auditor”	being the auditor of the Target Company, which shall be an independent firm of certified public accountants of international repute as nominated by the Purchaser and appointed by the Target Company
“Board”	the board of Directors of the Company
“Business Day(s)”	a day (other than Saturday, Sunday or days on which a typhoon signal 8 or above or black rainstorm is hoisted in Hong Kong between 9:00 a.m. to 5:00 p.m.) on which banks in Hong Kong are open for general banking business
“Company”	China Rongzhong Financial Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) whose issued Shares are listed on the Stock Exchange
“Completion”	completion of the Acquisition pursuant to the Sale and Purchase Agreement
“Completion Date”	the date on which Completion takes place, being the 10th Business Day immediately following the day on which all the conditions precedent have been satisfied and/or waived or such other date as the Vendors and the Purchaser may agree in writing
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Sale Shares, being HK\$32,640,000, subject to adjustments in accordance with the terms of the Sale and Purchase Agreement

“Consideration Share(s)”	consideration shares in the maximum amount of 98,909,989 to be allotted and issued by the Company to the Vendors or their respective nominee(s) in accordance with the Sale and Purchase Agreement as payment for the Consideration
“Debt Recovery Business”	the debt recovery related services provided by ALLF as referred to in the section headed “Non-competition and ALLF Agreements” in this announcement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement, the Specific Mandate, and the transactions contemplated thereunder
“Enlarged Group”	collectively, the Group and the Target Group upon Completion
“Guaranteed Period”	the period from 1 July 2020 to 31 December 2023
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) which is/are independent of the Company and its connected person(s)
“Issue Price”	HK\$0.33 per Consideration Share
“Letter of Undertaking”	the letter of undertaking to be executed in relation to the business arrangements among the Target Company, Alpha (Guangzhou) and ALLF relating to the Debt Recovery Business upon Completion
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 October 2020, or such other date as the Vendors and the Purchaser may agree in writing
“Master Cooperation Agreement”	the master cooperation agreement to be entered into between ALLF and Alpha (Guangzhou) upon Completion in relation to the business arrangements between ALLF and Alpha (Guangzhou) relating to the Debt Recovery Business
“Mr. Lam”	Mr. Lam Tat Cheong, who beneficially and wholly owned Vendor C as at the date of this announcement

“Mr. Li”	Mr. Li Jianhui, being the covenantor to the Sale and Purchase Agreement
“Mr. Lin”	Mr. Lin Fei, being an individual holding 30% beneficial interest of Vendor D
“Mr. Pan”	Mr. Pan Weisi, being the guarantor to the Vendors and the covenantor to the Sale and Purchase Agreement
“Mr. Wang”	Mr. Wang Qiang, being an individual holding 70% beneficial interest of Vendor D
“Mr. Zhao”	Mr. Zhao John Huan, being a substantial Shareholder of the Company, holding an aggregate equity interest of approximately 20.55% of all issued Shares as at the date of this announcement
“Ms. Jacqueline Wong”	Ms. Wong Jacqueline Yue Yee, being a non-executive Director and a controlling Shareholder of the Company, holding an aggregate equity interest of approximately 49.10% of all issued Shares as at the date of this announcement
“Ms. Michelle Wong”	Ms. Wong Michelle Yatyee, being a non-executive Director and a controlling Shareholder of the Company, holding an aggregate equity interest of approximately 49.10% of all issued Shares as at the date of this announcement
“PRC”	the Peoples’ Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	the Company, being the purchaser to the Sale and Purchase Agreement
“RMB”	Renminbi, the lawful currency in the PRC
“Sale Shares”	408,000 ordinary shares of the Target Company to be acquired by the Purchaser, representing 51% of the total number of issued and fully paid up shares of the Target Company as at the date of the Sale and Purchase Agreement
“Sale and Purchase Agreement”	the sale and purchase agreement dated 26 June 2020 entered into between the Purchaser and the Vendors in respect of the Acquisition
“Share(s)”	the ordinary share(s) of par value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)

“Shareholders’ Agreement”	the shareholders’ agreement to be entered into between the Vendors, the Purchaser and the Target Company on the Completion Date
“Shareholders Loan”	the convertible shareholders’ loan in the principal amount of up to HK\$8,000,000 to be advanced by the Purchaser to the Target Company after Completion pursuant to the Shareholders’ Loan Agreement
“Shareholders’ Loan Agreement”	the shareholders’ loan agreement to be entered into between the Purchaser and the Target Company on the Completion Date
“Specific Mandate”	the specific mandate to be sought from the Shareholders at the EGM for the allotment and issue of the Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Alpha & Leader Risks and Assets Management Company Limited, a company incorporated in Hong Kong with limited liability and owned as to 35% by Vendor A, 33% by Vendor B, 23% by Vendor C and 9% by Vendor D, respectively, all of whom are Independent Third Parties
“Target Group”	collectively, the Target Company and its subsidiaries
“Vendor A”	Alpha Focus International Limited., being one of the Vendors holding 35% equity interest in the Target Company
“Vendor B”	Mr. Rozario Bobby Roberto, being one of the Vendors holding 33% equity interest in the Target Company and 15% equity interest of Vendor A
“Vendor C”	Ever Art Investment Limited, being one of the Vendors holding 23% equity interest in the Target Company
“Vendor D”	Forever Management Limited, being one of the Vendors holding 9% equity interest in the Target Company
“Vendors”	collectively Vendor A, Vendor B, Vendor C and Vendor D, being the vendors to the Sale and Purchase Agreement



“Wave Leader”

Wave Leader Limited, being directly wholly-owned by the Target Company as at the date of this announcement

“%”

per cent.

By order of the Board  
**China Rongzhong Financial Holdings Company Limited**  
**Wong Emilie Hoi Yan**  
*Executive Director*

Hong Kong, 26 June 2020

*As at the date of this announcement, the executive Director of the Company is Ms. Wong Emilie Hoi Yan; the non-executive Directors of the Company are Mr. Chen Shuai, Ms. Wong Jacqueline Yue Yee, Ms. Wong Michelle Yatyee and Mr. Wong Ming Bun David and the independent non-executive Directors of the Company are Mr. Lie Chi Wing, Mr. Ng Wing Chung Vincent and Mr. Yu Yang.*

\* *For identification only*