THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licenced securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zall Group Ltd., you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licenced securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or the transferee.

Zall Group Ltd.

卓爾集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2098)

VERY SUBSTANTIAL ACQUISITION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Unless the context requires otherwise, capitalized terms used on this cover shall have the same meanings as those defined under the section "Definitions" of this circular.

A letter from the Board is set out on pages 9 to 49 of this circular. A notice convening the EGM to be held at Suite 2101, 21/F, Two Exchange Square, Central, Hong Kong on Monday, 5 March 2018 at 11:00 a.m. is set out on pages VI-1 to VI-2 of this circular.

Whether or not you are able to attend the EGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 48 hours before the time designated for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting should you so wish and in such event the relevant form of proxy shall be deemed to be revoked.

14 February 2018

CONTENTS

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

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

"Consideration"	the aggregate consideration for the Acquisition and the Subscription
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules, and in the context of this circular means the controlling shareholder of the Company, Mr. Yan
"Director(s)"	director(s) of the Company
"Draft Law"	the draft law on foreign investment published by the MOFCOM on 19 January 2015
"EGM"	the extraordinary general meeting of the Company to be held for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder
"Enhe Financial"	Shanghai Enhe Financial Information Services Company Limited*（上海恩鶴金融信息服務有限責任公司）
"Enlarged Group"	the Group as enlarged by the Proposed Transactions upon Completion
"Equity Pledge Agreement"	the equity pledge agreement among WFOE, OPCO, Changzhou Changsusheng and the VIE Equity Owners
"Exclusive Option Agreement"	the exclusive option agreement among OPCO, WFOE and the VIE Equity Owners
"Exclusive Technological Support and Management Consulting Service Agreement"	the Exclusive Technological Support and Management Consulting Service Agreement to be entered into among WFOE, OPCO and the Changzhou Changsusheng
"Existing Structured Contracts"	the Structured Contracts currently in place among WFOE, the Operating Subsidiaries and OPCO prior to Completion
"First Acquisition"	the acquisition of approximately 60.49% of the equity interest in Shenzhen Sinoagri by the Group, details of which are set out in the circular of the Company dated 15 February 2017
"Group"	the Company and its subsidiaries

"Guaranteed Net Profit", "Guaranteed Period", "Guaranteed Period Reserve" and "Guaranteed Revenue"	have the meanings set forth in the paragraph headed "Revenue and Net Profit Guarantee" under the subsection headed "The Agreement" in the section headed "Letter from the Board" in this circular respectively
"Hangzhou Xian Feng"	Hangzhou Xian Feng Investment Partners Corporation (Limited Partnership)*（杭州險峰投資合夥企業(有限合夥)), a wholly-owned foreign enterprise established in the PRC with limited liability
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HSH Group"	HSH Group Limited, a company incorporated in the BVI with limited liability and is wholly-owned by Mr. Zhi Jianpeng
"HSH HK"	HSH Hongkong Limited, a company incorporated in Hong Kong and is wholly-owned by the Target Company
"Independent Third Party(ies)"	an individual or a company and the ultimate beneficial owner who are third parties independent of the Company and its connected persons
"Information Services Business"	the information services business operated by OPCO and Changzhou Changsusheng, which is a restricted category and requires a licence under《外商投資產業指導目錄(2017年修訂)》 (The Guidance Catalogue of Industries for Foreign Investment (as amended in 2017)*) in the PRC
"Industrial Development Report"	a report published by Ministry of Industry and Information Technology of the People's Republic of China on 29 September 2016.《石化和化學工業發展規劃(2016-2020年)》(工信部規[2016]318號)
"K2 Evergreen"	K2 Evergreen Partners Limited, a company incorporated in Hong Kong with limited liability
"Khorgos Feng Hua"	Khorgos Feng Hua Shareholding Investment Management Partners (Limited Partnership)*（霍爾果斯鋒華股權投資管理合夥企業(有限合夥)), a partnership established and registered under the laws of the PRC

"Latest Practicable Date"	8 February 2018, being the latest practicable date prior to printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 March 2018 or such later date as the parties to the Agreement may agree in writing
"MOC"	the Ministry of Commerce of the PRC（中華人民共和國商務部）
"Mr. Wei"	Mr. Wei Zhe, David, an executive Director
"Mr. Yan"	Mr. Yan Zhi, the co-chairman of the Company and an executive Director
"Mr. Yan's Undertaking"	has the meaning set forth in the paragraph headed "Potential Impact of the Draft Law on the Proposed Transactions" under the subsection headed "Information on Draft Law Regarding Foreign Investment in the PRC" in the section headed "Letter from the Board" in this circular
"New Structured Contracts"	the new Structured Contracts to be entered into among WFOE, OPCO and Changzhou Changsusheng upon Completion
"Northern Light Entity"	Northern Light Venture Capital and Khorgos Feng Hua
"Northern Light Venture Capital"	Northern Light Venture Capital IV, Ltd., a venture capital firm formed under the laws of the Cayman Islands
"Onshore Reorganisation"	the internal reorganisation to be undertaken by the Target Group, details of which are set out in the subsection headed "Onshore Reorganisation" in the section headed "Letter of the Board" of this circular
"OPCO"	Shanghai Susheng e-Commerce Company Limited*（上海塑盛電子商務有限公司）a company established in the PRC with limited liability and is owned as to 55% by Mr. Zhi Jianpeng, 1% by Tibet Xian Feng, 24% by Hangzhou Xian Feng, and 20% by Khorgos Feng Hua

"Operating Subsidiaries"	the PRC-incorporated subsidiaries of OPCO, namely, Shanghai Yinghao (which is held as to 49% by OPCO and 51% by WFOE), Enhe Financial, Changzhou Changsusheng, Shenzhen Suying, each an "Operating Subsidiary"
"Pledged Shares"	has the meaning set forth in the paragraph headed "Revenue and Net Profit Guarantee" under the subsection headed "The Agreement" in the section headed "Letter of the Board" in this circular
"Power of Attorney"	the power of attorney issued by the VIE Equity Owners to WFOE
"PRC"	the People's Republic of China which for the purpose of this circular shall exclude Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC Legal Adviser"	Jingtian & Gongcheng, the legal adviser to the Company as to the Laws of the PRC
"Proposed Transactions"	the Acquisition and the Subscription
"Purchaser" or "Zall BVI"	Zall Development (BVI) Holding Company Limited, a company incorporated in the BVI with limited liability, a wholly-owned subsidiary of the Company
"Revenue and Net Profit Guarantee"	the performance guarantee jointly given by Mr. Zhi Jianpeng and HSH Group to the Purchaser
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	130,831,251 shares of HSH International, representing approximately 32.76% of the total equity interest of HSH International as enlarged by the Subscription Shares on a fully diluted and as converted basis
"Second Acquisition"	the acquisition of approximately 8.36% of the equity interests in Shenzhen Sinoagri by the Group, details of which are set out in the circular of the Company dated 11 December 2017
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"Shanghai Yinghao"	Shanghai Yinghao Supply Chain Management Company Limited* (上海鷹皓供應鏈管理有限公司), a company established in the PRC with limited liability
"Shares"	ordinary shares of HK$0.00333 each in the capital of the Company
"Shareholder(s)"	the holders of issued shares of the Company
"Shareholders' Agreement"	the shareholders' agreement to be entered into by and among the Purchaser, the Target Group, the Vendors, Mr. Zhi Jianpeng, OPCO and the Operating Subsidiaries at Completion
"Shenzhen Sinoagri"	Shenzhen Sinoagri E-commerce Co., Ltd.* (深圳市中農網有限公司)
"Shenzhen Suying"	Shenzhen Suying Commercial Factoring Company Limited* (深圳塑盈商業保理有限公司), a company established in the PRC with limited liability
"SIG China"	SIG China Investments Master Fund IV, LLLP, a fund established in Delaware, the United States of America
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Structured Contracts"	collectively, the Exclusive Technological Support and Management Consulting Service Agreement, the Power of Attorney, the Authorisation and Entrustment Agreement, the Equity Pledge Agreement, the Business Cooperation Agreement, the Exclusive Option Agreement, and depending on the context, refers to the Existing Structured Contracts or the New Structured Contracts
"Subsequent Acquisition"	the acquisition of approximately 6% of the equity interests in Shenzhen Sinoagri by the Group, details of which are set out in the circular of the Company dated 11 December 2017
"Subscription"	the proposed subscription of the Subscription Shares by the Purchaser pursuant to the Agreement
"Subscription Payment"	the payment of the consideration for the Subscription to be made pursuant to the Agreement

"Subscription Shares"	the 78,750,000 new ordinary shares of HSH International, representing approximately 19.72% of the enlarged issued share capital of HSH International on a fully diluted and as converted basis
"Target Company" or "HSH International"	HSH International Inc., a company incorporated in the Cayman Islands with limited liability
"Target Group"	the Target Company and its subsidiaries
"Target Group ESOP"	the employee share option plan established by the Target Group holding 53,418,804 share options entitled to subscribe for 53,418,804 ordinary shares of the issued capital of HSH International for the benefits of the members of the core management of the Target Group
"Tibet Xian Feng"	Tibet Xian Feng Hua Xing Chang Qing Investment Company Limited* (西藏險峰華興長青投資有限公司), a company established in the PRC with limited liability
"Transaction Documents"	collectively, (i) the Agreement, (ii) the Shareholders' Agreement, (iii) the fourth amended and restated memorandum of association of HSH International, (iv) the New Structured Contracts, (v) the executed documents to effectuate the Onshore Reorganisation, (vi) other agreements to be entered into by the parties to the Agreement, and (vii) any amendments or supplemental agreements of the foregoing
"US$"	United States dollar, the lawful currency of the United States of America
"Vendors"	Xian Feng HZ, K2 Evergreen, Northern Light Entity, HSH Group, and SIG China
"VIE Equity Owners"	Mr. Zhi Jianpeng, Tibet Xian Feng, Hangzhou Xian Feng, Khorgos Feng Hua and the Zall Nominee, each a "VIE Equity Owner"
"WFOE"	Shanghai Sulai Communications Technology Company Limited* (上海塑來信息技術有限公司), a wholly owned foreign enterprise established in the PRC with limited liability and is wholly-owned by HSH HK
"WFOE Subsidiary 1"	浙江嘉塑盛貿易有限公司 (Zhejiang Jia Su Sheng Trading Company Limited*), a company established in the PRC and a wholly-owned subsidiary of WFOE

"WFOE Subsidiary 2"	嘉善塑來貿易有限公司 (Jiashan Su Lai Trading Company Limited*), a company established in the PRC and a wholly-owned subsidiary of WFOE
"WFOE Subsidiary 3"	常州塑來貿易有限公司 (Changzhou Su Lai Trading Company Limited*), a company established in the PRC and a wholly-owned subsidiary of WFOE
"Withheld Consideration"	the amount of US$1,243,377.52 withheld from the Consideration for settlement of any shortfall arising from the Revenue and Net Profit Guarantee
"Xian Feng HZ"	Xian Feng HZ Limited, a company incorporated in the BVI with limited liability
"Zall Nominee"	the person to be nominated by the Company to be the equity owner(s) of OPCO on or before Completion, who will not be a connected person of the Company and will be a PRC citizen
"%"	per cent

* *The English translation of the Chinese names of the companies established in PRC is for illustration purpose only.*

For the purpose of this circular, unless otherwise indicated, the exchange rates at US$1.00 = HK$7.8 has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate.

Zall Group Ltd.
卓爾集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2098)

Executive Directors:
Mr. Yan Zhi *(Co-chairman and Chief executive officer)*
Dr. Gang Yu *(Co-chairman)*
Mr. Wei Zhe, David
Mr. Cui Jinfeng
Mr. Peng Chi

Independent Non-executive Directors:
Mr. Cheung Ka Fai
Mr. Wu Ying
Mr. Zhu Zhengfu

Registered Office:
Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:
Suite 2101, 21/F
Two Exchange Square
Central
Hong Kong

14 February 2018

To the Shareholders

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Reference is made to the Announcement.

On 11 October 2017 (after trading hours), the Purchaser and the Company entered into the Agreement with the Vendors, the Target Company and others in relation to (i) a proposed subscription of the Subscription Shares at an aggregate consideration of US$14,342,336.31 (equivalent to approximately HK$111,870,000), representing approximately 19.72% of the total issued share capital of the Target Company as enlarged by the Subscription Shares and on a fully diluted and as-converted basis; and (ii) a proposed acquisition of the Sale Shares at an aggregate acquisition of US$15,157,663.69 (equivalent to approximately HK$118,230,000), representing approximately 32.76% of the total issued share capital of the Target Company as enlarged by the Subscription Shares and on a fully diluted and as-converted basis.

The Target Company, together with its subsidiaries, is principally engaged in the trading of chemical and plastic raw materials and operating the Information Services Business.

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

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

The purpose of this circular is to provide you with, among other things, (i) further details about the Agreement and the transactions contemplated thereunder; (ii) the financial information on the Group; (iii) the accountants' report of the Target Group; (iv) management discussion and analysis on the Target Group; (v) the unaudited pro forma financial information of the Enlarged Group; and (vi) notice of the EGM.

THE AGREEMENT

The principal terms of the Agreement are set out below:

Date

11 October 2017

Parties

(1) Zall BVI (as the Purchaser)

(2) the Company

(3) Xian Feng HZ, K2 Evergreen, Northern Light Entity, HSH Group and SIG China (as the Vendors)

(4) Mr. Zhi Jianpeng

(5) Target Company

(6) OPCO

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors and their respective ultimate beneficial owner(s) are third parties independent of the Company and connected persons of the Company.

Subject matter

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

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

The Subscription Shares and the Sale Shares in aggregate represent approximately 52.48% of the issued share capital of the Target Company as enlarged by the Subscription Shares and as a fully diluted and as-converted basis. The above dilution and conversion are adjusted on the basis of (i) the total number of 177,462,606 preferences shares of the Target Company being converted into ordinary shares of the Target Company in full; and (ii) all the 53,418,804 share options under the Target Group ESOP are exercised in full as ordinary shares of the Target Company upon Completion.

Pursuant to terms of the Agreement and as a conditions precedent under the Agreement, the Vendors shall (i) procure the conversion of 94,631,304 preference shares (out of the total number of 177,462,606 preference shares) into ordinary shares of the Target Company, such that all the as-converted ordinary shares shall be sold to the Purchaser as part of the Sale Shares; and (ii) exercise in full all the 53,418,804 share options under the Target Group ESOP into ordinary shares of the Target Company, out of which 36,199,947 ordinary shares shall be sold to the Purchaser as part of the Sale Shares. On the assumption that there are no further conversion of preference shares into ordinary shares before the Completion, the Purchaser will be acquiring approximately 66.21% interest in the Target Company, with the Subscription Shares representing approximately 24.88% and Sale Shares representing approximately 41.33% of the issued share capital of the Target Company as enlarged by the Subscription Shares, the conversion of 94,631,304 preference shares into ordinary shares and the exercise of 53,418,804 share options under the Target Group ESOP into ordinary shares respectively.

As at the Latest Practicable Date, other than the preference shares and the Target Group ESOP as set out above, the Target Group has not issued other convertible securities. On the assumption that there is no further conversion of preference shares into ordinary shares before the Completion, upon Completion, there will be a total number of 82,831,302 outstanding preference shares of the Target Company. The preference shareholders are Xian Feng HZ, K2 Evergreen, Northern Light Entity, and SIG China, who are also the Vendors.

A summary of the principal terms of the preference shares upon Completion are set out below:

(i) Conversion rights

Each preference share may, at the option of the preference shareholder, be converted at any time into ordinary shares based on the then effective applicable conversion price for such shares, subject to anti-dilution adjustments. The initial conversion price is the respective issue price of the preference shares, ranging from USD0.0012 to USD0.1778.

The preference shares are also subject to automatic conversion upon the earlier of (a) closing of a qualified initial public offering in accordance with the terms and conditions of the preference shares, or (b) the prior written approval from the majority of preference shareholders.

(ii) Voting Rights

The Preferred Shareholders shall have the right to vote, and to cast the number of votes equal to the number of ordinary share into which each outstanding preferred share held could then be converted.

(iii) Redemption rights

The outstanding preference shares shall be redeemed by the Target Company as follows:

– 71,581,302 preference shares may be redeemed in whole or in part by the Target Company at a redemption price of US$0.1829 per preference share at the written request of the preference shareholder(s) within nine months following the publication of the Company's annual report for the financial year ending 31 December 2019, and satisfaction of the following conditions pursuant to the Shareholders' Agreement: (a) for the period over the three financial years from 2017 to 2019, the accumulated revenue of the Target Group reaches RMB76,000,000,000 and the accumulated net profit of the Target Group reaches RMB184,000,000, as evidenced by the consolidated annual audit reports of the Target Group for the financial years of 2017, 2018 and 2019 issued by a renowned qualified accounting firm designated by the Company (the "**Audit Report**"); and (b) for the financial year of 2019, the revenue of the Target Group reaches RMB40,000,000,000 and the net profit reaches RMB120,000,000, as evidenced by the Audit Report for the financial year of 2019. Further details regarding the purchase of the preference shares by the Target Company are set out in paragraph (c) under the paragraph headed "Shareholders' Agreement" in the section headed "Letter from the Board" in this circular; and

– 11,250,000 preference shares may be redeemed in whole or in part by the Target Company at the written request of the preference shareholders at a redemption price of US$0.1778 per preference share at any time after completion of the next equity financing or change of control sale of the Target Company, pursuant to the supplementary preference share purchase agreement entered into between the Target Company and the preference shareholders dated 1 October 2017.

On the assumption that all outstanding preference shares are redeemed in full, the aggregate redemption price payable by the Target Company is approximately US$15.1 million (equivalent to approximately HK$117.7 million) and assuming that no further shares are issued by the Target Company; and the Company has not disposed of any shares in the Target Company after the Completion, the Company will hold approximately 66.21% of the issued share capital of the Target Company. In the event that the conditions for redemption cannot be met, the remaining outstanding preference shares may be converted into ordinary shares at the option of the preference shareholder in accordance with the terms and conditions of the preference shares and assuming that no further share is issued by the Target Company and the Company has not disposed of any shares in the Target Company after the Completion, the Company will hold approximately 52.48% of the issued share capital of the Target Company.

Consideration for the Subscription

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

Consideration for the Acquisition

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

Basis of Consideration

The Consideration was arrived at after arm's length negotiation between the Company and the Vendors with reference to the business and growth potentials of the Target Group, as well as the audited and consolidated financial information of the Target Group for each of the financial years ended 31 December 2015 and 2016 and the management account for the six months period ended 30 June 2016 and 2017 provided by Target Group, which were prepared in accordance with the PRC Accounting Standards for Business Enterprises ("PRC GAAP") (the "PRC GAAP Historical Financial Information") as compared with the valuation of companies in similar businesses. In particular, the Company has considered the following factors:

(a) based on the PRC GAAP Historical Financial Information, the revenue of the Target Group for the financial years ended 31 December 2015 and 2016 were RMB264 million and RMB4,808 million respectively, representing an increase in revenue of approximately 1,721.21% from year ended 31 December 2015 to year ended 31 December 2016;

(b) based on the PRC GAAP Historical Financial Information, the net loss recorded by the Target Group for the years ended 31 December 2015 and 2016 were RMB23.9 million and RMB25.0 million respectively. The losses recorded were mainly due to the large amount of resources invested into the expansion of the Target Group's Information Services Business. Nonetheless, based on the management accounts provided by the Target Group, the net losses recorded for the six-month periods ended 30 June 2016 and 2017 were approximately RMB15.8 million and RMB7.8 million respectively, which shows that the profit margin of the Target Group is significantly improving;

(c) since price-earnings ratio cannot be measured due to the losses recorded by the Target Group in previous years, the Company considered the Target Group's price-to-sales ratio of 0.08 times in 2016, which is lower than the range of 0.16 times to 0.82 times in respect of the price-to-sales ratios of other companies listed in Hong Kong and the PRC conducting similar business as the Target Group; and

(d) the Target Group's business is in line with the direction of the Company's business development. Following Completion, the Company can delve into the rapidly expanding chemical and plastic raw materials market in the PRC through the Target Group, and the Directors believe that the business and operation of the Target Group will have a synergy effect on the existing businesses and operations of the Group and the Company's goal in building a global smart trading platform could be achieved.

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

Given that (a) the Target Group only launched its business since 2015 and has been loss making since its establishment; (b) the Target Group is currently in a net liability position; and (c) the Target Group is experiencing a high growth in revenue, the Directors consider that it is appropriate and relevant to use price-to-sales multiple(s) ("**P/S ratio(s)**") to value the Target Group, instead of price-to-earnings or price-to-book multiples. The P/S ratio is calculated by dividing the market capitalization of the Company by its annual total sales.

Based on the Consideration and the PRC GAAP Historical Financial Information of the Target Group for the year ended 31 December 2016, the implied P/S ratio for the Acquisition is approximately 0.08 times. In assessing the fair and reasonableness of the implied P/S ratio for the Acquisition, the Directors considered private and listed companies in PRC (including National Equities Exchange and Quotations and Shenzhen Stock Exchange) and companies which are principally engaged in trading and operating e-commerce platform in plastic raw materials or other commodities in the PRC (the "**Comparable Companies**"). As the P/S ratio for the Acquisition is lower than the P/S ratios for Comparable Companies, the Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Details of the Comparable Companies are set out as follows:

Name of the Comparable Company	**Stock code**	**Description of the principal businesses**	**P/S ratios**
科通芯城集團 (Cogobuy Group) (1)	400.HK	Operates the largest transaction-based e-commerce platform for integrated circuits and other electronic components in China	0.49
上海鋼聯 (Shanghai Ganglian E-Commerce Holdings Co., Ltd.) (1)	300226.SZ	Operates leading internet platform integrated service in China engaged in information and e-commerce value-added services for the steel industry and other commodities industries	0.16
中晨電商 (Shanghai Zhongchen E-Commerce Holdings Co., Ltd) (1)	837297.OC	Engaged in online trading of plastic raw materials and operates plastic e-commerce platform	0.16
塑米城 (Sumibuy) ("**Sumibuy**") (2)	N/A	Engaged in plastic raw materials trading platform	0.82

Note:

1. P/S ratios of the Comparable Companies are calculated by dividing the market capitalisations of the Comparable Companies as at 4 September 2017 by the sales of the Comparable Companies for the latest published financial results for the year ended 31 December 2016.

2. Sumibuy was acquired by 冠福股份 (002102.SZ) in 2016. Price-to-sales ratio of Sumibuy is calculated by dividing the consideration of acquiring Sumibuy as at the acquisition date by the sales of Sumibuy for the latest published financial results for the year ended 31 December 2015.

The Directors consider that as each trading platform has its unique features and specifications, there is no public record of a company which engaged in identical business as the Target Group. Nonetheless, the Comparable Companies and the Target Group operate in similar internet-based and trading of commodities industry in the PRC, and mainly target users of trading platforms in the PRC.

Hence, given there are differences in the scale of their operations, the Directors believe that the Comparable Companies identified are fair and representative subjects for comparison after taking into consideration that the Comparable Companies are similar to the Target Group in terms of their respective nature of business (i.e. operation of a trading platform) and the geographical market environment. The Comparable Companies gave the Company a general reference as to the market valuation of companies with similar business to the Target Group. As disclosed above, the implied P/S ratio for the Acquisition is approximately 0.08 times, which is lower than the median of the P/S ratios of the Comparable Companies of approximately 0.33 times. This indicates that with the same value of investment monies, the amount of sales generated by the Target Company is higher than that of the Comparable Companies.

Completion and conditions precedent

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

(a) the passing of the necessary resolutions by the Shareholders at the EGM to approve, among other matters, the Agreement and the transactions contemplated thereunder;

(b) subject to the disclosure in the disclosure letter, each of the warranties made by the Vendors and the Target Group remaining true and accurate in all respects and not misleading in any respect as of the date of Completion by reference to the facts and circumstances subsisting as at the date of Completion;

(c) the Purchaser being satisfied that there has not been any material adverse change in respect of any member of the Target Group;

(d) each of the Vendors and/or the Target Group having complied fully with the pre-Completion obligations as set forth in the Agreement;

(e) the existing shareholders of the Target Company having passed the relevant resolutions to adopt the new articles of association of the Target Company and such articles of association having been registered in accordance with applicable laws and regulations and are in full force and effect as at the date of Completion;

(f) all necessary approvals, consents, registration, and licence required (if any) by any governmental authorities in respect of the Proposed Transactions having been obtained and remaining in full force and effect on the date of Completion, and such approvals and consents not having led to any material adverse change in respect of the Target Group and the Target Group's business;

(g) in respect of the Proposed Transactions, each of the members of the Target Group having provided to the Purchaser relevant waiver of pre-emptive rights as required by the existing constitutional documents, existing shareholders' agreements or any other relevant laws and regulations from its shareholders;

(h) to the satisfaction of the Purchaser, the Transaction Documents having been properly authorized, signed and delivered by the relevant parties thereto;

(i) the Onshore Reorganisation having been completed;

(j) pursuant to the Equity Pledge Agreement under the Structured Contracts, the relevant equity interests in OPCO and Changzhou Changsusheng having been pledged to WFOE, and the relevant registration procedures having been completed;

(k) in relation to the Subscription Shares and the Sale Shares, the Target Company having issued or renewed the relevant ordinary share certificates, having updated the register of members, register of directors and other relevant documents;

(l) all approvals and consents having been obtained under all the contractual arrangements to which each of the OPCO and the Operating Subsidiaries are party, including but not limited to, the Existing Structured Contracts, and such approvals and consents not having led to any material adverse change in respect of the Target Group and the Target Group's business;

(m) there having been no laws, regulations, decisions, measures or actions by governmental authorities which would prohibit, restrict or practically delay the transactions contemplated under the Agreement or the continuing operations of the Target Group;

(n) the passing of the necessary resolutions by the shareholders and/or the boards of directors of the Target Company, as required under the constitutional documents of members of the Target Group in connection with the Agreement and the transactions contemplated thereby (including but not limited to, the conversion of preference shares in the Target Company to ordinary shares, and the allotment and issue of new shares by the Target Company);

(o) the Target Company having allotted and issued 53,418,804 shares in its share capital to HSH Group to hold on behalf of the Target Group ESOP, and HSH Group having declared to the satisfaction of the Purchaser that it is holding such shares on behalf of the Target Group ESOP and that it will transfer such shares partially or in full pursuant to the Agreement and the Target Group's employee share option plan; and

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

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

As at the Latest Practicable Date, condition (p) has been determined to be waived by the Purchaser.

As at the Latest Practicable Date, none of the condition above has been satisfied and save as disclosed above, neither the Purchaser nor to the best knowledge of the Company, any of the Vendors has any intention to waive any other conditions precedent above to be set forth in the Agreement.

Onshore Reorganisation

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

(a) all the businesses of OPCO and the Operating Subsidiaries other than the Information Services Business will be transferred and assumed by the newly established wholly owned subsidiaries of WFOE;

(b) following the transfer and assumption of the business in (a) above, the Operating Subsidiaries will terminate all their businesses other than the Information Services Business;

(c) the New Structured Contracts will be executed by the parties to them;

(d) the existing shareholders of OPCO will complete the transfer of an aggregate of 51% equity interest in OPCO to Zall Nominee;

(e) OPCO will appoint four nominees of Zall Nominee as directors of OPCO; and

(f) OPCO will complete the amendment to its articles to the satisfaction of the Purchaser.

As at the Latest Practicable Date, the status of the Onshore Reorganization is as follows:

1. WFOE Subsidiary 1 was established in the PRC on 30 September 2017. Following its establishment, the non-toxic chemical products business of the Target Group has been transferred to WFOE Subsidiary 1;

2. WFOE Subsidiary 2 was established in the PRC on 22 November 2017. Following its establishment, the trading of plastic products business of the Target Group has been transferred to WFOE Subsidiary 2;

3. WFOE Subsidiary 3 was established in the PRC on 27 November 2017. Following its establishment, WFOE Subsidiary 3 obtained the dangerous chemical products business license (危化品經營許可證). Pending obtaining the non-drug chemical products business certification/license (非藥品類易制毒化學品經營備案證明/許可證), the toxic chemical products business of the Target Group will be transferred to WFOE Subsidiary 3;

4. With respect to the employees of the Target Group, all relevant employment contracts entered into by OPCO and Changzhou Changsusheng with employees not engaged in business of information service have been transferred to WFOE Subsidiary 1, WFOE Subsidiary 2 and/or WFOE Subsidiary 3 before 30 December 2017; and

5. With respect to the transfer of other material assets of the Target Group, the relevant domain names and computer software copyright have been transferred from OPCO and Changzhou Changsusheng to WFOE Subsidiary 1, WFOE Subsidiary 2 and/or WFOE Subsidiary 3. Application for the transfer of the trademark license of the Target Group is in progress. Other than as set out above, there are no other material contracts or assets that are required to be transferred to WFOE Subsidiary 1, WFOE Subsidiary 2 and/or WFOE Subsidiary 3.

The Onshore Reorganization is expected to be fully completed by the end of February 2018.

Undertakings

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

(a) within three business days of the date of the Agreement and upon HSH Group pledging its entire equity interest held in the Target Group in favor of the Purchaser, the Purchaser will procure a subsidiary of the Company to grant a loan in the amount of RMB20,000,000 to OPCO (the "**Bridge Loan**"), and OPCO undertakes to repay the Bridge Loan within: (i) 60 days after the full payment of the consideration for the Subscription by the Purchaser or the termination of the

Agreement if the Proposed Transactions are not completed due to reasons other than the Vendor's default; (ii) 15 days after the termination of the Agreement if the Proposed Transactions are not completed due to the Vendor's default; or (iii) a date mutually agreed between such subsidiary of the Company and OPCO; and

Further details of the Bridge Loan are as set out in the paragraph headed "Bridge Loan" in the section headed "Letter from the Board" in this circular.

(b) upon Completion, the Purchaser will procure that a designated party will review credit applications from upstream and downstream customers of the Target Group in accordance with the current procedures in the ordinary course of its business, provided that, (i) such credit applications shall not exceed the amounts of RMB150,000,000 in 2018 and RMB300,000,000 in 2019 respectively; and (ii) the credit risk, capital gains and cost of lending in connection with the acceptance of such credit applications are commercially reasonable (for the avoidance of doubt, the designated party shall have the final decision regarding the credit applications to comply with applicable laws and its internal rules and regulations).

Bridge Loan

On 11 October 2017, OPCO, Mr. Zhi Jianpeng, HSH International, HSH Group and Zalljinfu, among others, entered into a bridge loan agreement, pursuant to which Zalljinfu agreed to provide to OPCO a bridge loan in the amount of RMB20,000,000 (the "**Bridge Loan Agreement**"). Principal terms of the Bridge Loan Agreement are set out as follows:

1. Purpose

The bridge loan was provided by Zalljinfu to the OPCO in satisfaction of the undertaking given by the Purchaser to the Vendor under the Agreement. The purpose of the bridge loan was for general working capital of the OPCO and to fund its continual business development.

2. Term

The term of the Bridge Loan Agreement commences from the completion of the capital increase as set out in the Bridge Loan Agreement, to the later of (i) the repayment of the Bridge Loan in full by OPCO; or (ii) the termination of the Agreement by written notice.

3. Interest rate

In the event of completion of capital increase as set out in the Bridge Loan Agreement, the interest rate of the Bridge Loan is the benchmark interest rate on loans published by the People's Bank of China. In the event that the capital increase as set out in the Bridge Loan Agreement has not been completed, and the Agreement was terminated by the Company and its connected persons, or the OPCO became insolvent or OPCO and its connected persons was found to be in breach of their respective obligations under the Agreement, the interest rate of the Bridge Loan will be 10% per annum (calculated on the basis of simple interest).

4. Security

Pursuant to the Bridge Loan Agreement, HSH Group agreed to pledge its entire shareholding in HSH International (which comprises of 89,743,590 shares, representing approximately 27.99% of the entire issued share capital of HSH International) to the connected persons of the Company as security for the Bridge Loan.

5. Ranking

The Bridge Loan shall rank in priority over any other loans of OPCO in respect of payment. As such OPCO and Mr. Zhi Jianpeng is required to repay the Bridge Loan first.

Shareholders' Agreement

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

(a) the Purchaser shall be entitled to nominate four directors to the board of the Target Company out of a total of seven directors of the Target Company with the remaining three to be nominated by HSH Group and Mr. Zhi Jianpeng;

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

(c) upon the written request from Xian Feng HZ, K2 Evergreen, Norther Light Venture Capital or SIG China made within the nine months following the publication of the Company's annual report for the financial year ending 31 December 2019, the Target Company shall purchase the preference shares in the Target Company then held by such party (being no more than 71,581,302 preference shares in total) at the price of US$0.1829 per preference share, provided that, based on the financial statements of the Target Group prepared by the Group under International Financial Reporting Standards for each of the Guaranteed Periods, (i) the accumulated revenue and the accumulated net profit of the Target Company over the three Guaranteed Periods are not less than RMB76,000,000,000 and RMB184,000,000 respectively; and, (ii) the revenue and the net profit of the Target Company for the financial year ending 31 December 2019, being the last year of the Guaranteed Period are not less than RMB40,000,000,000 and RMB120,000,000 respectively;

(d) each of the Vendors, Mr. Zhi Jianpeng and the Purchaser shall have preemptive rights and rights of first refusal and each of Xian Feng HZ, K2 Evergreen, Northern Light Venture Capital and SIG China shall have rights of co-sale with respect to the shares of the Target Company; and

(e) Mr. Zhi Jianpeng shall undertake that, during the Guaranteed Periods, without the written consent of the Purchaser, he would not, and would procure that his associates (except any members of the Target Group) would not, directly or indirectly, either on his own account or in conjunction with or on behalf of any person, firm or company, among other things, (x) possess, directly or indirectly, the power to direct or cause the direction of the management and business operation of any entity (other than the Target Group) whether through the ownership of any equity interest in such entity, directorship or otherwise; or (y) devote all of his working time to carry out the business operations of any other entity (whether such business is in competition with the business of Target Group or not).

Revenue and Net Profit Guarantee

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

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

Mr. Zhi Jianpeng and HSH Group have separately agreed to enter into, (i) a share pledge, under which HSH Group will pledge its shareholding in the Target Company upon Completion, i.e. a total of 106,962,447 shares representing 27% of the enlarged issued share capital of the Target Company, to the Purchaser (the "**Pledged Shares**"); and (ii) an escrow agreement, under which the Withheld Consideration will be held in escrow by the Purchaser. One third of the total number of Pledged Shares (i.e. 35,654,149 shares in the Target

Company) and one third of the Withheld Consideration (i.e. US$414,459.17) shall be reserved for the settlement of any shortfall arising from the Revenue and Net Profit Guarantee for each Guaranteed Period (the "**Guaranteed Period Reserve**").

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

A = (number of Pledged Shares ÷ 3) x [1 – (Actual Net Profit/Guaranteed Net Profit + Actual Revenue/Guaranteed Revenue) ÷ 2] x 1.1

B = (Withheld Consideration ÷ 3) x [1 – (Actual Net Profit/Guaranteed Net Profit + Actual Revenue/Guaranteed Revenue) ÷ 2] x 1.1

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

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

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

INFORMATION ON THE PURCHASER AND THE COMPANY

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

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

INFORMATION ON THE VENDORS

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

INFORMATION ON THE TARGET GROUP

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

OPCO is a company incorporated in the PRC and, along with its Operating Subsidiaries, is principally engaged in (i) trading of chemical and plastic raw materials, (ii) operating the information services business and (iii) provision of logistics and storage services business. The revenue of the Target Group mainly derived from the trading of chemical and plastic raw materials. Before OPCO purchases goods from the merchants upstream and distributes and sells to the buyers downstream, the Target Group would procure goods directly from the sellers upstream during the procurement process. The risks and returns will be transferred to the Target Group from the sellers upon receipt of goods. Accordingly, the Target Group will assume the risks of damages, abrasion or theft relating to the goods. During the sales process, the Target Group would sell goods to the buyers, while buyers would pay an agreed amount to the Target Group on the date of Completion. Upon receipt of the payment, the Target Group would transport the goods to the designated place. The risks and returns will be transferred to the buyers upon receipt of goods by the buyers. The Target Group also handles any complaints and claims made by the buyers in respect of the freight rates and quality. The Target Group uses the "cost-plus" mechanism to determine the final price (while the costs mainly include the procurement cost of raw materials, logistics and storage fees and the time cost of use of capital, etc.).

Business model and revenue stream of the Target Group

The business model and revenue stream of the principal businesses of the OPCO are as follows:

(i) Trading of chemical and plastic raw materials

OPCO operates its trading businesses through bulk purchasing raw materials from the market, and distributing the raw materials to its downstream customers. With the assistance of the online trading platform, OPCO is able to collect price information of chemical and plastic raw materials more effectively, thereby benefitting from a more efficient trading process. The use of the online trading platform also enables downstream customers to compare prices, and locate raw materials at preferred prices more effectively, which then lowers transaction costs for downstream customers.

During the procurement stage, the OPCO purchases goods directly from the seller(s) in the market. The risks and rewards are transferred from the seller(s) to the OPCO after the acceptance of the goods. As such, the OPCO would thereafter be responsible for any damage, deterioration or theft in relation to the respective goods. During the sales stage, the OPCO sells goods to the downstream customers and the downstream customers pay the OPCO the agreed price on the completion date. Upon the receipt of payment, the OPCO would deliver the goods to the collection point designated by the customers. The risks and rewards would then be transferred from the OPCO to the customers after the acceptance of the goods by the customers. The OPCO also deals with complaints and claims from the customers regarding the ratings, quality, etc. of the goods in question.

Goods are priced by the OPCO based on a cost plus margin basis. Revenue of the trading sector is mainly generated from the margin over sales of raw materials. The revenue for the trading of chemical and plastic raw materials (exclusive of VAT, other sales tax, and trade discounts) amounted to approximately RMB306,331,000, RMB4,943,947,000, RMB2,994,486,000 and RMB4,630,057,000 for the years ended 31 December 2015 and 2016, and for the nine months ended 30 September 2016 and 2017, respectively.

(ii) Provision of information services

OPCO operates the information services business by providing chemical and plastic raw material pricing information through the online trading platform. Upstream suppliers and downstream customers are matched on the online trading platform through the sales and purchase orders inputted by the suppliers and customers. The information services provided by the OPCO is currently free to use in order to attract more potential users for the online trading platform. However, in view of the growing population of users for the online trading platform, OPCO intends to impose a service fee for the provision of the information services, which will benefit the Target Group and is expected to become a key source of revenue for the Target Group. Further, OPCO has derived further revenue from digital advertising on the online trading platform and provision of exhibition agency services commencing from May 2016.

The Target Group is required to hold a valid information services business license to carry out the information services business, which is currently possessed by OPCO and Changzhou Changsusheng.

The revenue of the information services business is mainly generated from service fees charged for the provision of exhibition agency services and digital advertsing. The service fee for the provision of exhibition agency services and digital advertsing is determined on the basis of administration costs and operation costs of the Target Group. The revenue of the information services business (exclusive of VAT, other sales tax, and trade discounts) amounted to approximately RMB61,000, RMB60,000 and RMB612,000 for the year ended 31 December 2016 and for the nine months ended 30 September 2016 and 2017, respectively.

(iii) Provision of logistics and storage services

Ancillary to the trading of chemical and plastic raw materials, the OPCO also provides logistics and storage services to upstream suppliers and downstream customers with a view to provide a more comprehensive range of services. The OPCO identified suitable logistic and storage services suppliers, which catered for upstream suppliers and downstream customers of different levels. The provision of logistic and storage services has therefore become a key source of revenue for the Target Group.

The revenue of the provision of logistics and storage services is mainly generated from the service fees charged. The revenue of the logistics and storage services (exclusive of VAT, other sales tax, and trade discounts) amounted to approximately RMB40,000, RMB1,053,000, RMB289,000 and RMB4,500,000 for the years ended 31 December 2015 and 2016, and the nine months ended 30 September 2016 and 2017, respectively.

The principal costs involved in the businesses of the OPCO comprise of among others, raw material acquisition costs, salaries and benefits of sales and marketing staff, logistic and storage costs, and other miscellaneous costs (including fixed asset depreciation, office rental, training expenses and day-to-day operation costs).

Competitive advantages of the Target Group

The Target Group benefits from the following competitive advantages:

1. Brand recognition

The services provided by the Target Group in East China through offering a one-stop procurement and trading platform was well received and the Target Group was recipient of the following awards in the past 3 years:

- Scientific and Technological Innovation Plan Of Action Award（科技創新行動計劃大獎）and RMB1 million project funding awarded by the Shanghai Municipal Science and Technology Commission in 2015;

- China's Most Promising E-Commerce Industry Portal Award（中國電子商務最具發展潛力行業門戶獎）awarded by China Electronic Commerce Association in 2015;

- China Internet Industry Innovation Enterprise Award（2016年互聯網行業創新企業大獎）and China Internet Industry Innovation Person in 2016 Award（2016年互聯網行業創新人物大獎） awarded by the China Electronic Information Industry Development Research Association（中華人民共和國工業和信息化部）in 2016;

- The title of China's Top 100 B2B Company（2016中國B2B百強企業稱號）awarded by Organising Committee for the B2B Summit of China in 2016;

– The title of China's Top 100 Commodities E-Commerce Enterprises（2017年中國大宗商品電商百強企業）awarded by Organising Committee for the Second National Commodity E-Commerce Summit in 2017; and

– The title of Shanghai E-Commerce "Double Push" Innovation Service Platform（上海市電子商務「雙推」創新服務平台稱號）awarded by Shanghai Commission in 2017.

2. *Professional management team*

The management team of the Target Group comprises six individuals who have extensive operation experiences ranging from four to ten years in the chemical raw materials industry, and managerial expertise in managing cross-territory businesses.

The management team is expected to contribute significantly to the Target Company's future business expansions. The Target Group also benefits from a team of skilled traders providing customers with market information. The team possesses a wealth of experience in collecting pricing information, which allows the Target Group to effectively and efficiently match the needs of the upstream suppliers and downstream customers.

3. *Online trading platform and comprehensive services*

The Target Group has a large technical team which operates the online trading platform to coordinate trading in a complex environment such as the chemical raw material industry. The trading platform provides easy-to-access pricing data and information. Through the online trading platform, users are able to trade, bargain, take orders, make enquiries and complete online transfers and payment in a one-stop process.

INFORMATION ON OPCO

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

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

INFORMATION ON THE STRUCTURED CONTRACTS

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

Financial Information of the Target Group

Set out below is the audited and consolidated financial information of the Target Group for each of the two financial years ended 31 December 2015 and 2016, which were prepared in accordance with the PRC Accounting Standards for Business Enterprises provided by the Target Company:

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

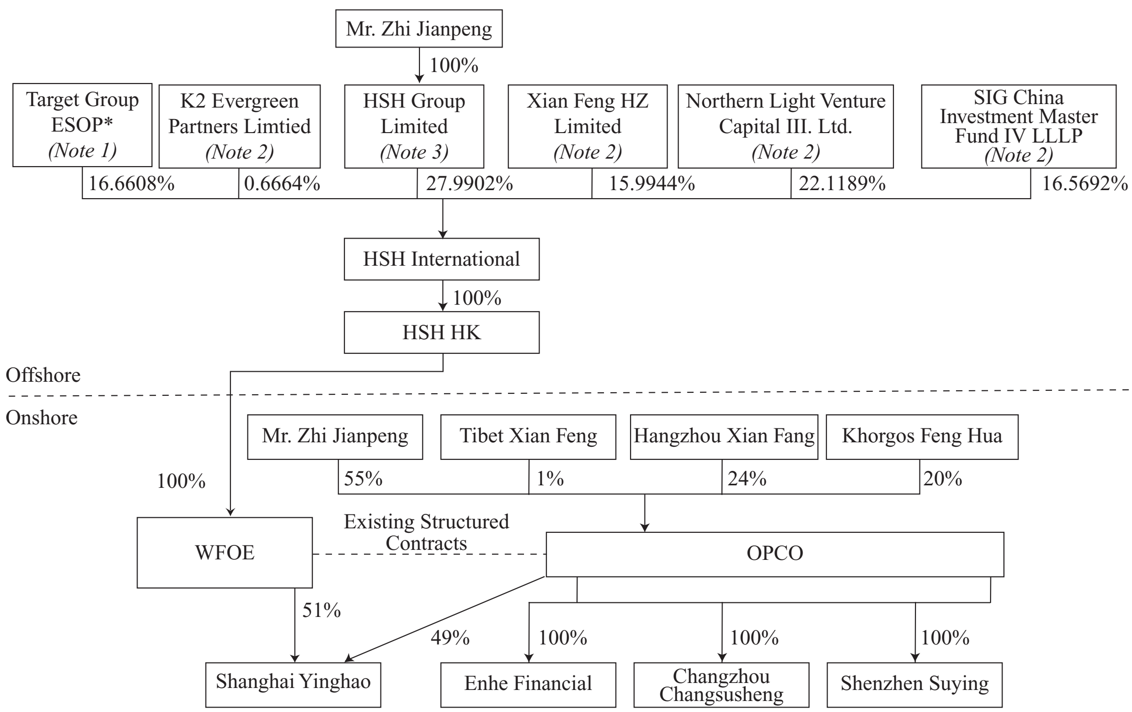
The consolidated net asset value of the Target Group as at 31 December 2016 is approximately RMB41,503,000.

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

Based on the historical financial information of the Target Group for the year ended 31 December 2015, 2016 and for the nine months period ended 30 September 2017, which were prepared in accordance with the International Financial Reporting Standards ("IFRSs"), included in the accountants' report set out in the Appendix II to this Circular, the revenue of the Target Group were approximately RMB306,371,000, RMB4,945,061,000 and RMB4,635,169,000, and the loss after taxation of the Target Group were approximately RMB37,278,000, RMB33,877,000 and RMB61,759,000 respectively. The consolidated net liabilities value of the Target Group as at 31 December 2016 and 30 September 2017 is approximately RMB72,267,000 and RMB130,499,000 respectively. Please refer to the section headed "Appendix II – Accountants' Report of the Target Group" for detailed financial information of the Target Group.

Shareholding structure of the Target Group

(a) Group structure of the Target Group immediately before the Onshore Reorganisation on an as converted basis:



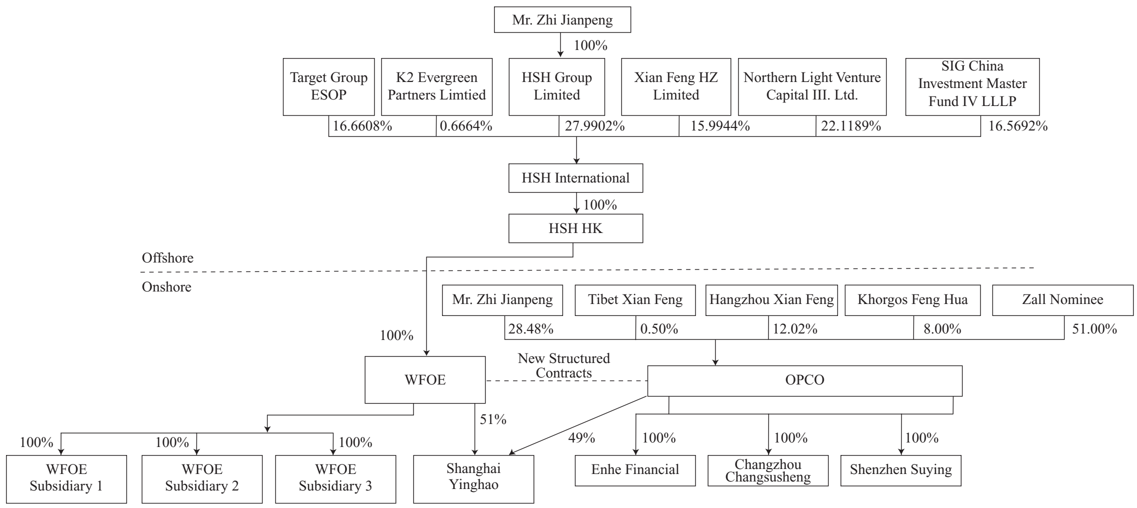
Note:

1. Assuming all the outstanding share options held by Target Group ESOP on the Target Group are exercised in full as ordinary share on an as converted basis.

2. The equity interest represent the convertible redeemable preference shares held by the respective shareholders on the Target Group on an as converted basis.

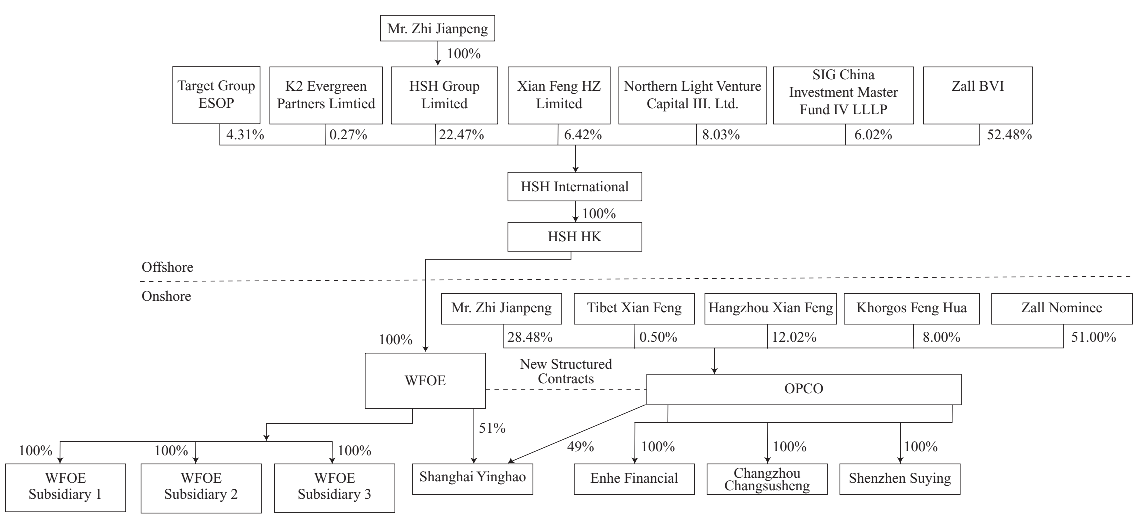
3 The equity interest represent the ordinary shares held by HSH Group Limited on the Target Group.

(b) Group structure of the Target Group immediately after the Onshore Reorganization on and as converted basis:



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

(c) Group structure of the Target Group immediately after Completion (as enlarged by the Subscription Shares and on a fully diluted and as converted basis):



The Structured Contracts

Exclusive Technological Support and Management Consulting Service Agreement

WFOE and OPCO and Changzhou Changsusheng will enter into the Exclusive Technological Support and Management Consulting Service Agreement, pursuant to which OPCO and Changzhou Changsusheng agrees to engage WFOE as its exclusive consultant and service provider. Pursuant to the Exclusive Technological Support and Management

Con.sulting Service Agreement, OPCO and Changzhou Changsusheng shall pay to WFOE a service fee that is equal to its 100% profits (net of operating and other tax expenses) on a monthly basis.

Exclusive Option Agreement

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

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

Business Cooperation Agreement

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

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

Equity Pledge Agreement

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

Authorisation and Entrustment Agreement

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

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

Power of Attorney

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

Spousal Undertaking

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

Compliance of Structured Contracts with PRC laws, rules and regulations

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

Settlement of potential dispute arising from the Structured Contracts

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

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

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

Internal control measures

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

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

(a) requiring OPCO and Changzhou Changsusheng to make available monthly management accounts and submit key operating data and bank statements after each month-end and provide explanations on any material fluctuations to the WFOE;

(b) requiring OPCO and Changzhou Changsusheng to assist and facilitate WFOE to conduct internal audit on OPCO and Changzhou Changsusheng if so required by the Company; and

(c) if required, engaging legal advisers and or other professionals to deal with specific issues arising from the Structured Contracts and ensure that the operation of OPCO and Changzhou Changsusheng will from time to time comply with applicable laws and regulations.

Insurance to cover the risks relating to the Structured Contracts

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

Potential exposure of the Company to losses

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

PRC LAWS AND REGULATIONS RELATING TO THE VALUE-ADDED TELECOMMUNICATION SERVICES

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

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

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

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

Impact of Qualification Requirements and Contingency Plan

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

The plan and steps of the Company includes the following:

1. subsequent to Completion, the Company intends to expand the e-commerce businesses outside of the PRC by setting up subsidiaries and operating offices outside of the PRC if considered to be commercially viable for the Company in order to (i) expand the business scope; and (ii) gain certain level of foreign experience sufficient to demonstrate compliance with the Qualification Requirements and obtain the qualification certificate or/and approval of the relevant governmental authorities for direct ownership in the Information Services Business in the future, such that the Structured Contracts may no longer need to be in place.

2. the Company will:

   (i) under the guidance of the PRC Legal Adviser, continue to keep the Company updated with regard to all relevant regulatory developments and guidance relating to the Qualification Requirements; and

   (ii) provide periodic updates in the annual and interim reports after completion of the Acquisition to inform the Shareholders of the efforts and actions undertaken to comply with the Qualification Requirements.

Information on Draft Law Regarding Foreign Investment in the PRC

Summary

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

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

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

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

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

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

(ii) verification: a foreign-invested enterprise that implements contractual arrangements shall apply to the competent authority of foreign investment to determine its actual control by Chinese investors; after the competent authority of foreign investment determines its actual control by Chinese investors, it may continue to retain the contractual arrangements and the relevant subjects may continue to carry out operating activities;

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

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

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

Potential Impact of the Draft Law on the Proposed Transactions

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

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

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

(ii) in compliance with the Draft Law and other applicable laws and regulations in the PRC (as amended from time to time), he will continue to maintain his shareholding in the Company as the Controlling Shareholder, or procure his successor(s) to provide the same undertakings under Mr. Yan's Undertaking in favour of the Company;

(iii) prior to any event that would render him (or the companies controlled by him) no longer the Controlling Shareholder of the Company, he will ensure that the Structured Contracts arrangement remains within the scope of "onshore investments" as defined under the Draft Law and other applicable laws and regulations in the PRC; and

(iv) he will not take any actions that would render the Structured Contracts illegal, void or immediately terminable under the applicable laws and regulations, and he undertakes to take all necessary actions and execute any documents necessary to protect the economic interests and benefits of the Company under the Structured Contracts.

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

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

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

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

(a) the Company will engage external legal advisers or professional advisers, if necessary, to pay close attention to the update status of relevant laws and regulations, and to assist the Board to review the implementation of the Structured Contracts, review the legal compliance of WFOE and OPCO and Changzhou Changsusheng to deal with specific issues or matters arising from the Structured Contracts

(b) major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from governmental authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

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

Implication under the Revised Catalogue of Industries for Guiding Foreign Investments

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

Board's view on the Structured Contracts

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

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

Risk factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Reasons for adopting the Structured Contracts

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

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

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

REASONS FOR AND THE BENEFITS OF THE PROPOSED TRANSACTIONS

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

The Group is a leading developer and operator of large-scale, consumer product-focused wholesale shopping malls in the PRC. The Group has been adjusting its principal business activities to concentrate its resources on the core business segment, i.e. the development and operating of large-scale consumer product-focused wholesale shopping malls and the provide supply chain management and trading services, e-commerce services, financial services, warehousing and logistics services for its customers in the online and offline wholesale markets.

To achieve its development plan, the Group took advantage of its offline market services and logistic infrastructure in developing its online wholesale trading platform, Zallgo（卓爾購）. Further, the Group has expanded its business layout on the e-commerce, trading and supply chain management business on the commodity market. In the second half of 2016, the Group established various subsidiaries and joint ventures to operate the trading and supply chain management business on the non-ferrous metals, oil, and agricultural products sectors. On 28 June 2017, the Group acquired 50.6% equity interest in Shenzhen Sinoagri E-commerce Co., Ltd. ("**Shenzhen Sinoagri**") and became the largest shareholder of Shenzhen Sinoagri. Shenzhen Sinoagri is principally engaged in B2B e-commerce for the trading of agricultural products, services including trading, supply chain management and supply chain finance. In addition, Mr. Wei Zhe, David, an executive director of the Company also had extensive experience in e-commerce and operational management as management member of multinational corporations such as Alibaba.com Limited. The Company therefore considers that the Board possesses expertise in the B2B e-commerce and supply chain management and trading businesses.

Given the Target Group is principally engaged in e-commerce and supply chain management businesses for chemical and plastic raw materials in the PRC, the Group will be able to leverage on the Target Company's strengths and experience to expand the Group's e-commerce, trading and supply chain management business on the chemical and plastic raw materials sector, thereby enlarging the Group's client base and increasing the Group's revenue in the long run.

As disclosed in the unaudited pro forma financial information of the Enlarged Group (the "**Pro Forma Financial Information**") set out in Appendix IV to this circular, the net current assets and the cash and cash equivalent of the Group as at 30 June 2017, amount to

RMB4,380.9 million and RMB877.6 million, respectively. The Consideration for the Acquisition amount to US$29.5 million (equivalent to approximately HK$230.1 million), which is expected to be settled by using the internal resources and the facilities to be obtained. In view of the above, the Directors consider that the Company would have sufficient resources to settle the Consideration.

Although it is noted that the Target Group had recorded net liabilities as at 30 September 2017 and had recorded losses since 2014, the Directors are of the view that most e-commerce and supply chain management companies tend to incur losses during their initial stage of development. Before these companies are able to generate any profit, significant amounts of funds have to be invested in advertising, research and development in order to establish their market share, develop clientele and sources of revenue. Similarly, the Target Group had expended a significant amount of funds in advertising, research and development since its commencement of operations in 2015 in order to develop its online trading platform and brand name.

Taking into account the prospect and the market potential of the e-commerce and supply chain management and trading business in chemical and plastic raw materials industry in the PRC, the Directors expect that with the funding from the Company after the Subscription, the Target Group could generate a significant growth in revenue and the operating profit will be improved accordingly.

The Target Group recorded net liabilities of approximately RMB130.5 million as at 30 September 2017. Excluding the liabilities from the convertible redeemable preference shares which amounted to approximately RMB164.9 million, the total net asset of the Target Group as at 30 September 2017 amounted to approximately RMB34.4 million. Pursuant to the terms of the Agreement, 94,631,304 preference shares, which amounted to approximately RMB92.2 million will be converted into ordinary shares before the Completion. The remaining 82,831,302 outstanding preference shares amount to approximately RMB72.7 million and recognised as non-current liabilities as the preference shares may be redeemed by the Target Company at the option of the holders of preference shares and upon satisfaction of certain conditions as set out in the paragraph headed "Subject matter" in the section headed "Letter from the Board". In the event that the conditions for redemption cannot be met, the remaining outstanding preference shares may be converted into ordinary shares at the option of the preference shareholders in accordance with the terms and conditions of the preference shares.

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

FINANCIAL EFFECTS OF THE PROPOSED TRANSACTIONS

Upon completion of the Proposed Transactions, the equity interest of the Target Company will be held up to approximately 52.48% by the Company. Members of the Target Group will become non-wholly owned subsidiaries of the Company and according to the

Company's auditors, as the Company will obtain control over the Target Group under International Financial Reporting Standards 10 "Consolidated Financial Statements", the financial results of the Target Group will be consolidated into the results of the Company.

EFFECT OF THE PROPOSED TRANSACTIONS ON THE EARNINGS, ASSETS AND LIABILITIES OF THE ENLARGED GROUP

Upon Completion, the Target Company will become a non wholly-owned subsidiary of the Company and the assets and liabilities and financial results of the Target Company will be included in the consolidated financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group, as set out in Appendix IV to this circular, illustrates the effects of the Target Company on the Company and as if the Second Acquisition and the Subsequent Acquisition had taken place at 30 June 2017 and 1 January 2016, as disclosed in the appendix IV to the published circular of the Company dated 11 December 2017, and the basis of preparation thereon.

Assets and liabilities

Assuming that Completion had taken place on 30 June 2017, the unaudited pro forma total assets of the Enlarged Group as at 30 June 2017 would be approximately RMB45,235.3 million and total liabilities would be approximately RMB27,975.9 million as indicated in the unaudited pro forma consolidated statement of financial position of the Enlarged Group contained in Appendix IV to this circular.

Earnings

Assuming that Completion had taken place on 1 January 2016, the unaudited pro forma net profit attributable to equity shareholders of the Company for the year ended 31 December 2016 of the Enlarged Group will decrease from approximately RMB1,984.6 million to approximately RMB1,961.7 million as indicated in the unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group contained in Appendix IV to this circular. Further details on the unaudited pro forma financial information of the Enlarged Group is set out in Appendix IV to this circular.

LISTING RULES IMPLICATIONS

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

RECOMMENDATION

Taking into consideration the reasons set out in the paragraph headed "Reasons for and the benefits of the Proposed Transactions" above, the Directors consider that the terms of the Agreement are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution as set out in the notice of the EGM to approve, among other things, the Agreement and the transactions contemplated thereunder.

The Directors confirm that, to the best of their knowledge, information and belief after having made all reasonable enquiries, no Shareholder has a material interest in the Agreement and the transactions contemplated thereunder. As such, no Shareholder is required to abstain from voting for the resolution to approve, among others, the Agreement and the transactions contemplated thereunder at the EGM.

To the best knowledge, information and belief of the Company having made all reasonable enquiries, no Director has a material interest in the Agreement and the transactions contemplated thereunder. As such, no Director is required to abstain from voting on the relevant board resolution to approve the Agreement and the transactions contemplated thereunder.

EGM

The Company will convene the EGM at Suite 2101, 21/F, Two Exchange Square, Central, Hong Kong on Monday, 5 March 2018 at 11:00 a.m. for the Shareholders to consider and approve, among other things, the Agreement and the transactions contemplated thereunder.

The notice of the EGM is set out on pages VI-1 and VI-2 of this circular. The voting on resolution(s) to be proposed at the EGM will be conducted by way of poll in accordance with Rule 13.39(4) of the Listing Rules.

The Company will publish an announcement on the results of the EGM with respect to whether or not the proposed resolution(s) have been passed by the Shareholders. A form of proxy for use by the Shareholders at the EGM is enclosed with this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event no later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event the relevant form of proxy shall be deemed to be revoked.

GENERAL

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

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

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

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group (i) for the year ended 31 December 2016 is disclosed in the 2016 annual report of the Company published on 13 April 2017, from pages 67 to 166, (ii) for the year ended 31 December 2015 is disclosed in the 2015 annual report of the Company published on 20 April 2016, from pages 48 to 139, (iii) for the year ended 31 December 2014 is disclosed in the 2014 annual report of the Company published on 24 April 2015, from pages 48 to 135, and the unaudited condensed consolidated interim result for the six months ended 30 June 2017 is disclosed in the 2017 interim report published on 18 September 2017, from pages 24 to 60 all of which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.zallcn.com).

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 December 2017, being the latest practicable date for the purpose of determining this indebtedness of the Enlarged Group prior to the printing of this circular, the Enlarged Group had the following:

	RMB'000
Bank loans, loans from other financial institutions and third parties	
– unsecured and unguaranteed	1,194,983
– unsecured and guaranteed	1,213,593
– secured and unguaranteed	5,420,532
– secured and guaranteed	3,619,627
	11,448,735
Guarantees *(note):*	1,040,481

Note: The amount mainly represents guarantees given to banks and other financial institutions and third parties for mortgage facilities granted to purchasers of the Group's properties.

Save as aforementioned and apart from intra-group liabilities, as at the close of business on 31 December 2017, the Enlarged Group did not have any other outstanding borrowings, loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Further Acquisition, the internal resources available to the Enlarged Group, presently available banking facilities and the intended refinancing of the existing bank facilities upon maturities and in the absence of unforeseen circumstances (any event of force majeure occurs including without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out), the Enlarged Group will have sufficient working capital for its present requirements for the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 December 2016, the date to which the latest audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group extracted from the annual reports of the Company for each of the years ended 31 December 2014, 2015 and 2016 and the interim report for the six months ended 30 June 2017. The financial data in respect of the Group, for the purpose of this circular, is derived from the audited consolidated financial statements of the Company for the years ended 31 December 2014, 2015 and 2016, and the unaudited condensed consolidated financial statements for the period ended 30 June 2017. Terms used below shall have the same meanings as defined in the aforesaid reports.

(a) For the six months ended 30 June 2017

Business Review and Prospects

Since the Group announced its thorough transformation from a traditional property developer to a service-oriented and internet-based e-commerce enterprise in 2015, the Group decisively changed its business nature in accordance with the situations. Through business restructuring and strategic mergers and acquisitions, the Group has been progressively reducing the proportion of property development, developed online trade, data and featured financial service by virtue of its offline market service and logistics facilities, and created a commercial ecosphere of intelligent transactions for traditional wholesale and trading industry with new technology, new format and new model. Since its transformation, the Group has established the largest consumer product wholesale online and offline platform in the PRC that made the Group become one of the first tier participants in the PRC's e-commerce industry.

Currently, the Group has constructed solid online and offline infrastructure. Mega trade and logistics centers, such as North Hankou International Trade Centre and Tianjin E-commerce Mall, is establishing the largest physical trading service system for e-commerce in China. Leveraged on the advantage of the ever-growing physical wholesale market as well as on properties, customers, logistics and data, and through online trade and service platforms such as Zallgo (卓爾購), Zallsoon (卓集送) and Zallfuhui (卓服匯), the Group quickly achieved the online transformation of wholesale trading for merchants by the provision of logistics, warehousing and other comprehensive value-added services. Through cross-industry mergers and acquisitions, the Group has become the largest shareholder of LightInTheBox, a cross-border e-commerce platform, and Shenzhen Sinoagri, the largest e-commerce company of agricultural products in China, through which the Group has built an open and highly efficient trading platform. Meanwhile, based on the supply chain financial services portfolio of Zall Financial Services Group Limited ("Zall Financial Services"), the Group provided comprehensive financial services such as financing, insurance, leasing, credit investigation and payment for merchants in the ecosphere. The Group also set up five supply chain management and trading companies including Wuhan Zhuoyitong Supply Chain Management Co., Ltd. ("Zhuoyitong")（卓易通）, North Hankou Import Export Services Co., Ltd. and Zall Heng Supply Chain Management (Wuhan) Co., Ltd. ("Wuhan Zall Heng")（武漢卓恒）successively to provide merchants with wholesale distribution, import and export and other supply chain management services. Through the global logistics business launched by Zallsoon and LanTingZhiTong（蘭亭智通）, the trading platform is provided with strong support and services through a complete, efficient and convenient service chain, which has formed an increasingly effective service chain.

Consumer product-focused wholesale platform

North Hankou International Trade Centre, the flagship project of the Group leveraging on the advantages of Wuhan as the national integrated transportation hub, is committed to providing one-stop services including office, exhibition, logistics, finance, manufacturing and export. After 10 years of development, North Hankou International Trade Center currently has developed and developing area of approximately 6 million square meters, covering 20 major specialized markets including Footwear and Leatherware Mall, Brand Clothing Mall, Small Goods Mall, Hotel Supplies Mall, Textile and Accessory Mall, Curtains World, Automobiles World and Hardware and Lighting Mall, with approximately 28,000 wholesalers as at 30 June 2017. It has become the largest commercial trade logistics centre across central and western China, and the only national pilot market for procurement trade in central and western China. Since 2011, North Hankou has been actively responding to the relocation decision and deployment of Hanzheng Street, and continuously enhanced the construction in storage, logistics, industrial park and ancillary facilities to fully support the relocation of Hanzheng Street. In the first half of the year, women's apparel market was relocated from Hanzheng Street to North Hankou International Trade Centre and the Group organized a grand store-opening event for the women's apparel market and North Hankou shoes wholesale market. To support these merchants, a large number of well-known Chinese-style women's brands and other large and medium-sized manufacturers have been stationed in North Hankou Industrial City, which, together with North Hankou Textile and Accessory City and Brand Clothing City, support each other in three main platforms, namely manufacturing, raw materials and distribution to form a modern cluster of clothing industry by integrating production, supply and marketing. As at 30 June 2017, the North Hankou Industrial City has housed 81 merchants, with contract sales area reaching 220,000 square meters.

Tianjin E-commerce Mall, the flagship project of the Group in northern China with total planned area of 3,000,000 square meters and gross floor area of 612,000 square meters, the main construction work for Phase 1 has been completed, part of the commercial and trade zone and e-commerce zone has commenced operation. Under the background of cooperative development in Beijing-Tianjin-Hebei region and easing the Beijing non-capital core function, Tianjin E-commerce Mall has been taking in more and more large wholesale markets from Beijing. Following the grand opening of Haining Leather City and Dongpi Clothing Wholesale New Market, the Small Goods Mall has been undergoing trial operation during the period. In July 2017, Tianjin E-commerce Mall held a welcoming event for the overall relocation of Jingwen Apparel Shopping Centers and Tianjin Big Alley Apparel Wholesale Market, more than 1,000 merchants from Jingwen Apparel Shopping Centers and more than 500 merchants from Tianjin Big Alley Apparel Wholesale Market signed contract to station in Tianjin E-commerce Mall, it is expected that Jinwen E-commerce Mall will commence operation in March 2018.

Zallgo, as the Group's online wholesale platform with focus on servicing the offline markets (which mainly include fast moving consumer goods, hotel supplies, stationary and sporting goods, apparel and shoes, curtains and building materials and household products), provides a full set of O2O industry solutions and services, transforms offline trading into online trading and regional trading into whole network trading and combines the functions of online trading, automatic logistics matching and supply chain financial services, the efficiency of wholesale trading is greatly enhanced and logistics costs reduced. As at 30 June 2017, Zallgo, the largest online and offline integrated wholesale trading platform in China, has covered 27 cities across the nation, at which there have been 1,223 national major wholesale markets, more than 210,000 merchants and approximately 800,000 registered users with accumulative transaction amount of approximately RMB98.9 billion.

Supply chain management and trading business

With the rapid development of the Group's e-commerce business, large number of buyers and sellers have gathered under Zallgo and the commodity market business leading to substantial amount of synchronized information flow within the supply chain, and created high demand for supply chain management and trading services. In the second half of 2016, the Group established various subsidiaries and joint ventures to operate the supply chain management business and provide other value-added services. The Group serves as a supply chain service provider and trader for up-stream suppliers and down-stream customers through supply chain management business, which in turn results into a substantial growth of supply chain management and trading business. Such business will enable the Group to establish closer connections between both supply and demand sides of the supply chain. Through provision of supply chain management service and comprehensively utilizing the service and tools such as management, finance, information, transportation and storage, the Group provides new kind of supply chain solutions in terms of logistics, trade flow, information flow and capital flow to customers and implements such solutions for the clients. In particular, such integrated supply chain management services include planning and design, procurement agency, distribution agency, inventory warehousing management, fund settlement and information systems with the ultimate purpose of helping customers to optimize supply chain and capital operation efficiency, control trading risk in procurement and inventory and reduce operating costs. In the non-ferrous metals sector, Wuhan Zall Heng and its subsidiaries operate import and export trading, domestic trading and re-export trading, to undertake the sales and procurement demand of international and domestic large-sized non-ferrous metal enterprises and engage in supply chain business of standardized non-ferrous metals such as electrolytic copper, electrolytic nickel and aluminum ingots. In the first half of 2017, such companies realised sales revenue of approximately RMB3.161 billion and established stable cooperative business relationship with nearly 50 upstream and downstream corporate clients. In May 2017, the Group increased its equity interests in Wuhan Zall Heng to 65%. As a result, Wuhan Zall Heng became a non-wholly subsidiary of the Company. In the field of grain and agricultural products, Wuhan Zall Agriculture Supply Chain Management Co., Ltd. has established stable cooperative business relationship with nearly 10 upstream and downstream clients since its incorporation last year. In future, the Group will expand its supply chain management business to include more kinds of service, and seek to carry out and expand the business of supply chain management and trading in relation to non-ferrous metals, oil and foodstuffs, fast moving consumer products and chemical and ceramics products.

On 28 October 2016, the Group entered into a conditional agreement to acquire up to approximately 60.49% of the equity interest of Shenzhen Sinoagri at a consideration of approximately HKD2.591 billion. During the six months period ended 30 June 2017, the Group accomplished the first completion of acquisition of majority equity interests of 50.6% in Shenzhen Sinoagri and became the controlling shareholder of Shenzhen Sinoagri. On 27 June 2017, the Group announced to enter into a framework agreement to further acquire 8.36% equity interests in Shenzhen Sinoagri at a consideration of approximately RMB307 million. Shenzhen Sinoagri mainly engages in upstream and downstream business along the agricultural product chain and provides whole supply chain service solution in the fields of information, trading, settlement, logistics and financing. Shenzhen Sinoagri focuses on vertical segmentation of bulk agricultural products and has established mature operating model in several categories, including sugar, cocoon silk, wood panel and apple, of which the commodity flow volume has accounted for approximately 30% of the total volume in the PRC. Its trading members include a substantial majority of the participants in the industry, and it serves the function as a resources allocation center and pricing indicator in the industry. During the period, Shenzhen Sinoagri realized operating income of approximately RMB15.429 billion, representing an increase of 75% as compared to the same period of 2016. Shenzhen Sinoagri's business has maintained rapid growth and continued to be the market leader in domestic agricultural product B2B e-commence industry. With years of operation in B2B vertical e-commerce business, Shenzhen Sinoagri has developed mature B2B trading platform and rich experience in supply chain management, which will become a new driving force for the Group's deployment in agricultural product e-commence business. Meanwhile, leveraging on the Group's experience and resources, Shenzhen Sinoagri will further enhance its whole industrial chain service and earnings growth, accelerate to achieve the strategic objective in "building new agricultural ecosystem".

Supply chain finance, warehousing and logistics services

As for supply chain finance service, Zall Financial Services, a subsidiary of the Group, provides one– stop financial services including comprehensive supply chain finance, finance leasing, factoring and guarantees, serves as a key milestone to improve the ecosphere of Zall's intelligent transactions and enhancing its supply chain financial services. Its principal businesses include the provision of guarantees, finance leasing, commercial factoring and direct financing to e-commerce customers. As at 30 June 2017, the internet financial platform of Zall Financial Services had a total of approximately 200,200 registered members with total financing amount of approximately RMB856 million.

As for warehousing services, Zallfuhui, a subsidiary of the Group, focuses on the online and offline warehouse goods custody services for enterprises, wholesale markets and various types of social dealers, financial products regulatory business as well as warehouse leasing and upgrading support. Capitalizing on various professional management system and its abundant customer resources in the wholesale market, Zallfuhui provides supply chain system support and implements standard management of warehouses according to the demand for warehouse from the wholesale markets and merchants. Its marginal benefits are expanded by an unified warehousing and distribution system to reduce merchant warehouse management costs and improve efficiency. As at 30 June 2017, Zallfuhui's platform recorded a turnover of approximately RMB2,490 million and its logistics orders amounted to 77,000. The cloud warehouses under its management have covered 28 cities with an area of approximately 8.64 million square meters.

As for logistics services, Zallsoon, a subsidiary of the Group, mainly focuses on wholesale market merchants and achieves connection between cargo owner and vehicle owner, and provides comprehensive delivery information (for goods delivery) for the cargo owners and transaction services. Also, it helps vehicle owners enhance the efficiency of goods delivery and reduces the frequency of empty return trip on one hand, and facilitates the vehicle owners to identify their vehicles on the other, which finally reduces the logistics costs of both parties. As at 30 June 2017, Zallsoon has provided services to about 150,000 cargo owners with over 30,000 active drivers on its platform. Total orders in aggregate amounted to nearly 7 million for the year, and with a highest single date order volume over 70,000, the cargo supply covered 10 cities including Wuhan, Shanghai, Nanjing, Guangzhou, Shenzhen, Tianjin, Xuzhou, Dongguan and Zhengzhou. In future, focusing on large customers in the same city and long trip business by providing customized logistics solutions to designated large customers and long trip customers will be Zallsoon's development objective and strategy.

Meanwhile, it will commence financing lease business to secure a stable and controllable core transportation capacity for the platform, which will indirectly improve the platform and increase the number of orders from large customers.

Investment Portfolio

The portfolio of listed equity investments of the Group as at 30 June 2017 and 31 December 2016 were as follows:

As at 30 June 2017

Stock code	Name of investee company	Number of shares held	Effective shareholding interest	Acquisition cost	Carrying amount as at 30 June 2017	Unrealised holding (loss)/gain arising on revaluation for the six months ended 30 June 2017	Dividend received for the six months ended 30 June 2017
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
00607.HKEX	Fullshare Holdings Limited ("Fullshare")	695,497,500	3.53%	773,985	1,883,345	(359,200)	10,207
00658.HKEX	China High Speed Transmission Equipment Group Co., Ltd. ("China Transmission")	13,630,000	0.83%	94,280	101,144	6,864	–
					1,984,489	(352,336)	10,207

As at 31 December 2016

Stock code	Name of investee company	Number of shares held	Effective shareholding interest	Acquisition cost	Carrying amount as at 31 December 2016	Unrealised holding gain arising on revaluation for the six months ended 30 June 2016	Dividend received for the year ended 30 June 2016
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
00607.HKEX	Fullshare	680,480,000	3.45%	734,920	2,203,480	917,479	6,805

The performance and prospect of the major investments during the six months ended 30 June 2017 are as follows:

As at 30 June 2017, the Group held approximately 695,497,500 (31 December 2016: 680,480,000) shares in Fullshare, representing approximately 3.53% of its entire issued share capital (31 December 2016: 3.45%). Fullshare is listed on the main board of the Stock Exchange. Its principle activities are property development, tourism, investment, provision of healthcare products and services business and new energy business. The Group recognised an unrealised holding loss of approximately RMB359.2 million for the six months ended 30 June 2017 (for the six months ended 30 June 2016: unrealised holding gain of RMB917.5 million). The carrying amount of investment in Fullshare accounts for approximately 4.18% of the Group's total assets as at 30 June 2017 (31 December 2016: 7.41%). The Group would like to emphasize that the unrealised holding loss: (i) did not cover other aspects of the Group's results for the six months ended 30 June 2017 and (ii) is non-cash in nature and relates to the change in fair value of the Group's investment in Fullshare that are volatile in nature. The Group is of the view that the unrealised holding loss will not adversely affect the Group's operating financial positions. The Group will closely monitor the performance of its investment and adjust its investment plan and portfolio when necessary.

As at 30 June 2017, the Group held approximately 13,630,000 shares in China Transmission, representing approximately 0.83% of its entire issued share capital. China Transmission is listed on the main board of the Stock Exchange. Its principle activities are research, design, development, manufacture and distribution of various types of mechanical transmission equipment for a broad range of applications in wind power generation and industrial use. The Group recognised an unrealised holding gain of approximately RMB6.9 million for the six months ended 30 June 2017. The carrying amount of investment in China Transmission accounts for approximately 0.22% of the Group's total assets as at 30 June 2017. The Group believes that China Transmission's growth momentum remains strong and expects its investment in China Transmission will continue to generate return for the Group. The Group will closely monitor the performance of its investment and adjust its investment plan and portfolio based on the liquidity planning.

Results of operation

Operating revenue

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
Revenue from property development and related services:		
Sales of properties	200,119	509,160
Rental income	94,960	94,889
Revenue from construction contracts	15,453	11,611
Others	13,079	9,001
Revenue from E-commerce and financial services business	35,208	1,019
Revenue from supply chain management and trading business	1,958,912	–
Others	5,787	392
	2,323,518	626,072

Revenue of the Group increased significantly by approximately 271.1% from RMB626.1 million for the six months ended 30 June 2016 to approximately RMB2,323.5 million for the six months ended 30 June 2017. The increase was primarily due to the offsetting effect of (i) the decrease in the revenue from sales of properties; (ii) the increase in revenue from construction contracts; (iii) the revenue contribution from E-commerce and financial service business; and (iv) the revenue contribution from supply chain management and trading business.

Sale of properties

Revenue from the sale of properties decreased by approximately 60.7% from approximately RMB509.2 million for the six months ended 30 June 2016 to approximately RMB200.1 million for the six months ended 30 June 2017.

The Group's revenue from sales of properties was generated from the sales of industrial plants units, auxiliary facilities units, office and retails units and residential apartments. The decrease in revenue from sales of properties was mainly attributed to the decrease in the gross floor area delivered of the properties and the change in combination of properties sold which resulted in the lower average selling price for the six months ended June 2017.

Rental income

The Group's rental income increased slightly by approximately 0.1% from approximately RMB94.9 million for the six months ended 30 June 2016 to approximately RMB95.0 million for the six months ended 30 June 2017. The rental areas in the North Hankou International Trade Centre has been increased during the period while its effect is offset by the effect of a slightly decrease in rent per square meter resulted by the change in combination of properties rented.

Revenue from construction contracts

The Group's revenue from construction contract to build certain properties on behalf of a third party increased by approximately 33.1% from approximately RMB11.6 million for the period ended 30 June 2016 to approximately RMB15.5 million for the period ended 30 June 2017. The revenue was recognised according to the actual cost incurred for the six months ended 30 June 2017. The increase was primarily due to projects being at their completion stage.

Revenue from E-commerce and financial services business

The Group's revenue from E-commerce and financial services business has contributed approximately 1.5% of the Group's total revenue for the six months ended 30 June 2017. It mainly represents the contribution from Zhong Bong Commercial Factoring Co., Ltd. and the contribution from Zhong Bong Financial Leasing Co., Ltd., Hangzhou Jiuyu Asset Management Co., Ltd. and Harvest Financial Information Services (Hangzhou) Co., Ltd. which were acquired by the Group in the second half year of 2016.

Revenue from supply chain management and trading business

The Group's revenue from supply chain management and trading business has contributed approximately 84.3% of the Group's total revenue for the six months ended 30 June 2017. The contribution is due to (i) the first completion of acquisition of a majority equity interest in Shenzhen Sinoagri, a company principally engaged in B2B e-commerce for the trading of agricultural products, services including supply chain management and supply chain finance, as a result of which the financial results of Shenzhen Sinoagri was consolidated into the Group's financial results, and (ii) an increase in the Group's equity interest from 60% to 65% in Wuhan Zall Heng, as a result of which the financial results of Wuhan Zall Heng was consolidated into financial results of the Group, Wuhan Zall Heng is principally engaged in the provision supply chain management services and solutions for the supply of non-ferrous metals during the six months ended 30 June 2017.

Cost of sales

Cost of sales of the Group increased significantly by approximately 452.2% from approximately RMB400.2 million for the six months ended 30 June 2016 to approximately RMB2,210.0 million for the six months ended 30 June 2017. The increase is primarily due to the recognition of cost of inventories of approximately RMB1,958.1 million from the supply chain management and trading business since the first completion of acquisition of a majority equity interest in Shenzhen Sinoagri and increase in the Group's equity interest in Wuhan Zall Heng during the six months ended 30 June 2017.

Gross profit

Gross profit of the Group decreased by approximately 49.7% from approximately RMB225.9 million for the six months ended 30 June 2016 to approximately RMB113.5 million for the six months ended 30 June 2017. The Group's gross profit margin decreased from 36.1% in first half year of 2016 to 4.9% in first half year of 2017 mainly due to the changes of the revenue portfolio of the Group since the first completion of acquisition of a majority equity interest in Shenzhen Sinoagri and increase in the Group's equity interest in Wuhan Zall Heng during the six months ended 30 June 2017. Given the characteristics of initial development of the supply chain management and trading business, it has contributed higher revenue but lower profit margin.

Other net (loss)/income

Other income of the Group decreased significantly from approximately RMB930.7 million for the six months ended 30 June 2016 to other net loss of approximately RMB344.6 million for the six months ended 30 June 2017. The other income decreased by approximately RMB1,275.3 million was mainly due to the decrease in the fair value change on financial assets at fair value through profit or loss amounted to approximately RMB1,281.5 million.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 24.7% from RMB59.6 million for the six months ended 30 June 2016 to approximately RMB74.3 million for the six months ended 30 June 2017. The increase was primarily due to the increase of approximately RMB8.7 million and approximately RMB4.4 million in advertising promotion expenses and staff costs respectively.

Administrative and other expenses

Administrative and other expenses of the Group increased by approximately 44.4% from RMB66.8 million for the six months ended 30 June 2016 to approximately RMB96.6 million for the six months ended 30 June 2017. The increase was primarily due to (i) the increase in office expenses of approximately RMB6.1 million; (ii) increase in staff costs of approximately RMB14.8 million and (iii) increase in consultancy fee of approximately RMB5.2 million.

Increase in fair value of investment properties and non-current assets classified as held for sale and fair value gain upon transfer of completed properties held for sale to investment properties

The Group holds a portion of properties developed for rental income and/or capital appreciation purposes. The Group's investment properties are revaluated at the end of the respective review period on an open market value or existing use basis by independent property valuers. For the six months ended 30 June 2017, the Group recorded fair value change of investment properties and non-current assets classified as held for sale of approximately RMB141.8 million (for six months ended 30 June 2016: approximately RMB106.3 million) and fair value gain upon transfer of completed properties held for sale to investment properties of approximately RMB1,984.8 million (for six months ended 30 June 2016: approximately RMB626.4 million). The increase fair value gain of approximately RMB1,393.9 million in total was mainly attributable from the increased number of wholesale shopping mall units and auxiliary facilities units retained for rental purpose.

Share of loss of joint ventures

Share of loss of joint ventures of the Group increased by 685.7% from approximately RMB21 thousand for the six months ended 30 June 2016 to approximately RMB165 thousand for the six months ended 30 June 2017. The increase is primarily due to the Group's share of loss from 60% equity interest of Wuhan Zall Heng from January to May 2017. Wuhan Zall Heng was established in September 2016, and was held as joint venture by the Group, prior to the Group's further acquisition of an additional 5% equity interest in Wuhan Zall Heng which then became a non-wholly owned subsidiary of the Company in May 2017.

Share of loss of associates

Share of loss of associates increased by 208.1% from approximately RMB5.0 million for the six months ended 30 June 2016 to approximately RMB15.4 million for the six months ended 30 June 2017. The increase is primarily due to equity interest held in LightInTheBox increased from 30.8% to 33.7% and the Group's share of six-month loss of LightInTheBox for the six months ended 30 June 2017. The Group only share of three months loss of LightInTheBox for the six months ended 30 June 2016, as the Group acquired the equity interest of LightInTheBox since March 2016.

Gain on disposal of subsidiaries

For the six months ended 30 June 2016, the Group disposed its subsidiary, namely Wuhan Panlong Zall Properties Co., Ltd, and recognised an gain of approximately RMB95.6 million. For the six months ended 30 June 2017, the Group did not dispose any of its subsidiaries.

Finance income and costs

For the six months ended 30 June 2017, interest income of approximately RMB1.8 million (for six months ended 30 June 2016: approximately RMB3.1 million) was credited to the consolidated statement of profit or loss.

For the six months ended 30 June 2017, a net finance cost of approximately RMB160.3 million (for six months ended 30 June 2016: approximately RMB64.7 million) was charged to the consolidated statement of profit or loss. The increase was mainly attributable to the increase in interest expenses incurred on bank loans and loans from other financial institutions and other borrowing costs.

Income tax

Income tax increased by approximately 51.6% from approximately RMB319.0 million for the six months ended 30 June 2016 to approximately RMB483.6 million for the six months ended 30 June 2017. The increase was mainly due to the offsetting effect of (i) the decrease in current PRC corporate income tax of approximately RMB35.8 million as the taxable profit decreased; (ii) the decrease of current PRC LAT of approximately RMB16.4 million due to the decrease in profit on properties sales; and (iii) the increase in deferred tax of approximately RMB216.8 million mainly due to the increase in temporary differences from fair value changes of investment properties. As a result, the Group's effective tax rate was increased from 17.8% for the six months ended 30 June 2016 to approximately 31.2% for the six months ended 30 June 2017.

Profit for the period

For the six months ended 30 June 2017, the Group recorded a net profit of approximately RMB1,066.9 million. Profit attributable to equity shareholders of the Company was approximately RMB1,074.6 million, representing a decrease of approximately 26.6% over the amount of approximately RMB1,463.4 million for the six months ended 30 June 2016.

Liquidity and capital resources

The Group has consistently maintained sufficient working capital. As at 30 June 2017, the Group had net current assets of approximately RMB4,908.3 million (31 December 2016: approximately RMB5,657.8 million) and net assets of approximately RMB17,545.3 million (31 December 2016: approximately RMB12,139.2 million). As at 30 June 2017, the Group's equity attributable to equity shareholders of the Company amounted to approximately RMB16,757.4 million (31 December 2016: approximately RMB12,104.5 million), comprising issued capital of approximately RMB32.3 million (31 December 2016: approximately RMB29.7 million) and reserves of approximately RMB16,725.1 million (31 December 2016: approximately RMB12,074.8 million).

Cash position

The Group's cash and cash equivalents consist primarily of cash on hand and bank balances which are primarily held in RMB denominated accounts with banks in the PRC. The Group's cash and cash equivalents increased by approximately 414.1% from approximately RMB273.3 million as at 31 December 2016 to approximately RMB1,405.0 million as at 30 June 2017. The increase was mainly attributable to the consolidation of the cash and cash equivalents of Wuhan Zall Heng and Shenzhen Sinoagri since May and June 2017 respectively.

Bank loans and loans from other financial institutions

The Group's total long-term and short-term loans increased by approximately 14.6% from approximately RMB8,393.9 million as at 31 December 2016 to approximately RMB9,618.0 million as at 30 June 2017. The increase was mainly attributable to the consolidation of the bank loans and loans of Wuhan Zall Heng and Shenzhen Sinoagri since May and June 2017 respectively. Majority of the loans were denominated in RMB, being the functional currency of the Group.

Net gearing ratio

The Group's net gearing ratio sharply declined from 62.5% as at 31 December 2016 to 33.7% as at 30 June 2017. The decrease in net gearing ratio was mainly due to (i) the shareholders' funds in the Company has been increased due to the issuance of new shares and consideration shares under the general mandate and acquisition of Shenzhen Sinoagri, respectively (ii) the Group's financial position and net gearing ratio have been strengthen upon the first completion of the acquisition of Shenzhen Sinoagri. The net gearing ratio is calculated by dividing total borrowings, net of cash and cash equivalents, restricted cash and short term bank deposits, by total equity attributable to equity shareholders of the Company.

Foreign exchange risk

The Group's sales were primarily denominated in RMB, being the functional currency of the Group's major operating subsidiaries. Accordingly, the Board expects any future exchange rate fluctuation will not have any material effect on the Group's business. As at 30 June 2017, the Group did not use any financial instruments for hedging purpose. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

Charge on assets

As at 30 June 2017, the Group had pledged certain of its assets with a total book value of RMB20,264.5 million (31 December 2016: RMB16,253.1 million) and a total book value of RMB4,955.1 million (31 December 2016: Nil) for the purpose of securing certain of the Group's bank borrowings and bills payables respectively.

Material acquisitions and disposals of subsidiaries or associated companies

In May 2017, Zall Development Wuhan Co., Ltd ("Zall Wuhan"), a wholly-owned subsidiary of the Company entered into an acquisition agreement with an individual and revised certain contractual terms of a joint venture arrangement, pursuant to which Zall Wuhan agreed to further acquire 5% equity interests in Wuhan Zall Heng, which was formerly held as a join venture, at a consideration of RMB1,250,000. Upon completion of the aforesaid acquisition, Wuhan Zall Heng became a non-wholly owned subsidiary of the Company on 23 May 2017.

On 28 October 2016, Zall Development (BVI) Holding Company Limited ("Zall Development (BVI)"), a wholly-owned subsidiary of the Company entered into an acquisition agreement, pursuant to which Zall Development (BVI) conditionally agreed to purchase 60.49% equity interest of the Shenzhen Sinoagri at a consideration up to HKD2.591 billion, which will be satisfied by way of allotment and issue of the consideration shares. The transaction is required to complete in two tranches. On 28 June 2017, the first tranche of the acquisition was completed and, 517,227,000 consideration shares was allotted and issued to the vendors in exchange for approximately 50.6% equity interest of Shenzhen Sinoagri. and as a result of which Shenzhen Sinoagri became a non-wholly owned subsidiary of the Company.

Segment reporting

Details of the segment reporting of the Group for the six months ended 30 June 2017 are set out in note 3 of the interim condensed consolidated financial statements.

Contingent liabilities

In accordance with industrial practice, the Group has made arrangements with various PRC banks to provide mortgage facilities to the purchasers of its pre-sold properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group will be responsible to repay the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to the banks. The Group's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the buyers obtained the individual property ownership certificate and the full settlement of mortgage loans by the buyers.

During the period, the Group's wholly owned subsidiary, Wuhan North Hankou Guarantee Investment Company Limited ("Wuhan Guarantee Investment") is principally engaged in provision of business start-up loan guarantee and personal loan guarantee for small and medium sized enterprises in the PRC. In accordance with the terms stipulated in the relevant agreements, Wuhan Guarantee Investment is required to make payments to reimburse the beneficiary of the guarantee for the loss incurs if a specified borrower fails to make payment when due.

As at 30 June 2017, the guarantees provided to lenders in relation to personal loans and banks in relation to mortgage facilities granted to purchasers of the Group's properties amounted to approximately RMB46.1 million (31 December 2016: approximately RMB148.8 million) and approximately RMB1,170.0 million (31 December 2016: approximately RMB1,881.8 million), respectively.

Employees and Remuneration Policy

As at 30 June 2017, the Group employed a total of 1,255 full time employees (30 June 2016: 1,178). Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the six months ended 30 June 2017, the employees benefit expenses were approximately RMB67.4 million (for six months ended 30 June 2016: approximately RMB35.7 million). The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when the occasion requires.

The Group has also adopted a share option scheme (the "Share Option Scheme") and a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including the Directors, and full-time or part-time employees, executives or officers of the Group who had contributed to the success of the Group's operations. As at 30 June 2017, there was no outstanding share options under the Share Option Scheme and Pre-IPO Share Option Scheme.

(b) For the year ended 31 December 2016

Business Review and prospects

Strategic transformation from offline to online

In 2016, the Group continued to reinforce its competitive advantage of its core business, and intensified its effort in the internetisation of its core business and O2O integration, so that the Group will continue to transform to the "customer-orientation" and "internetisation". During the year, the Group accelerated its business expansion through organic growth and acquisitions, and established an intelligent collaborative business ecosphere. In respect of e-commerce business, the Group has become the largest shareholder of LightInTheBox, and has announced the acquisition of Shenzhen Sinoagri. In respect of financial services business, it established Zall Financial Services Group. In respect of logistics business, the online-offline integrated Intelligent Cloud Storage（智能雲倉）and Zallsoon（卓集送）have been established. The Group's "Wholesale Market + Internet" project known as Zall Cloud Market is supported by all the related business to link up e-commerce, finance, logistics, data, software and supply chain management services for mapping itself in the arenas of intelligent trading, internet of things and cross-border trading, aiming to form a business relationship that features synergetic interaction, mutual support and joint development.

At present, the Group has already established solid online-offline infrastructure. Mega trade and logistics centers, such as North Hankou International Trade Centre and Tianjin E-commerce Mall, have become China's largest physical trading service system. At the same time, Zall Cloud Market, leveraged on the foundation and competitive advantage in the existing trading, warehousing, logistics, and data of large trade and logistics centers, is now developing e-commerce, logistics information and data service businesses. Three major online trade and service platforms, Zallgo（卓爾購）, Zallsoon and Zallfuhui（卓服匯）were launched, supplying online wholesale, procurement management core functions and logistics information, trade matching and such other value-added services, which will lead to an integration of offline-online business. The Group strives to forge a unique position and vision as China's largest trading service system. Through Zallgo, LightInTheBox and such other domestic and overseas comprehensive trading platforms, vertical trading platforms such as Shenzhen Sinoagri, and the full convergence with logistics, finance and supply chain service platforms including Zallsoon, Zalljinfu（卓金服）, Jia16（嘉石榴）, Zhuoyitong（卓易通）to form an advanced intelligent trading ecosystem.

Offline businesses

North Hankou International Trade Centre is the flagship project of the Group leveraging on the advantages of Wuhan as the national integrated transportation hub, and is committed to providing one-stop services including office, exhibition, logistics, finance, manufacturing and export. After 10 years of development, North

Hankou International Trade Center currently has an area of more than 5 million square meters, covering 20 major specialised markets including Footwear and Leatherware Mall, Brand Clothing Mall, Small Goods Mall, Hotel Supplies Mall, Textile and Accessory Mall, Curtains world, Automobiles World and Hardware and Lighting Mall, with around 28,000 wholesalers and approximately RMB60 billion transaction volume in 2016, it has become the largest commercial trade logistics centre across central and western China. By the end of 2016, about 12,000 merchants in Hanzheng Street had moved to North Hankou International Trade Centre. All merchants in the industries of hotel supplies, stationary and sporting goods, and most merchants in women's clothing and brand children's clothing had been relocated to North Hankou International Trade Centre. During the year of 2016, a warehousing and logistics centre with 2 million square meters was completed at North Hankou International Trade Centre, where more than 300 logistics and courier service companies are now stationed.

In terms of transportation facilities, North Hankou Transport Terminal was put into use during the year. It is a modern transportation hub complex built according to the nation's first-class standards. The position of the North Hankou International Trade Centre in Central China's trade logistic has been strengthened by the excellent and convenient transportation and logistics. Upon the formal approval of the eight national ministries in 2016, North Hankou International Trade Centre has been the third batch state-level pilot markets for market procurement trade, and it is also the only pilot market in the central and western provinces. North Hankou International Trade Centre has accelerated the infrastructure for the pilot market and actively consolidated premium resources, as well as enhanced service functions, in order to build an integrated foreign trade service system. Well-know domestic and overseas companies were introduced and stationed in North Hankou Foreign Trade Service Centre, which provide one-stop service for foreign trade enterprises, including registration, filing, customs clearance, tax rebates, foreign exchange, financing and logistics. In addition, a number of global procurement promotion activities were organised for aggressively attracting procurement and service agencies from around the world. More than 100 foreign trade enterprises and service agencies, around the country have contracted to station in North Hankou Foreign Trade Building. By leveraging on its inland market advantages, North Hankou International Trade Centre will achieve "Purchasing and Selling Globally through continuous improvement of foreign trade services. In 2017, owing to the domestic market demand potential brought by the internet transformation, and taking advantages of the global purchase opportunities arising from pilot market trade, North Hankou International Trade Centre will usher in a blowout in export, and become a new growth point in trade and export in the province.

The main construction works of Phase I of Tianjin E-commerce Mall has been completed with a gross floor area of 612,000 square meters, and part of the commercial and trade zones, with interior decorative works completed have commenced operation. Following the grand opening of Haining Leather City (A1 District) in 2015, Dongpi Clothing Wholesale New Market (動批服裝新城) (District B1) commenced business in April 2016, accommodating mainly the merchants from the traditional commerce markets including Beijing Zoo, Dahongmen and Tianjin Big Alley. In 2017, District A and District B of the market area and District C of the e-commerce industrial park will be completely put into operation. The Small Goods Mall project is planned to commence business in May 2017, the District C of the E-commerce Industrial Park is planned to be launched in June 2017, and two blocks of clothing markets are planned to commence business by the end of the year 2017.

Since the commencement of operation in early 2016, Jingzhou Zall City has gradually introduced the merchants of clothing, fur, hotel supplies, sugar, wines and non-staple food as well as daily necessities for business. Display areas have been successfully opened, including Chinese-style Brand Clothing Area (漢派品牌服飾區), North Hankou Imported Goods Display Centre (萬國優選海淘生活館), Brand Apparel Discount Area (名品服飾折扣區), Haining Fur and Leather Mall (海寧皮草皮革館), Hotel Supplies Wholesale Area (酒店用品批發區), Kitchen Supplies Supermarket (廚房用品超市). In 2017, the companies and merchants engaged in agricultural products production, processing and trading, e-commerce exhibition and sale, bedding and sheets, leisure and recreation will also be introduced. All these together will develop Jingzhou Zall City into a larger integrated market gradually.

No. 1 Enterprise Community – Wuhan has formed a gather of the headquarters for industries of culture media, electronic appliances, creative research and development, real estate investment, footwear and leather and clothing. At the end of 2016, a total of 139 companies had settled in the Single Block Office Buildings, with an occupancy rate of more than 70%. Out of which, there were 75 companies in Phase I and Phase II of the Single Block Office Buildings, with an occupancy rate of over 90%, and 64 companies in Phase III.

No. 1 Enterprise Community – Changsha, upon its completion and inspection approval towards the end of 2015, sales and marketing work for Phase I of the Changsha project has commenced. 11 enterprises have already moved in.

The North Hankou Industrial City has introduced a large number of well-known Chinese-style women's brands and other large and medium-sized manufacturers. North Hankou Industrial City, together with North Hankou Textile and Accessory City and Brand Clothing City, supporting each other in three main platforms, namely manufacturing, raw materials and distribution to form a modern cluster of clothing industry by integrating production, supply and marketing. In 2016, the North Hankou Industrial City has introduced 71 merchants, with a contract sales area reaching 300,000 square meters.

Phase I of Wuhan Inland Port Centre was basically completed in the second half of 2016. The inland port centre will introduce a city pickup and delivery service platform focused on "cash on delivery" services, providing freight forwarding, special line, less-than-carload freight enterprises with ground distribution operations as well as offering storage and delivery integrated solutions.

Online businesses

Zallgo, as a cloud market trading platform in China with focus on servicing the offline markets, provides a full set of O2O industry solutions and services, a B2B trading platform, logistics warehousing supporting services and financial services.

The major services provided by Zallgo include "Lexiang"「樂享」and "Jupianyi"「巨便宜」, "Group Purchasing"「團批」, major customer procurement, ordering, centralised warehouse distribution business and advertising platform. In particular, "Lexiang" business supplies quality goods and efficient distribution vehicles to students, who are also able to provide services for daily consumption in the campus by applying to be an agent via the platform, thus supporting college students' work-study programs and help them to start a business. "Jupianyi" platform, by planning, organizing and guiding a series of online promotional activities, enables the merchants to participate in such activities as they need for products exposure, discount promotions, and customer accumulation, so as to provide buyers with more benefits and choices. The "Group Purchasing" business aggregates retail orders into bulk ones so as to reduce the purchase cost and allow sellers to increase sales volume via "Group Purchasing" mode, thus organizing the supply chains and production plans in a more reasonable manner, reducing service costs and mitigating operational risk. Zallgo provides merchants with centralised warehousing and distribution services, which is able to provide more efficient and lower-cost services than their own warehousing and logistics services through the intelligent, large-scale and fine management. At present, services including "Warehouse Leasing at Nil Cost"「零元租倉」, "Delivery Next Day"「次日達」and "Free Postage"「免郵費」have been introduced, which not only enable merchants at the platform to reduce operating costs and management difficulties, but also contribute to sales and development by leveraging on big data and innovative business models. As of 31 December 2016, Zall's cloud market online wholesale trading platform has covered more than 20 cities across the nation, at which there have been nearly 796 major wholesale markets and more than 110,000 merchants with the transaction amount of RMB48.7 billion and 200,000 registered users. In 2016, Zallgo was recognised as the "2015 China E-commerce Demonstration Market"(2015年全國電子商務示範市場) and one of "Top 100 in the Mobile Internet Industry"(移動互聯網行業百強). It was nominated in the shortlist of "Word of Mouth Top 10 in FMCG B2B Industry of China"(中國快消品B2B行業「口碑榜」十強) in the industry summit forum of "Internet + FMCG", being widely recognised by the industry and merchants.

In March 2016, the Group acquired LightInTheBox and became its largest shareholder, which represented a critical part for the Group to expand the cross-border e-commerce business. The acquisition is expected to greatly facilitate the integration of the domestic and foreign trade business, consolidate and link online and offline resources of both parties, in order to aggressively expand cross-border e-commerce business by taking the advantages of data, merchants and goods of Zallgo.

Supply chain management services

As the Group continues to strengthen and expand e-commerce, internet and intelligent trading businesses, it has accumulated a large number of customers in both upstream and downstream of the supply chain. With increased number of customers and product categories, diverse business models and trading patterns, the demands for order management, inventory management and capital management from different customers have become more evident. The operation of the e-commerce platform could meet the diverse needs of customers. In order to effectively enhance the comprehensive competitiveness of the e-commerce platform, the Group has established several subsidiaries and a joint venture in the second half of 2016 to exploit supply chain management and other value-added services. The business of supply chain management covers corn and rice products of different specifications in the field of grain and agricultural products. Since the inception of Wuhan Zall Agriculture in August 2016 up to 31 December 2016, a total sales revenue of approximately RMB90 million has been achieved, stable business partnerships were built with nearly 10 upstream and downstream customers. In the non-ferrous metals sector, the business covers a number of segments including electrolytic copper, aluminum ingots and electrolytic nickel. Since the establishment of the joint venture in September 2016 up to 31 December 2016, a total of sales revenue of approximately RMB2.7 billion has been achieved, and stable business partnerships with nearly 13 upstream and downstream customers were established. In 2017, the Group aims to expand its supply chain management business by deepening its product varieties, customers and service types, and seek to carry out and expand the business of supply chain management comprehensively in relation to nearly ten products varieties including non-ferrous metals, oil and foodstuffs.

On 28 October 2016, the Group acquired 60.49% of the equity interest of Shenzhen Sinoagri, at a consideration of approximately HKD2.591 billion. Shenzhen Sinoagri is engaged in e-commerce and supply chain management businesses for agricultural products in the PRC. Shenzhen Sinoagri is an industry leader which gives it a strong competitive advantage in the white sugar B2B market, with a customer base covering a substantial majority of the participants in the industry. Shenzhen Sinoagri constantly expands its market share and maintain its leadership in the white sugar industry and makes good use of its successful business model in the white sugar to other products such as cocoon silk, eucalyptus boards products and fruit products, in order to achieve centralised control, so as to engage in vertical integration of B2B transactions and expand to products with higher standard. The acquisition marks the further development of the Group's e-commerce and supply chain finance businesses. The Group will enlarge its client base and increase the Group's revenue in the long run, and strengthen the Group's existing e-commerce and supply chain finance businesses.

Supply chain finance services

In 2016, the Group sets up Zall Financial Services Group, which aims at providing one-stop financial services including comprehensive supply chain finance, finance leasing, factoring and guarantees and is a key milestone to improve the ecosphere of Zall's intelligent transactions and enhancing its supply chain financial services. Its principal businesses includes guarantees, finance leasing, commercial factoring and direct financing to e-commerce customers. Zall Financial Services Group actively develops a mutual supply chain finance service mode, which regards core merchants, and upstream suppliers and downstream distributors as a whole in respect of the entire supply chain management to provide merchants with customised capital solutions based on the chain relationship in the transactions and industry characteristics and make effective and reasonable match between idle funds of merchants, bank funds, public funds and borrowing needs of merchants to improve the efficiency of capital use and form a safe financial closed-loop effect. Taking advantage of differences in the market during peak and off seasons, the Group is able to adjust the demand and supply of funds effectively and satisfy the investment and financing needs of merchants in the wholesale market efficiently with lower costs. As at the end of 2016, the internet financial platform of Zall Financial Services Group had a total of 188,800 registered members with a total financing of approximately RMB4.32 billion.

Zalljinfu is the supply chain finance services platform on Zall's trading platform, which effectively integrates trading information, logistics and property information, storage information of online and offline wholesale market, forming a big-data risk-control model and credit rating system, to provide core merchants and their upstream suppliers and downstream customers at Zall's trading platform a convenient, fast and low-cost financing information service. In addition to the traditional mortgage business, Zalljinfu provides tailor-made financial services for its whole upstream and downstream supply chain according to the trading characteristics of the wholesale market. In particular, as merchants of Zallgo have financing needs in the trading process, Zalljinfu tailored credit loan services based on sellers and buyers, warehouse receipt pledge and stock right pledge financing services. Zalljinfu provides supply chain finance services based on logistics service process and logistic production process. Based on third-party logistics service carriers on the Zallsoon platform, Zalljinfu designed accounts receivable factoring and financing, order financing and credit loan services.

Harvest Financial Information Service (Hangzhou) Co., Ltd ("HFS") established and operates Jia16 (www.jia16. com). It is one of the first members of the China Internet Finance Association and took the lead in establishing a platform capital depository system in October 2016 to safeguard the security of funds in investment transactions. Leveraging on the comprehensive business resources, excellent information technology, abundant resources of financial projects and stringent risk control system of the Group, HFS strives to offer professional and reliable investment and financial services to its members.

Hangzhou Jiuyu Asset Management Co., Ltd. ("Jiuyu Asset Management") devotes to provide upstream and downstream customers of the Zall intelligent trading platform a safe and sound investment advisory and asset management services. For the year ended 31 December 2016, it has provided investment and asset management services amounting to an aggregate of approximately RMB140 million (in principal) and achieved safe collection for all due projects.

North Hankou Guarantee（漢口北擔保）provides support and services for healthy development of clients on each link of the supply chain of the professional market in North Hankou International Trade Centre and meet financial needs of merchants there. As of the year 2016, the Company was granted bank credit amounting to approximately RMB550 million in total, the balance of which reached approximately RMB140 million. Financing amounted to approximately RMB260 million, of which approximately RMB50 million was for corporate clients and RMB90 million was for individual customers.

Warehousing and logistics services

Zallfuhui focuses on the online and offline warehouse goods custody services for enterprises, wholesale markets and various types of social dealers, financial products regulatory business as well as warehouse leasing and upgrading support. Capitalizing on its abundant customer resources in the wholesale market, Zallfuhui provides supply chain system support and implements standard management of warehouses according to the demand for warehouse from the wholesale markets and merchants. It expands profit margins by an unified warehousing and distribution system to reduce merchant warehouse management costs and improve efficiency. Through various professional management systems and by working with owners of cargo, Zallfuhui captures cargo supply to drive the growth in intra-city and, particularly, inter-city orders effectively and acquires big data about the flow of goods. Zallfuhui also develops supply chain products and offers professional supply chain services in accordance with the actual needs of enterprises and distributors to establish a closer relationship with them and participates in merchant sales so as to boost the number of orders and transactions of Zallgo. As at 31 December 2016, Zallfuhui's platform recorded a turnover of approximately RMB180 million and its logistics orders amounted to 186,000. The cloud warehouses under its management have covered 29 cities with an area of 7.8 million square meters.

Regarding the wholesale market with concentrated logistics demand as the starting point and adopting "professional transportation services for professional users" as the business philosophy, Zallsoon is attuned to the characteristics of logistics transactions. It created a logistics information and trading platform, introduced and enhanced its credit assessment system and achieved one-to-one connection between owner of cargo and owner of vehicle so as to significantly improve operating efficiency. The smart match of supply and demand and real-time monitoring of order status makes the services more transparent and simple. Further, it creates a new "Internet Plus" logistics service model. In 2016, dedicated intra-city lines, intercity trunk lines, cargo insurance and quick delivery services were introduced. Zallsoon set a nationwide expansion goal with Wuhan as the center, it provided logistics information (for goods delivery) for the cargo owners and transaction services according to logistics needs through a new "Internet Plus" smart logistics service model, enhanced customer loyalty to the platform by identifying the characteristics of logistics transactions, and obtained basic downstream information by participating in merchant sales. As at 31 December 2016, Zallsoon has provided services to about 150,000 owners of cargo with over 30,000 active drivers on its platform. Total orders in aggregate amounted to nearly 3 million for the year with an average of over 30,000 orders per day, while cargo supply covered 12 cities including Wuhan, Changsha, Zhengzhou, Shanghai, Guangzhou and Tianjin.

Investment Portfolio

The major investment of the Group as at 31 December 2016 and 31 December 2015 is as follows:

As at 31 December 2016

Stock code	Name of investee company	Number of shares held	Effective shareholding interest	Acquisition cost	Carrying amount as at 31 December 2016	Unrealised holding gain/ (loss) arising on revaluation for the year ended 31 December 2016	Realised holding gain arising on revaluation for the year ended 31 December 2016	Dividend received/ receivable for the year ended 31 December 2016
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
00607.HKEX	Fullshare	680,480,000	3.5%	734,920	2,203,480	1,120,304	–	6,805
Warrant	LightInTheBox	N/A	N/A	N/A	5,241	(2,287)	–	–
					2,208,721	1,118,017	–	6,805

As at 31 December 2015

Stock code	Name of investee company	Number of shares held	Effective shareholding interest	Acquisition cost	Carrying amount as at 31 December 2015	Unrealised holding gain arising on revaluation for the year ended 31 December 2015	Realised holding gain arising on revaluation for the year ended 31 December 2015	Dividend received/ receivable for the year ended 31 December 2015
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
00607.HKEX	Fullshare	680,480,000	4.4%	734,920	1,083,176	348,358	540	–
					1,083,176	348,358	540	–

The performance and prospects of the major investment during the year is as follows: The Group held approximately 680,480,000 shares in Fullshare, representing approximately 3.5% of its entire issued share capital as at 31 December 2016 and recognised an unrealised gain of approximately RMB1,120,304,000 for the year ended 31 December 2016. The carrying amount of investment in Fullshare accounts for 7.4% of the Group's total assets as at 31 December 2016. Fullshare is listed on the main board of the Stock Exchange. The principle activities are property development, tourism, investment, provision of healthcare products and services business and new energy business. The Group believes that the Fullshare Group's growth momentum remains strong and expects the Group's investment in Fullshare to continue to generate return for the Group.

Results of Operation

Revenue

Revenue of the Group increased by approximately 17.9% from RMB1,029.5 million for the year ended 31 December 2015 to RMB1,213.4 million for the year ended 31 December 2016. The increase was primarily due to the offsetting effect of (i) the increase in the sales of properties; (ii) the increase in rental income; (iii) the decrease in revenue from construction contracts; and (iv) the increase in revenue from E-commerce and financial service business; and (v) the revenue contribution from supply chain management and trading business.

Sales of properties

Revenue from sales of properties increased by approximately 4.5% from RMB696.0 million for the year ended 31 December 2015 to RMB727.1 million for the year ended 31 December 2016.

The Group's revenue from sales of properties was generated from sales of industrial plants units, auxiliary facilities units, office and retails units and residential apartments. The GFA and ASP of the respective projects sold during the year ended 31 December 2016, together with the comparative figures for the year 2015 are set forth below:

	For the year ended 31 December					
	2016			2015		
	GFA Sold	Average selling price (net of business tax)	Revenue from sales of properties	GFA Sold	Average selling price (net of business tax)	Revenue from sales of properties
	(sq.m.)	*RMB/ sq.m.*	*(RMB'000)*	*(sq.m.)*	*RMB/ sq.m.*	*(RMB'000)*
North Hankou International Trade centre	86,892	3,795	329,779	65,666	6,247	410,202
Zall Tianjin	48,850	5,563	271,772	–	–	–
No. 1 Enterprise Community – Wuhan	12,380	4,402	54,498	19,310	4,875	94,132
No. 1 Enterprise Community – Changsha	10,350	4,386	45,391	6,944	4,500	31,249
Zall Life City – Hupan Haoting Residences	4,427	5,487	24,289	8,507	5,343	45,452
Jingzhou Zall City	440	3,064	1,348	14,806	4,107	60,806
Wuhan Salon	–	–	–	7,326	7,386	54,110
Total	163,339		727,077	122,559		695,951

During the year under review, the increase in the Group's revenue from sales of properties was mainly due to the offsetting effect of (i) the increase in the GFA delivered of certain properties; and (ii) the change in combination of properties sold in result of the lower average selling price during 2016.

Although the GFA sold in North Hankou International Trade Centre increased by approximately 32.3% from 65,666 sq.m. for the year ended 31 December 2015 to 86,892 sq.m. for the year ended 31 December 2016, its turnover decreased by approximately 19.6% from RMB410.2 million for the year ended 31 December 2015 to RMB 329.8 million for the year ended 31 December 2016. This is primarily due to the lower average selling price from the sales of the North Hankou Industrial City, which is the one of the newly completed properties during the current year, as a result the average selling price (net of business tax) has decreased significantly by approximately 39.3% from RMB6,247 per sq.m. for the year ended 31 December 2015 to RMB3,795 per sq.m. for the year ended 31 December 2016.

Zall Tianjin sold 48,850 sq.m. properties under development to the local government and generated revenue about RMB271.8 million for the year ended 31 December 2016.

The GFA sold in No.1 Enterprise Community – Wuhan decreased by approximately 35.9% from 19,310 sq.m. for the year ended 31 December 2015 to 12,380 sq.m. for the year ended 31 December 2016.

The GFA sold in No. 1 Enterprise Community – Changsha increased by approximately 49.0% from 6,944 sq.m. for the year ended 31 December 2015 to 10,350 sq.m. for the year ended 31 December 2016.

The GFA sold in Zall Life City – Hupan Haoting Residences decreased by approximately 48.0% from 8,507 sq.m. for the year ended 31 December 2015 to 4,427 sq.m. for the year ended 31 December 2016.

No sales of properties from Wuhan Salon for the year ended 31 December 2016 as the Group has disposed of its entire equity interest in the project during the year ended 31 December 2015.

Rental income

The Group's rental income increased significantly by approximately 76.0% from RMB103.5 million for the year ended 31 December 2015 to RMB182.1 million for the year ended 31 December 2016. The increase was primarily due to an increase in the number of wholesale shopping mall units in the North Hankou International Trade Centre retained for leasing and an increase in rent per square meter.

Revenue from construction contract

The Group's revenue from construction contract to build certain properties on behalf of a third party decreased by approximately 56.7% from RMB197.0 million for the year ended 31 December 2015 to RMB85.3 million for the year ended 31 December 2016. The revenue was recognised according to the actual cost incurred for the year ended 31 December 2016. The decrease for the year 2016 was primarily due to projects being at their completion stage in the year under review.

Revenue from E-commerce and financial services business

The Group's revenue from e-commerce and financial services business increased significantly by approximately 290.6% from RMB5.6 million for the year ended 31 December 2015 to RMB21.8 million for the year ended 31 December 2016. The increase was mainly due to acquisition of interest in Zhong Bong Financial Leasing, Hangzhou Jiuyu Asset Management and HFS during the year under review.

Revenue from supply chain management and trading business

The Group's revenue from supply chain management and trading business has first time contributed approximately 13.7% of the Group's total turnover for the year ended 31 December 2016. Owing to the Group's rapid development of e-commerce business, Zallgo and commodity market business which has led to a concentration of transaction parties, the need for supply chain management service develops rapidly with the demand for synchronisation of information along the supply chain. As a result, the Group has established various supply chain management and trading companies to commence such business which has contributed revenue of RMB166.8 million to the Group during the year ended 31 December 2016.

Cost of sales

Cost of sales of the Group increased by approximately 12.4% from RMB758.3 million for the year ended 31 December 2015 to RMB852.1 million for the year ended 31 December 2016, primarily due to the effect of recognition of cost of inventories of RMB165.2 million from the supply chain management and trading business during the year.

Gross profit

Gross profit of the Group increased by approximately 33.2% from RMB271.2 million for the year ended 31 December 2015 to RMB361.3 million for the year ended 31 December 2016. The Group's gross profit margin increased slightly from 26.3% in 2015 to 29.8% in 2016. The increase was mainly due to an increase in rent per square meter and an increase of profit from operating lease. With the increase in rent per square meter and in rental area, the gross profit from rental income increase from scale effect.

Other income

Other income of the Group increased from RMB972.2 million for the year ended 31 December 2015 to RMB1,130.5 million for the year ended 31 December 2016. The increase was mainly due to the offsetting effect of (i) the increase in fair value change on financial assets at fair value through profit or loss of RMB769.7 million; (ii) the decrease in gain on early redemption of convertible bonds of RMB123.8 million; and (iii) the decrease in gain arising from bargain purchase and remeasurement of interests in of subsidiaries of RMB362.6 million.

Selling and distribution expenses

Selling and distribution expenses increased slightly by approximately 0.1% from RMB141.3 million for the year ended 31 December 2015 to RMB141.5 million for the year ended 31 December 2016. The increase was primarily due to the offsetting effect of (i) an increase of RMB12.6 million and RMB6.9 million in staff related cost and office expenses respectively; and (ii) a decrease of RMB19.9 million in promotion expenses and other expenses related to Zall Football Club, which was disposed during the year of 2015.

Administrative and other expenses

Administrative and other expenses of the Group increased slightly by approximately 4.3% from RMB153.5 million for the year ended 31 December 2015 to RMB160.1 million for the year ended 31 December 2016. The increase was primarily due to an increase of RMB4.2 million in office expenses.

Increase in fair value of investment properties and non-current assets classified as held for sale and fair value gain upon transfer of completed properties held for sale to investment properties

The Group holds a portion of properties developed for rental income and/or capital appreciation purposes. The Group's investment properties are revaluated at the end of the respective review period on an open market value or existing use basis by an independent property valuer. For the year ended 31 December 2016, the Group recorded fair value change of investment properties and non-current assets classified as held for sale of RMB111.3 million (2015: RMB439.6 million) and fair value gain upon transfer of completed properties held for sale to investment properties of RMB1,164.4 million (2015: RMB798.2 million). The increase of RMB37.9 million in fair value of the Group's investment properties during the year ended 31 December 2016 reflected the increased number of auxiliary facilities units retained for rental purposes.

Share of loss of joint ventures

Share of loss of joint ventures consisted primarily of share of loss from Wuhan Zall Shengtang Properties Co., Ltd. and Wuhan Zall Heng, which reflected the Group's 60% equity interest share of loss of these entities. No share of profit or loss from Wuhan Big World Investment and Development Co., Ltd ("Wuhan Big World Investment") and Wuhan Big World Marketing Management Co., Ltd. ("Wuhan Big World Management") respectively, as these entities became a subsidiary of the Group after business combination during the year of 2015. The Group further acquired the remaining equity interest of Wuhan Big World Investment and Wuhan Big World Management during the year of 2016 and became wholly-owned subsidiaries of the Group.

Share of loss of associates

Share of loss of associates consisted primarily of share of loss from LightInTheBox, which reflected the Group's 32.6% equity interest share of loss of this entity.

Gain on disposal of subsidiaries

The Group disposed its subsidiary Panlong Zall and recognised a gain of RMB95.6 million during the year of 2016.

Finance income and costs

For the year ended 31 December 2016, interest income of RMB3.6 million (2015: RMB5.7 million) was credited to the consolidated statement of profit or loss.

For the year ended 31 December 2016, a net finance cost of RMB192.3 million (2015: RMB264.9 million) was charged to the consolidated statement of profit or loss. The decrease was mainly attributable to the decrease in interest on the convertible bonds which was fully redempted in second half of 2015.

Income tax

Income tax increased by approximately 27.8% from RMB228.2 million for the year ended 31 December 2015 to RMB291.6 million for the year ended 31 December 2016. The increase was mainly due to the effect of (i) the increase in PRC corporate income tax of RMB26.8 million as the taxable profit increase; (ii) the increase of PRC LAT of RMB14.0 million as the Group generates a higher profit from disposal of properties under development from Zall Tianjin; and (iii) the increase in deferred tax of RMB22.6 million as result of a slight increase of fair value gain from investment properties in 2016 and the reversal of deferred LAT relating to Tianjin E-Commerce Mall on 2015. The Group's effective tax rate increased from approximately 10.0% for the year ended 31 December 2015 to approximately 12.4% for the year ended 31 December 2016.

Profit for the year

For the year ended 31 December 2016, the Group recorded a net profit of RMB2,056.6 million. Profit attributable to equity shareholders of the Company was RMB2,049 million, representing an increase of approximately 0.8% over the amount of RMB2,037.7 million for the year ended 31 December 2015.

Liquidity and capital resources

The Group has consistently maintained sufficient working capital. As at 31 December 2016, the Group had net current assets of RMB5,658 million (2015: RMB4,974 million) and net assets of RMB12,139 million (2015: RMB10,311 million).

As at 31 December 2016, the Group's equity attributable to equity shareholders of the Company amounted to RMB12,105 million (2015: RMB9,468 million), comprising issued capital of RMB30 million (2015: RMB30 million) and reserves of RMB12,075 million (2015: RMB9,438 million).

Cash position

As at 31 December 2016, cash and cash equivalents of the Group was RMB273.3 million (2015: RMB243.5 million). The Group's cash and cash equivalents consist primarily of cash on hand and bank balances which are primarily held in RMB denominated accounts with banks in the PRC.

Bank loans and loans from other financial institutions

As at 31 December 2016, the Group's total long-term and short-term loans was RMB8,393.9 million, representing an increase of RMB1,999.1 million over the amount of RMB6,394.8 million as at 31 December 2015. Majority of loans were denominated in the functional currency of the Group.

Net gearing ratio

As at 31 December 2016, the net gearing ratio (calculated by dividing total borrowings, net of cash and cash equivalents, restricted cash and short term bank deposits, by total equity attributable to equity shareholders of the Company) of the Group was 62.5% (2015: 60.2%).

Capital expenditure

For the year ended 31 December 2016, the Group's total expenditure in respect of property, plant and equipment and investment properties under development amounted to RMB10.6 million and RMB95.6 million (2015: RMB115.1 million and RMB548.6 million), respectively.

Foreign exchange risk

The Group's sales were primarily denominated in RMB, being the functional currency of the Group's major operating subsidiaries. Accordingly, the Board expects any future exchange rate fluctuation will not have any material effect on the Group's business. As at 31 December 2016, the Group did not use any financial instruments for hedging purpose. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

Charge on assets

As at 31 December 2016, the Group had pledged certain of its assets with a total book value of RMB16,253.1 million (2015: RMB10,165.0 million) for the purpose of securing certain of the Group's bank borrowings.

Contingent liabilities

In accordance with industrial practice, the Group has made arrangements with various PRC banks to provide mortgage facilities to the purchasers of its pre-sold properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group will be responsible to repay the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to the banks. The Group's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the buyers obtained the individual property ownership certificate and the full settlement of mortgage loans by the buyers.

During the year, the Group's wholly-owned subsidiary, Wuhan Guarantee Investment is principally engaged in provision of business start-up loan guarantee and personal loan guarantee for entrepreneurs in the PRC. In accordance with the terms stipulated in the relevant agreements, Wuhan Guarantee Investment is required to make payments to reimburse the beneficiary of the guarantee for the loss incurs if a specified borrower fails to make payment when due.

As at 31 December 2016, the guarantees provided to lenders in relation to personal loans and banks in relation to mortgage facilities granted to purchasers of the Group's properties amounted to RMB148.8 million (2015: RMB103.4 million) and RMB1,881.8 million (2015: RMB1,455.9 million), respectively.

Employees and Remuneration Policy

As at 31 December 2016, the Group employed a total of 1,422 full time employees (2015: 979). The increase of headcount during the year under review was mainly due to new business development such as e-commerce and supply chain services. Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the year ended 31 December 2016, the employees benefit expenses were RMB86.1 million (2015: RMB56.2 million). The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when the occasion requires.

The Group has also adopted a share option scheme (the "Share Option Scheme") and a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including the Directors, and full-time or part-time employees, executives or officers of the Group who had contributed to the success of the Group's operations. As at 31 December 2016, there was no outstanding share options under the Share Option Scheme and Pre-IPO Share Option Scheme. Further information in relation to the Share Option Scheme and Pre-IPO Share Option Scheme will be set out in the annual report of the Company for the year ended 31 December 2016.

(c) For the year ended 31 December 2015

Business Review

Business Restructuring and Strategic Transformation of the Group

In 2015, the Group completed its business restructuring by disposing of its non-core assets and business, with the transformation strategies established by the Board during the second half of 2014 being basically implemented. The Group will continue to consolidate its advantages in core business and push forward the process of bringing its core business online and O2O integration, all in a bid to thoroughly transform the Group from a traditional property developer to a service-oriented and internet-based E-commerce enterprise. With the proactive effort to develop its E-commerce business, the Group launched the "Cloud Market" plan during the second half of 2015, which aims to expand E-commerce, internet finance, logistics information and data services based on the data advantage and service functions of transaction, warehousing, logistics and finance of the large-scale commerce and logistics center. The "Cloud Market" plan, encompassing three online transaction and service platforms, namely Zallgo（卓爾購）, Zalljinfu（卓金服）and Zallfuhui（卓服匯）for E-commerce, finance and logistics respectively, will provide core functions including online wholesale and procurement management, as well as value-added services such as supply chain finance, logistics information and transaction matching so as to facilitate the integration of online and offline businesses. Through its "Cloud Market" plan, the Group will swiftly sharpen its competitive edge in supply chain resources, with an aim to build the largest wholesale transaction platform featuring online-offline integration and become a leading O2O enterprise in China.

Currently, the Group's businesses are categorized into offline businesses and online businesses:

Offline businesses

Offline businesses mainly comprise: 1) development, operation and sale of large-scale wholesale and trade centers, including the three main trade center projects of North Hankou International Trade Centre, Tianjin Zall E-commerce Mall and Jingzhou Zall City; 2) provision of office, commercial production, processing and auxiliary commercial space for the regional headquarters of various types of corporate customers (including enterprises inside the wholesale markets) through projects such as No.1 Enterprise Community– Wuhan project, No.1 Enterprise Community-Changsha headquarters project and North Hankou Industrial City project; and 3) warehousing and logistics business, including different types of warehousing and logistics facilities and the Wuhan Inland Port Centre project.

North Hankou International Trade Centre is the flagship project of the Group, and is an integrated commodity sale platform featuring display, storage, logistics and E-commerce in one. North Hankou is well-positioned to capitalize on the relocation of the market on Hanzheng Street, and to proactively introduce Zhejiang, Guangdong and other coastal markets of origin for the construction of more than 20 specialized markets in footwear, small goods, clothing, hotel supplies, daily chemical products, children's products, electronics and electrical appliances, automobiles and related accessories, staging active wholesale transactions of millions of commodities. In 2015, the sixth North Hankou International Trade Fair was successfully held in China. A total transaction amount of RMB23.8 billion was recorded for the 37 days of the trade fair, representing a historical record high for the trade fair and an increase by approximately 12% from last year. Riding on the edges of the North Hankou project that clusters numerous merchants in one single platform, the development and E-commercialization of foreign trade in North Hankou has achieved new breakthroughs. In respect of foreign trade, North Hankou Imported Goods Display Centre "萬國優選" (www.whwgh.com) commenced business in 2015, showcasing a comprehensive series of imported goods including mother and childcare, food, beverages and wines, daily chemical products, fruits and seafood. The first North Hankou-Russia Economic and Trade Symposium was successfully held, bringing in a purchase amount of approximately US$1 billion by the Russian merchants. After their visit, trade representatives of Thai enterprises will strengthen the cooperation with North Hankou to increase the number of local Thai product directly imported to Wuhan. In respect of E-commercialization, North Hankou E-commerce Mall has commenced operation and formed the largest E-commerce business in China that encompasses mega-scale E-commercial building, base for ventures by university students and salon for E-commerce customer generation in one comprehensive system. Leveraging on the property advantages of the offline market, the Company has joined hands with Alibaba Wuhan Industrial Zone to launch the "萬家網店 Support Scheme" that has attracted more than 3,000 online wholesalers to enter North Hankou, bringing in monthly transaction amount of over RMB800 million. With ICBC e-Buy North Hankou channel going online, more than 4,000 merchants of North Hankou made their presence on the ICBC e-Buy E-commerce platform, establishing the largest online wholesale service platform in China. In 2015, North Hankou project was once again awarded as "National E-commerce Demonstration Base (國家級電子商務示範基地)", "National Pilot Market for Domestic and Foreign Trade (國家級內外貿結合商品試點市場) and "Hubei Pilot Market for Domestic and Foreign Trade (湖北省內外貿結合試點市場)".

Tianjin Zall E-commerce Mall is located in Xiqing University Town, Tianjin, and is designed to cover warehousing, logistics, finance, passenger transportation, informatization and other areas to form an all-category, all-format and all-industry chain service equipped with comprehensive auxiliary facilities. The first phase of the project has a gross floor area of 612,000 square meters. Construction works for the main part were completed, and some of the commercial and trade zones have completed interior decorative works and commenced operation. Amongst all, Haining Leather City (Zone A1) has commenced operation in 2015, forming the largest specialized fur market in northern China.

Phase one of Jingzhou Zall City has commenced construction in 2013, featuring a total gross area of 317,000 square meters and a total of over 5,300 standardized shops, making itself a leader amongst innovative specialized wholesale markets in central China. At present, all the works for the main part of phase one were completed and the entire phase is expected to complete in 2017. Phase one of Jingzhou Zall City comprises 6 buildings, with two of them being completed and ready for presale. Some merchants have already moved in for commencement of business by the end of 2015.

No. 1 Enterprise Community – Wuhan project provides office and auxiliary commercial space for local headquarters of different categories of corporate customers, tailor-making consolidated commercial auxiliary facilities combining office, research and development, logistics and display in one for top-notch corporates. Phases one, two and three of Enterprise Community – Wuhan project have all completed construction, while the phase four with a planned area of 500,000 square meters has entered the stage of project construction. The project has successfully attracted the nearly 100 enterprises to set up their headquarters therein, including Changhong, BBK, Amoi, Panda, and Central China Grid.

Zall No. 1 Enterprise Community – Changsha functions mainly as a base of local headquarters and E-commerce auxiliary services for different types of enterprises, as well as the incubation base for warehousing and logistics centers and E-commerce ventures. The project will converge traditional wholesalers and brands that have E-commercialized and pure e-commerce business to realize a service coverage of the markets in Hunan and south-western China. It is aimed to become the most influential physical base for E-commerce enterprises of consumer products in central China, which will in turn facilitate the upgrade and transformation of the traditional industry model. Phase one of the project was completed and has passed inspection by the end of 2015 and has commenced of sale and marketing.

The North Hankou Industrial City was generally planned to construct industrial premises with an area of 3,000,000 sq.m., which has a capacity of stationing nearly 2,000 manufacturers. The project provides complete physical auxiliary facilities and comprehensive professional services for manufacturers of brand clothing city, textile and accessory city as well as knitted and cotton clothing city in the North Hankou International Trade Centre, possessing production and processing area, storage facilities area, staff living quarters, business street and research and development creative centre, exhibition and training centre, logistics service centre and brand incubation centre, and forming an integrated park with design, manufacture, exhibition, training and living facilities. It will be built as a top industrial park covering the whole industrial chain which is the largest one in Central China, has most complete categories of garment processing, and most concentrated origin of the apparel industry upon its establishment. The processing industries gathering nearby will make North Hankou a cost-competitive market, which will further strengthen the radiation distribution function of North Hankou as China's largest consumer goods trading platform for domestic needs. In 2015, the first phase of plants of the industrial city was completed and would be put into business use in 2016.

The logistics business of the Wuhan Inland Port Centre mainly focuses on providing supporting services and facilitating wholesale clients to store, exhibit, distribute, purchase and sell consumer goods and other products among wholesalers, distributors and merchants. The inland port centre will introduce a city pickup and delivery service platform focused on "cash on delivery" service, providing freight forwarding, special line, less-than-carload freight enterprises with ground distribution operations. It will cooperate with Amazon and other global leading logistics enterprises to launch the first B2B smart cloud storage service platform in Wuhan, and offer storage and delivery integrated solution for a large number of traditional dealers, traders, wholesalers, manufacturers, third-party logistics providers and other clients as well as those carry out internet e-commerce business, so as to focus on building an integrated, hub-like and modern logistics base adhering to the service concept of "smart cloud storage and city pickup and delivery". Main construction of the phase I of the Wuhan Inland Port Centre was basically completed, and the exterior wall decoration, interior decoration, park road and greening were expected to be completed in the first half of 2016.

Online Businesses

This mainly comprises the "Cloud Market" plan supported by the three major online transaction and service platforms, namely Zallgo（卓爾購）, Zalljinfu（卓金服）and Zallfuhu（卓服匯）.

Overall Business and Financial Position of Zall Cloud Market

The Group launched the "Zall Cloud Market Plan" to expand e-commerce, internet banking, logistics information, data services and other businesses, standing on the basis and advantages of the existing trade, warehousing, logistics, finance and data of large-scale commerce logistics center. In August 2015, Dr. Gang Yu, the founder of Yihaodian.com, joined the Group as an executive Director and the co-chairman of the Company, responsible for promoting and implementing the Group's "Zall Cloud Market Plan". "Zall Cloud Market Plan" aims at full integration of physical wholesale market and e-commerce, relying on the basis and advantages of property, customers, logistics and data of offline physical commerce markets in North Hankou. The Group specially set up an e-commerce group comprising a professional team with over 300 employees, specializing in online trading and service platform for provision of online wholesale, procurement management and other core functions as well as supply chain finance, logistics information, transaction match and other value-added services, so as to achieve the organic integration of the offline and online businesses, and introduce three online trading and service platforms: Zallgo（卓爾購）, Zalljinfu（卓金服）and Zallfuhu（卓服匯）.

According to the information from Analysys International, the transaction sale and income scale of B2B market in the PRC reached RMB9.4 trillion and RMB19.22 billion respectively in 2014. It is expected that the transaction scale and income scale of B2B market in the PRC will reach RMB13.8 trillion and RMB38.19 billion by 2017. Through the three online trading and service platforms, Zallgo, Zalljinfu and Zallfuhui, Zall Cloud Market continuously strengthens its supply chain service capabilities, meanwhile, according to the integration needs of procurement, wholesale purchasing, sales, operations, management, finance and other business processes of medium-sized and small wholesale merchants with the upstream and downstream supply chain business partners, Zall Cloud Market adopts service diversification and industry intensification means to carry out supply chain financial service on the B2B platform, dig trade behavior and transaction records with big data and conduct credit facility, financing, capital settlement and other services by cooperation with banks and financial institutions. Supply chain financial service can support the development of a large number of upstream and downstream medium-sized and small enterprises on the supply chain which are dependent on the core business of the industry, effectively solve the financing problems of medium-sized and small wholesale merchants, provide logistics services by cooperation with logistics providers, and solve transportation problems by striving for price advantage for enterprise users of the platforms, especially the problems related to bulk cargos that are not appropriate to large logistics.

The Group's three online platforms, Zallgo, Zalljinfu and Zallfuhui, cross-platform integration of which forms a closed loop ecosystem of Zall Cloud Market, are serving for online trading, financing support, intelligent logistics and other links of wholesale trade respectively, and the closed loop enjoys big data integration services. By the end of February 2016, Zallgo's transaction amount exceeded RMB4.3 billion and registered business operators reached 9,654; Zalljinfu's total financing amounted to RMB1.1 billion and registered users reached 60,000; and Zallfuhui's service charges amounted to RMB180 million and registered users reached 12,000.

Prospects

The Group aims at becoming China's leading large e-commerce enterprise integrating online and offline businesses, and plans to achieve its goals through the following strategies.

Undertake strategic planning of platforms by integrating online and offline businesses

As the core of future development, Zall Cloud Market undertakes strategic planning platforms by integrating online and offline businesses. Users can get product information on the online platform of Zallgo, and driving turnover of the wholesale market or booths is the key to full transition of B2B to online trade. With a large community of registered users of medium-sized and small enterprises and huge information and product base, the Zallgo platform provides data of offline products for online trading; and with large offline commodity trading centers and integrated logistics centers, passenger flow of commerce and trade will be expanded through online publicity and promotion; and with close coordination of online and offline businesses, a brand new mode of online operation and offline implementation will be created.

Expand the users and turnover of medium-sized and small wholesale merchants

As the largest online and offline integrated wholesale trading platform in Central China, Zallgo brings together a large number of domestic and overseas medium-sized and small enterprises. They bring a large number and full range of goods, which has become a huge advantage for Zallgo to improve customer loyalty. Buyers can use the website of Zallgo to look for the goods they need, and add desirable products and companies to their favorites during the process of browsing to enhance convenience of review and purchase next time. Zallgo offers buyers quick delivery of business opportunities, with which buyers can set keywords of the products they need and subscribe the latest news of the related commodities. In addition, buyers can also enjoy services including purchase of merchandise, shopping guide information, logistics services, looking for suppliers and posting selling advertisement and so on. Sellers and buyers on the Zallgo are inseparable, where many companies appear on the Zallgo platform with dual identity of suppliers and buyers, and as sellers, they can enjoy even more service on the platform.

Zallgo offers services mainly related to seller services, purchaser services, business tools, online help, etc. The stakeholders mainly include suppliers (being the sellers), purchasers (being the buyers), advertisers, third-party certification service providers, banks, etc. Each of the stakeholders carries out corresponding activities and achieves business on Zallgo. With development and innovation of technologies and business models, Zallgo can realize increasingly rich functions, and the range of stakeholders involved will be gradually expanded. As at 31 December 2015, Zallgo had 5,765 shops and 33,000 registered users, with turnover reaching RMB2.4 billion. It is expected that, through continuously improving brand awareness and online self-operated rate and increasing efforts on attracting investment and with buyers' public praise effect, turnover, annual registered users, and shops and markets stationed would all experience a steady growth for the year of 2016.

Serve upstream and downstream enterprises with supply chain financial services

Zalljinfu is the supply chain financial service platform of Zall Cloud Market, which effectively integrates trading information, logistics and property information, storage information, etc. of wholesale market, forming a bigdata risk-control model and credit rating system, to provide core merchants and their upstream and downstream enterprises on Zall Cloud Market with convenient, fast and low-cost financing service. At present, its principal activities include Zallbangda（卓幫貸）, Zallbangchou（卓幫籌）and Zalldanbao（卓擔保）. By the end of 2015, the number of registered users on Zalljinfu reached 38,000 and the total financing amount with the platform was RMB500 million, of which 95% were from Zallbangdai and 5% were from Zallbangchou.

In addition to the traditional mortgage business, the wholesale industry cluster is characterized that upstream and downstream small and micro enterprises generally lack of collateral, but possess a complete upstream and downstream supply chain. As merchants of Zallgo have financing needs in the trading process, Zalljinfu designed credit loan services based on seller and buyer, warehouse receipt pledge financing services and stock right pledge financing services. Logistics occupies the important delivery link in the entire commodity trading process, connecting the upstream and downstream supply chain. Zalljinfu provides financing services on the supply chain, on the basis of logistics service process and logistic production process. Based on the third-party logistics service carriers on the Zallfuhui platform, Zalljinfu designed accounts receivable factoring and financing, order financing and credit loan services. The financing needs from Zallgo and Zallfuhui platforms will be satisfied by Zalljinfu butting banks, financial institutions or other merchants to supply funds. Zalljinfu is an intermediary service provider between funds demand side and supply side, which will efficiently butt the two ends, reduce trading costs and improve trading efficiency, so as to facilitate the trading in the cloud market.

Through the integration of resource advantages and product advantages of traditional financial institutions (such as banks, asset management companies, etc.) and financial institutions (such as commercial factoring companies, guarantee companies, small loan companies, financial leasing companies, etc.), the Group created an O2O financial ecosystem of cloud market to better provide long-tail users of Zall Cloud Market with multilevel favorable financial services, gradually innovated and improved its own internet banking system. Zalljinfu will increase efforts on internet finance innovation in 2016, and provide better financial services for merchants of the cloud market, covering: O2O payments, online wealth management, online crowd funding, business factoring, internet insurance and other services.

Wuhan North Hankou Guarantee Investment Company Limited, a subsidiary of the Group, is one of important service means of supply chain financial services of the Zall Cloud Market platform, which provides support and services for healthy development of clients on each link of the supply chain of the professional market in North Hankou, to meet financial needs of merchants there. At present, it has provided credit guarantee services totaling more than RMB500 million for over 300 merchants across apparel, trunks and bags, shoes and fur, hotel supplies, automotive, mechanical and electrical industries. As at 31 December 2015, the Company was granted bank credit amounting to RMB550 million in total, the balance of which reached RMB110 million. To reduce the financing costs for small and micro enterprises, speed up turnover rate of goods, practically decrease circulating costs and expanding operating scale for a number of merchants, it strictly control the guarantee expense of secured financing clients below 2%, which greatly promoted the business development of the merchants there. The secured financing amounted to RMB105,440,000 throughout the year under review, of which RMB25,400,000 was for corporate clients and RMB80,040,000 was for individual customer.

Develop the Ecosystem of Supply Chain of the Medium-Sized and Small Wholesalers

Zallfuhui focuses on logistics and property online services for the wholesale market, positioning as a service assistant of merchants. Through adding logistics delivery, lease and sale of warehouse of shops, property management and other service functions, it seamlessly connects commodities, shops, storage and logistics to provide integrated intelligent supporting services for merchants on the platform. Standing on the basis and advantages of the existing trade information, warehousing information, logistics information and data of the large-scale commerce logistics centers of Zall, it provides logistics information, trading match, storage property and other online data process and trading service, which organically integrates online and offline businesses.

In particular, with the wholesale market which has concentrated needs for logistics as the starting point of logistics sector, a logistics information platform and a trading platform were created and the credit rating system was gradually introduced and enhanced, to achieve one-to-one connection between owner of cargo and owner of vehicle, so as to significantly improve operating efficiency. The smart match of supply and demand and realtime monitoring of order status make the services transparent and simple. With the platform for posting and addressing information related to properties, merchants can quickly find properties for their shops, warehouse, lodging and office needs on the property end of Zallfuhui. In the future, a transaction platform for property information will be created for users to complete property transaction in an easy and convenient manner, enhance users' experience and thereby to improve the success rate of property transaction. The smart property service has been added into the development procedure of Zallfuhui. When the function is in service, merchants will be able to pay the utility bills, property fee, and rental and complete other actions with the APP Zallfuhui, which will achieve online and offline interoperability of more merchants' needs and highly improve the user's life convenience.

Through the above growth strategy, it is expected that the number of merchant users of Zallgo will increase. The registered users include business buyers, sellers, drivers, logistics companies, both sides of lease and sale of properties. It is expected that turnover of property transactions and logistics services will also experienced a healthy growth in 2016.

Results of Operation

Revenue

Revenue of the Group decreased by approximately 48.2% from RMB1,986.1 million for the year ended 31 December 2014 to RMB1,029.5 million for the year ended 31 December 2015. The decrease was primarily due to (i) decrease in the sales of properties; (ii) increase of rental income; and (iii) recognition of revenue from construction contracts during the year under review.

Sales of properties

Revenue from sales of properties decreased by approximately 63.3% from RMB1,894.7 million for the year ended 31 December 2014 to RMB696.0 million for the year ended 31 December 2015.

The Group's revenue from sales of properties was generated from sales of wholesale shopping mall units, office and retails units and residential apartments. The GFA and ASP of the respective projects during the year ended 31 December 2015, together with the comparative figures for the year 2014 are set forth below:

	For the year ended 31 December					
	2015			2014		
	GFA Sold	Average selling price (net of business tax)	Turnover	GFA Sold	Average selling price (net of business tax)	Turnover
	(sq.m.)	*RMB/sq.m.*	*(RMB'000)*	*(sq.m.)*	*RMB/sq.m.*	*(RMB'000)*
North Hankou Project	65,666	6,247	410,202	110,573	10,754	1,189,078
No. 1 Enterprise Community – Wuhan	19,310	4,875	94,132	73,384	4,038	296,312
Wuhan Salon	7,326	7,386	54,110	55,389	6,136	339,859
Zall Life City – Zall Hupan Haoting Residences	8,507	5,343	45,452	14,797	4,697	69,495
Jingzhou Zall City	14,806	4,107	60,806	–	–	–
No. 1 Enterprise Community – Changsha	6,944	4,500	31,249	–	–	–
Total	122,559		695,951	254,143		1,894,744

The Group's turnover from sales of properties decreased significantly over the year under review mainly due to the decrease in the GFA delivered of certain properties during 2015. The GFA sold in North Hankou Project was significantly decreased by approximately 40.6% from 110,573 sq.m. for the year ended 31 December 2014 to 65,666 sq.m. for the year ended 31 December 2015. The GFA sold in No. 1 Enterprise Community – Wuhan decreased by approximately 73.7% from 73,384 sq.m. for the year ended 31 December 2014 to 19,310 sq.m. for the year ended 31 December 2015.

The GFA sold in Wuhan Salon and Zall Life City – Zall Hupan Haoting Residences decreased by approximately 86.8% from 55,389 sq.m. to 7,326 sq.m. and approximately 42.5% from 14,797 sq.m. to 8,507 sq.m., respectively. During the year, the Group disposed of its entire equity interest in Wuhan Zall City and the turnover of Wuhan Salon only comprised half of the year 2015.

For the year ended 31 December 2015, JingZhou Zall City and No. 1 Enterprise Community – Changsha had first time contributed revenue of RMB60.8 million and RMB31.2 million to the Group with a total GFA delivered of 14,806 sq.m. and 6,944 sq.m. respectively.

Rental income

The Group's rental income increased significantly by approximately 44.4% from RMB71.7 million for the year ended 31 December 2014 to RMB103.5 million for the year ended 31 December 2015. The increase was primarily due to an increase in the number of wholesale shopping mall units in the North Hankou Project retained for leasing.

Revenue from construction contract

During the year, the Group entered into a construction contract to build certain properties on behalf of a third party. The Group recognised a revenue of RMB197.0 million according to actual cost incurred for the year ended 31 December 2015.

Cost of sales

Cost of sales of the Group decreased by approximately 24.9% from RMB1,010.0 million for the year ended 31 December 2014 to RMB758.3 million for the year ended 31 December 2015, primarily due to the decrease in the sales of properties and regcognition of cost of construction contract of RMB208.6 million during the year.

Gross profit

Gross profit of the Group decreased by approximately 72.2% from RMB976.1 million for the year ended 31 December 2014 to RMB271.2 million for the year ended 31 December 2015. The Group's gross profit margin decreased from 49.1% in 2014 to 26.3% in 2015 mainly due to the changes in the combination of the properties delivered during the year. For the year ended 31 December 2014, approximately 62.8% of the revenue from sales of properties were contributed by sales of wholesale shopping mall units in North Hankou Project with a gross profit margin of over 60%. However, for the year ended 31

December 2015, approximately 59.0% of the revenue from sales of properties were contributed by sales of auxiliary facilities units in North Hankou Project, of which the gross profit margin is lower than traditional wholesale shopping mall units. The remaining 41.0% of the revenue from sales of properties comprised of other projects with the overall gross profit margin a lot lower than North Hankou Project.

Other income

Other income of the Group increased significantly from RMB8.3 million for the year ended 31 December 2014 to RMB972.2 million for the year ended 31 December 2015. The increase was mainly due to (i) gain on early redemption of convertible bonds of RMB123.8 million; (ii) gain arising from acquisition of subsidiaries of RMB367.3 million; (iii) government grant income of RMB114.4 million; and (iv) fair value change on financial assets held for trading of RMB348.4 million.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 14.6% from RMB165.5 million for the year ended 31 December 2014 to RMB141.3 million for the year ended 31 December 2015. The decrease was primarily due to the offsetting effect of (i) an increase RMB8.8 million and RMB4.4 million in advertising and promotion expenses and staff related costs; and (ii) a decrease of RMB38.6 million in promotion expenses and other expenses related to Zall Football Club.

Administrative and other expenses

Administrative and other expenses of the Group decreased slightly by approximately 1.6% from RMB156.0 million for the year ended 31 December 2014 to RMB153.5 million for the year ended 31 December 2015. The decrease was primarily due to the offsetting effect of (i) an increase of RMB7.1 million and RMB2.4 million in public welfare donation and consult fee, respectively; (ii) a decrease of RMB10.4 million in entertainment and related expenses and office expenses; and (iii) a decrease of RMB2.4 million in rental expenses.

Increase in fair value of investment properties and non-current assets classified as held for sale and fair value gain upon transfer of completed properties held for sale to investment properties

The Group holds a portion of properties developed for rental income and/ or capital appreciation purposes. The Group's investment properties are revaluated at the end of the respective review period on an open market value or existing use basis by an independent property valuer. For the year ended 31 December 2015, the Group recorded fair value change of investment properties and non-current assets classified as held for sale of RMB439.6 million (2014: RMB1,831.7 million) and fair value gain upon transfer of completed properties held for sale to investment properties of RMB798.2 million (2014: RMB325.6 million). The significant net decrease of RMB919.6 million in fair value of the Group's investment properties during the year ended 31 December 2015 reflected the offsetting effect in the slowdown of property price in Wuhan and increased number of wholesale shopping mall units retained for rental purposes over the period under review.

Share of profits of joint ventures

Share of profits of joint ventures consisted primarily of share of profit from Wuhan Big World Investment, which reflected the Group's 50% equity interest share of profit of this entity. After the business combination, Wuhan Big World Investment became a subsidiary of the Group during the year.

Gain on disposal of subsidiaries

During the year, the Group completed its business restructuring by disposing of its non-core assets and business, including (i) equity swap transaction in relation to disposal of Wuhan Zall City and acquisition of Wuhan IP centre, Wuhan Guarantee Investment and Zhuo Futong Technology; and (ii) disposal of entire interests in Zhen An Cayman, Zall Shenyang, Zall Xiaogan, Zall Football, Zall Four Seasons Hotel. As a result of the disposal of these subsidiaries, the Group recognised an aggregate gain of RMB353.7 million during the year.

Finance income and costs

For the year ended 31 December 2015, interest income of RMB5.7 million (2014: RMB22.3 million) was credited to the consolidated statement of profit or loss.

For the year ended 31 December 2015, a net finance cost of RMB264.9 million (2014: RMB122.1 million) was charged to the consolidated statement of profit or loss. The increase was mainly attributable to an increase in bank and other borrowings and interest on the convertible bonds during the year ended 31 December 2015.

Income tax

Income tax decreased by approximately 80.1% from RMB1,147.1 million for the year ended 31 December 2014 to RMB228.2 million for the year ended 31 December 2015. The decrease was mainly due to the effect of (i) the decrease in PRC corporate income tax as the taxable profit from decrease in operating profit; (ii) the decrease of PRC LAT of RMB91.9 million as a result of the decrease in properties sales; and (iii) the decrease of deferred LAT of RMB652.1 million as result of decrease of fair value gain from investment properties and the reversal of deferred LAT relating to Tianjin Zall E-commerce Mall. The Group's effective tax rate was decreased from approximately 41.6% for the year ended 31 December 2014 to approximately 10.0% for the year ended 31 December 2015.

Profit for the year

For the year ended 31 December 2015, the Group recorded a net profit of RMB2,046.0 million. Profit attributable to equity shareholders of the Company was RMB2,037.7 million, representing a increase of approximately 29.6% over the amount of RMB1,572.8 million for the year ended 31 December 2014.

Liquidity and capital resources

As at 31 December 2015, cash and cash equivalents of the Group was RMB243.5 million (2014: RMB250.8 million). The Group's cash and cash equivalents consist primarily of cash on hand and bank balances which are primarily held in RMB denominated accounts with banks in the PRC.

Capital expenditure

For the year ended 31 December 2015, the Group's total expenditure in respect of property, plant and equipment and investment properties under development amounted to RMB115.1 million and RMB548.6 million (2014: RMB10.0 million and RMB819.3 million), respectively.

Bank loans and loans from other financial institutions

As at 31 December 2015, the Group's total long-term and short-term loans was RMB6,394.8 million, representing a slight increase of RMB36.0 million over the amount of RMB6,158.8 million as at 31 December 2014, including long-term and short-terms loans of disposal group held for sale amount to RMB1,737.1 million. All the loans were denominated in RMB, being the functional currency of the Group.

Convertible bonds

The Group fully redeemed the convertible bonds issued on 19 June 2013 during the year under review.

Net gearing ratio

As at 31 December 2015, the net gearing ratio (calculated by dividing total borrowings, net of cash and cash equivalents, restricted cash and short term bank deposits, by total equity attributable to equity shareholders of the Company) of the Group was 60.2% (2014: 78.7%).

Foreign exchange risk

The Group's sales were primarily denominated in RMB, being the functional currency of the Group's major operating subsidiaries. Accordingly, the Board expects any future exchange rate fluctuation will not have any material effect on the Group's business. As at 31 December 2015, the Group did not use any financial instruments for hedging purpose.

Charge on assets

As at 31 December 2015, the Group had pledged certain of its assets with a total book value of RMB12,964.2 million (2014: RMB10,136.2 million) for the purpose of securing certain of the Group's bank borrowings.

Contingent liabilities

In accordance with industrial practice, the Group has made arrangements with various PRC banks to provide mortgage facilities to the purchasers of its pre-sold properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group will be responsible to repay the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to the banks. The Group's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the buyers obtained the individual property ownership certificate and the full settlement of mortgage loans by the buyers.

During the year, the Group's wholly owned subsidiary, Wuhan Guarantee Investment is principally engaged in provision of business start-up loan guarantee and personal loan guarantee for entrepreneurs in the PRC. In accordance with the terms stipulated in the relevant agreements, Wuhan Guarantee Investment is required to make payments to reimburse the beneficiary of the guarantee for the loss incurs if a specified borrower fails to make payment when due.

As at 31 December 2015, the guarantees provided to lenders in relation to personal loans and banks in relation to mortgage facilities granted to purchasers of the Group's properties amounted to RMB103.4 million (2014: Nil) and RMB1,455.9 million (2014: RMB1,331.7 million), respectively.

Employees and Remuneration Policy

As at 31 December 2015, the Group employed a total of 979 full time employees (2014: 1,005). Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the year ended 31 December 2015, the employees benefit expenses were RMB56.2 million (2014: RMB52.6 million). The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when the occasion requires.

The Group has also adopted a share option scheme (the "Share Option Scheme") and a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including the Directors, and full-time or part-time employees, executives or officers of the Group who had contributed to the success of the Group's operations. A total number of 85,233,750 shares granted pursuant to the Pre-IPO Share Option Scheme was exercised during the year ended 31 December 2015.

Use of Proceeds from Placing

On 6 August 2015, the Company entered into a share subscription agreement (the "Subscription Agreement") with Dr. Yu Gang as subscriber (the "Subscriber"), pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue in aggregate 53,448,000 ordinary shares of the Company (the "Subscription Shares") at a consideration of approximately HK$155,000,000 at the subscription price of HK$2.90 per Subscription Share (the "Subscription").

The aggregate nominal value of the Subscription Shares is HK$534,480. The subscription price of HK$2.90 per Subscription Share represents: (a) a discount of approximately 4.61% to the closing price of HK$3.04 per Share as quoted on the Stock Exchange on 5 August 2015, being the last trading day immediately prior to the date of the Subscription Agreement; (b) a discount of approximately 6.45% to the closing price of HK$3.10 per Share as quoted on the Stock Exchange on 6 August 2015, being the date of the Subscription Agreement; and (c) a discount of approximately 3.91% to the average closing price of approximately HK$3.018 per Share as quoted on the Stock Exchange for the last five trading days up to and including 5 August 2015 (both dates inclusive), being the date immediately preceding the date of the Subscription Agreement.

The Subscription Shares have a market value of approximately HK$166 million, based on the closing price of HK$3.10 per Share on 6 August 2015, being the date of the Subscription Agreement. Based on the net proceeds of approximately HK$155 million, the net price per Subscription Share is HK$2.90. The net proceeds from the Subscription was intended to apply for the development of the Company's E-commerce business and other general corporate purposes. As at the date of this report, all of the proceeds had been utilized as intended.

Key Risks and Uncertainties

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Business Risk

As the Group's business stems principally in the PRC, the Group depends on the continued growth of the PRC. Any downward trend in consumer levels in the PRC or any overseas market where we operate could materially and adversely affect our business, financial condition and results of operations. Also, the industry in which the Group operates is a highly competitive industry in which the Group's competitors include a number of global and China-based companies that provide services similar to the Group.

Industrial Risk

In recent years, the property development market in China has been concurrently affected by the economic trend and government policies such as the adoption of category-based regulatory measures and the bilateral regulatory measures for the real estate market, policy changes in mortgage levels and ownership, interest rate changes, supply and demand conditions as well as the overall economic volatility in China.

In addition, the Group is implementing strategic transformation and may expose to new risks in the new business area, such as intense competition in the industry resulting in lower profit margins; and unsound industry standards and regulations in the new industry bringing about implementation risk in expansion of business; besides, e-commerce and other new business use the internet, the emerging technology to carry out business activities, however, presence of many hackers on the internet poses a threat to the security of database, giving rise to the internet technology security risk.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. The Group recognises that operational risks cannot be eliminated completely and that it may not always be cost effective to do so.

Key functions in the Group are guided by their operating procedures, limits of authority and reporting framework. The Group will identify and assess key operational exposures from time to time and report such risk issues to senior management as early as possible so that appropriate risk response can be taken.

Financial Risk

The financial risk management of the Group are set out in note 33 to the consolidated financial statements of the Company's 2015 Annual Report.

(d) For the year ended 31 December 2014

Business Overview

North Hankou Project

The North Hankou International Trade Center (the "North Hankou Project") is the Group's flagship project and the largest wholesale shopping mall in Central China focusing on consumer products. It is designed to capture the business opportunities arising from the relocation of the traditional wholesale trade center at Hanzheng Street in Wuhan. The North Hankou Project has a total site area of approximately over 1.8 million square metre ("sq.m."). Its wholesale mall units have a total gross floor area ("GFA") of over 4.0 million sq.m.. It consists of more than 20 separate wholesale shopping malls which sell a variety of consumer products and over one million kinds of merchandise. The Group aims to develop it into an integrated business platform for suppliers, manufacturers, distributors and small to medium enterprises for domestic consumer products.

For the year ended 31 December 2014, a total of approximately 1,025 occupants have already been relocated from Hanzheng Street to North Hankou Project; and the eight separate markets originally located in Hanzheng Street have moved to the North Hankou Project and several professional markets such as used-car market have been added, which help to further improve the transaction volume of the occupants and the human traffic in the area.

As for supplementary facilities, Tazihu East Road（塔子湖東路）has been put into operation and the renovation of Daijiashan Bridge（岱家山橋樑）has been incorporated into governmental planning. These transportation facilities are expected to effectively alleviate the current traffic pressure on Daihuang Expressway and facilitate the traffic and logistics of Panlongcheng and North Hankou districts to and from downtown Wuhan. On the other hand, Light Rail No. 1 connecting North Hankou Project and downtown Wuhan has completed construction and commenced operation on 28 May 2014. As a result, North Hankou International Trade Center became one of the few large-scale modern commerce and logistics centers in China that are equipped with direct rail transit.

Leveraging on the platform advantage of numerous occupants in the North Hankou Project, the "Hubei E-commerce Demonstration Base"（湖北省電子商務示範基地）was officially established in North Hankou during the first half of 2014, aiming at developing North Hankou into the largest E-commerce cluster in Central China. To further promote its market prosperity and E-commerce development, North Hankou has specially planned an E-commerce base which can accommodate over 2,000 manufacturers and 5,000 E-commerce enterprises and vendors. On 10 October 2014, Zall's e-commerce team became the operational service provider of Alibaba's Wuhan Industrial Belt, fully in charge of reviewing and operating those Wuhan online wholesalers who wish to enter Alibaba's selective retailing platform. As of 31 December 2014, 1,680 of such wholesalers received the approval of Zall's e-commerce team to enter the Platform for Alibaba Wuhan Industrial Belt, yielding a monthly turnover of over RMB100 million.

In December 2014, the 5th North Hankou International Trade Fair (the "Fair") was successfully held in the North Hankou Project. The Fair occupied an area of 2,000,000 sq.m.. During the month of the Fair being held, hundred thousands of large and medium sized wholesale market operators participated in the Fair and the total transaction amount of the Fair broke the record and reached RMB21.2 billion, representing an increase of 35.9% as compared with RMB15.6 billion of 2013.

For the year ended 31 December 2014, North Hankou Project contributed sales revenue of RMB1,189.1 million to the Group, representing an increase of 118% as compared with the corresponding period in 2013, mainly attributable to the increase in the GFA delivered in 2014 as compared with the corresponding period in 2013. During the period under review, the total GFA sold and delivered in North Hankou Project amounted to 110,573 sq.m., at an average selling price ("ASP") of RMB10,754 per sq.m., which was similar to that of the corresponding period of 2013.

No. 1 Enterprise Community – Wuhan

No. 1 Enterprise Community – Wuhan is a unique business park within three kilometres of the North Hankou Project of the Group. It provides offices in close proximity to the occupants of the North Hankou Project. The project is located at the Panlongcheng Economic and Technology Development Zone in Wuhan. Its major target customers are small and medium enterprises which are in need of business headquarters. No. 1 Enterprise Community – Wuhan has a total planned GFA of 1,100,000 sq.m. and is expected to have one high– rise office towers, four high-rise commercial and residential buildings, several hundreds low-rise modern individual office buildings and retail shops.

For the year ended 31 December 2014, No. 1 Enterprise Community – Wuhan contributed sales revenue of RMB296.3 million to the Group, representing an increase of 53.9% as compared with 2013, mainly due to the delivery of Phase III of the project.

North Hankou ● Zall Life City

North Hankou ● Zall Life City (漢口北 ● 卓爾生活城) consists of two residential development projects, including Zall Hupan Haoting Residences and Zall Zhujinyuan Residences in the Panlongcheng Economic and Technology Development Zone of Wuhan.

Zall Hupan Haoting Residences

Zall Hupan Haoting Residences is the first large living and services center of the Group. It was officially launched in 2012. Zall Hupan Haoting Residences is a tailor-made residential area for North Hankou and has a total site area of approximately 180,000 sq.m. and a GFA of over 350,000 sq.m.. The project will be completed in two phases and is scheduled to be fully completed by 2015.

For the year ended 31 December 2014, Zall Hupan Haoting Residences contributed sales revenue of RMB69.5 million (2013: RMB362.5 million) to the Group, with an ASP of RMB4,600 per sq.m..

Zall Zhujinyuan Residences

Zall Zhujinyuan Residences is scheduled to be completed in two phases and is located in the Panlongcheng Economic and Technology Development Zone of Wuhan. It has a total site area of approximately 60,000 sq.m. and a GFA of approximately 170,000 sq.m.. The project is scheduled to be fully completed by 2015.

Wuhan Salon

Wuhan Salon (武漢客廳) is a multi-structural and multi-functional cultural center near Wuhan downtown with a total GFA of over 1,500,000 sq.m., aiming to provide diversified cultural experience for customers. It is the Group's key largescaled city complex project which equips with Chinese cultural and art exhibitions, arts trading center, cultural and creative center and hotel facilities.

Wuhan Salon was recognized as one of the Major Cultural Construction Projects in Hubei Province (湖北省重大文化建設項目名錄) by the Hubei Department of Culture in 2012. It was also listed as one of the major cultural investment projects for the "12th Five Year Plan" of Wuhan. The Group will develop it as an innovative platform for Chinese cultural exchange and a cultural demonstrative park to support the business requirements and the growth of the Group's existing and potential customers.

Wuhan Salon will be developed in three phases and Phase I consists mainly of residential units and office buildings. Phases II and III, which consist of residential units, office buildings, retail shopping mall, trading center and hotel facilities, etc. In 2014, the construction of main structures for Wuhan Salon Phase

I have been substantially completed, except for Unit H, I, G and Arts Building, of which the basement and tower structures are currently under construction. The remaining constructions are expected to be completed by 2016.

For the year ended 31 December 2014, Wuhan Salon contributed sales revenue of RMB339.9 million (2013: RMB422.2 million) to the Group with an ASP of RMB6,136 per sq.m..

Zall No. 1 Enterprise Community – Changsha

Zall No. 1 Enterprise Community – Changsha（卓爾第一企業社區 – 長沙總部基地）is a project located in Kaifu District in Changsha. The project replicates the successful model of No. 1 Enterprise Community in Wuhan and is expected to become a base of headquarters and enterprises for boosting the development of logistics industry and corporate headquarters in Changsha area.

The construction of Zall No. 1 Enterprise Community – Changsha has commenced in 2012. With a total GFA of approximately 380,000 sq.m., Phase I of the project is expected to be completed in 2015. Currently, the principal part of Phase I has been fully completed, all works have entered the final stage and is undergoing the filing procedures for the completion. Pre-sales of the office building were launched in the second half of 2014 and attracted many large and medium-sized companies in Hunan Province. Currently, a number of companies have moved in Zall No.1 Enterprise Community with some other companies also indicating their interests. The development of Phase II is progressing smoothly. As at the date of this report, it has obtained the land use right certificate and the construction land planning permit and it is also undergoing revision of the detailed planning.

Zall Finance Center

Zall Finance Center（卓爾金融中心）, is a 51% held joint development project of the Group located in the financial center of Wuhan. The Project will be developed into a premier commercial center and Grade A office building. The project has a total GFA of over 97,000 sq.m. and a total site area of approximately 10,000 sq.m.. During the year under review, the Group accelerated the construction with the main structural buildings being topped out and 50% of the curtain wall engineering, elevators, air-conditioners, fire-fighting works and high and low voltage power distribution engineering have been completed.

Shenyang Salon

Shenyang Salon（瀋陽客廳）is an integrated high-end urban complex project with a cultural theme located in Shenyang. The project includes eco-apartments, commercial SOHO, luxury hotels, brand stores, cultural market, media complex and central park. The project will be developed in two phases. Phase I of the project has a planned total GFA of over 300,000 sq.m. and a total site area of approximately 150,000 sq.m.. The Group plans to develop the project into a new cultural landmark in Shenyang and Northeast China. The project commenced construction in 2013. Part of Phase I of the project has been almost completed at the end of 2014 and is currently undergoing certain repairs and maintenance before delivery. Part of Phase I of the project is expected to be completed around mid 2015.

Tianjin Zall E-Commerce Mall

The Tianjin Zall E-Commerce Mall (天津卓爾電商城) is based in Xiqing University Town, Tianjin (天津西青大學城), on the main artery between Beijing and Tianjin, with easy access to all transportation means including aviation, high-speed railway and expressway. It is 10 minutes from Tianjin South Railway Station, 30 minutes from Tianjin Railway Station and Tianjin West Railway Station, and 35 minutes from Tianjin Binhai International Airport. It has a total GFA of 3 million sq.m. and commenced construction in 2014 and is expected to be completed in 5 years. By the time of completion, it will become a core commodity distribution hub serving Northern China or even the whole Northeast Asia, with focus on Beijing and Tianjin.

Building on the success of North Hankou Project which captured the opportunity of the relocation of Wuhan's traditional wholesale trade center at Hanzheng Street, the Tianjin Zall E-Commerce Mall takes the business opportunities from the relocation of major wholesale markets in Beijing and Tianjin, including wholesale markets around Beijing Zoo (北京動物園批發市場), Dahongmen (大紅門), Muxiyuan (木樨), Dahutong (大胡同), Ruijing (瑞景), Yonghao (永濠) and Tianjin Foreign Commodities Market (天津洋貨批發市場), by thoroughly upgrading the traditional wholesale industry with modern logistics, E-commerce and information technology. It will become the first large-scale modern O2O trade and logistics center in China, and the largest consumer goods distribution platform in Northern China. The Tianjin Zall E-Commerce Mall will showcase the new development opportunities for wholesalers to go online and become a new basement for infrastructures for online vendors. It plans to set up online store for each wholesaler, to establish an unified online trading platform, to help wholesalers in independent online marketing, and to provide online payment, financial support and comprehensive information technology for wholesalers. Meanwhile it also provides optimal offline services for E-commerce businesses as a center of storage, financial services and business incubator for them.

With a total investment of RMB2 billion, Phase I of Tianjin Zall E-Commerce Mall, the international trade center, has a GFA of 612,000 sq.m., covering major consumer goods categories, including small commodities, clothing, footwear and leather, hotel supplies, stationery, daily chemical products, textile and accessories, children's products, non-staple food and seasonings. Phase I will form 10 specialized wholesale clusters, and a comprehensive supporting service system of warehouses, logistics, E-commerce, financial support, and information technology management.

As of 31 December 2014, through selling the operating right for a term of 20 years, the presale area of Tianjin Zall E-Commerce Mall amounted to approximately 41,610 sq.m., with the presale amount of around RMB214 million and the average selling price was approximately RMB5,143 per sq.m..

Jingzhou Zall City

The Jingzhou Zall City（荊州卓爾城）is situated in the "golden triangle" of the new industrial port district in western Jingzhou, enjoying a prime location with convenient transportation. To the east it is adjacent to the Jiuyang Machinery and Electronics Industrial Park（九陽機械電子工業園區）off the Jiuyang Avenue（九陽大道）; to the west it is just opposite to the Central China Agricultural High Technology Development Zone（華中農高區）off a water diversion canal; to the north are the Wuhan-Yichang High Speed Railway（漢宜高鐵）and Shanghai-Chongqing Expressway（滬渝高速）; to the south is Libu Port of Jingzhou City（荊州李埠港）and College of Agriculture Yangtze University（長江大學農學院）. The State Road 318 runs from east to west through the project. The project is just 5 kilometers from Jingzhou city Expressway Exit, Jingzhou Chudu Bus Terminal and Jingzhou Railway Station.

The Jingzhou Zall City Project will have a total GFA of 3,390,000 sq.m.. With a planned total GFA of 310,000 sq.m., the international trade center of Phase I is expected to be able to host over 6,300 standardized stores. It is expected to be a leading new specialized wholesale market in Central China.

As of 31 December 2014, the presold properties of Jingzhou Zall City amounted to approximately 24,372 sq.m., with a presale turnover of around RMB122 million and an average price of approximately RMB5,006 per sq.m..

Zall Asia Expo City

On 8 June 2014, the Group entered into the strategic cooperation framework agreement (the "Framework Agreement") with the Management Committee of the Central-Yunnan Industry Cluster Area District, Yunnan Province. Pursuant to the Framework Agreement, the Company has agreed to invest in the development and construction of a large-scale integrated logistics and trade centre in Dabanqiao Town, Yunnan（雲南省大板橋鎮）, the PRC ("Zall Asia Expo City Project"). The Zall Asia Expo City Project has a total land area of approximately 2,001,000 sq.m., approximately 1,334,000 sq.m. of which will be for logistics use and warehousing facilities and the remaining approximately 667,000 sq.m. will be for commercial use.

The planned total GFA of Zall Asia Expo City Project is approximately 3,300,000 sq.m. As at 31 December 2014, the project is still under planning and will commence its construction after acquisition of the land and going through relevant procedures for approving the construction.

Wuhan Zall Football Club

Wuhan Zall Professional Football Club Co., Ltd.（武漢卓爾職業足球俱樂部有限公司）("Zall Football Club") was acquired by the Group in 2011.

Zall Football Club participated in the Super League of the Chinese Football Association（中國足球協會超級聯賽）in 2013 and the China League One of the Chinese Football Association（中國足球協會甲級聯賽）in 2014 and finished with the third place.

As one of the top 10 private enterprises in Hubei Province located in Wuhan, the Group considers that the operation of a football team will enhance the brand image of the Group in the local community, promote the brand of Zall across China through participation in leagues of the team and help Zall to build a nationwide trade and logistics network.

Cooperation with Shenzhen Nanshan

On 18 November 2014, the Company entered into a cooperation agreement with Shenzhen Nanshan Real Estate Development Company Ltd.（深圳市南山房地產開發有限公司）("Shenzhen Nanshan"), pursuant to which the Company agreed to dispose certain of its subsidiaries, so as to concentrate its resources on its core business segment (i.e. the development and operating of large scale consumer product-focused wholesale shopping malls and the related value– added services). Up to the date of this report, no formal agreements have been signed.

Cooperation with Fullshare

On 9 April 2015, the Company entered into a memorandum of understanding with Fullshare Holdings Limited（豐盛控股有限公司）("Fullshare"), pursuant to which the Company agreed to dispose certain equity interests of its subsidiaries, so as to concentrate its resources on its core business segment (i.e. the development and operating of large scale consumer product-focused wholesale shopping malls and the related value-added services). Up to the date of this annual report, no definitive agreements have been signed. For further details, please refer to the announcement of the Company dated 9 April 2015.

Proposed Restructuring

During the year under review, the Group has proposed a restructuring exercise as a strategic move to adjust its principal activities, namely the development and operation of wholesale shopping malls and provision of related facilities and valued-added services. It was approved by the independent shareholders in the EGM held on 16 January 2015. The restructuring exercise will be completed when all the conditions precedent are satisfied or waived, which is expected to be no later than 30 June 2015. For details of the restructuring exercise, please refer to the circular dated 31 December 2014 and the announcement dated 31 March 2015 issued by the Company.

Results of Operation

Turnover

Turnover increased by 25.6% from RMB1,581.2 million for the year ended 31 December 2013 to RMB1,986.1 million for the year ended 31 December 2014. The increase was primarily due to an increase in the sales of properties. The Group's revenue from rental income for the year ended 31 December 2013 increased by 62.5% from RMB44.1 million to RMB71.7 million for the year ended 31 December 2014, which was mainly attributable to an increase in the total leased area of North Hankon Project.

Sales of properties

Revenue from sales of properties increased by 24.3% from RMB1,523.9 million for the year ended 31 December 2013 to RMB1,894.7 million for the year ended 31 December 2014.

The Group's revenue from sales of properties was generated from sales of wholesale shopping mall units, office and retails units and residential apartments. The GFA and ASP of the respective projects during the year ended 31 December 2014, together with the comparative figures for the year 2013 are set forth below:

	For the year ended 31 December					
	2014			2013		
	GFA Sold	Average selling price (net of business tax)	Turnover	GFA Sold	Average selling price (net of business tax)	Turnover
	(sq.m.)	*RMB/sq.m.*	*(RMB'000)*	*(sq.m.)*	*RMB/sq.m.*	*(RMB'000)*
North Hankou Project	110,573	10,754	1,189,078	50,938	10,731	546,599
No. 1 Enterprise Community – Wuhan	73,384	4,038	296,312	51,538	3,730	192,522
Wuhan Salon	55,389	6,136	339,859	78,633	5,360	422,243
Zall Life City – Zall Hupan Haoting Residences	14,797	4,697	69,495	78,741	4,600	362,514
Total	254,143		1,894,744	259,850		1,523,878

The Group's turnover from sales of properties increased significantly over the year under review mainly due to an increase in the GFA delivered of certain properties during 2014. The GFA sold in North Hankou Project was significantly increased by 117.0% from 50,938 sq.m. for the year ended 31 December 2013 to 110,573 sq.m. for the year ended 31 December 2014. The GFA sold in No. 1 Enterprise Community – Wuhan was increased by 42.4% from 51,538 sq.m. for the year ended 31 December 2013 to 73,384 sq.m. for the year ended 31 December 2014, mainly due to the completion and delivery of the office and residential buildings in Phase III of the project.

The GFA sold in Wuhan Salon and Zall Life City – Zall Hupan Haoting Residences decreased by 29.6% from 78,633 sq.m. to 55,389 sq.m. and 81.2% from 78,741 sq.m. to 14,797 sq.m., respectively.

Rental income

The Group's rental income increased significantly by 62.5% from RMB44.1 million for the year ended 31 December 2013 to RMB71.7 million for the year ended 31 December 2014. The increase was primarily due to an increase in the number of wholesale shopping mall units in the North Hankou Project retained for leasing.

Cost of sales

Cost of sales increased by 10.2% from RMB916.3 million for the year ended 31 December 2013 to RMB1,010.0 million for the year ended 31 December 2014, primarily due to an increase in the sales of properties.

Gross profit

Gross profit increased by 46.8% from RMB664.8 million for the year ended 31 December 2013 to RMB976.1 million for the year ended 31 December 2014. The Group's gross profit margin increased from 42.0% in 2013 to 49.1% in 2014 mainly due to the changes in the combination of the properties delivered during the year. For the year ended 31 December 2013, only 35.9% of the revenue from sales of properties were contributed by North Hankou Project, of which the gross profit margin of the wholesale shopping mall units are usually maintained at over 60%. However, for the ended 31 December 2014, approximately 62.8% of the revenue from sales of properties were contributed by North Hankou Project. The remaining 37.2% of the revenue from sales of properties were contributed by No. 1 Enterprise Community – Wuhan, Wuhan Salon and Zall Life City projects, of which the overall gross profit margin of these projects are a lot lower, comparing to North Hankou Project.

Other net loss

For the year ended 31 December 2014, certain non-current assets held for sale were disposed of and a loss on disposal of RMB2.6 million (2013: RMB8.6 million) was incurred.

Other revenue

Other revenue decreased by 69.8% from RMB35.9 million for the year ended 31 December 2013 to RMB10.8 million for the year ended 31 December 2014.

The decrease was primarily due to decrease of RMB2.9 million in government grant income and RMB22.0 million in football club related income.

Selling and distribution expenses

Selling and distribution expenses decreased by 14.7% from RMB194.2 million for the year ended 31 December 2013 to RMB165.5 million for the year ended 31 December 2014. The decrease was primarily due to a decrease of RMB20.2 million and RMB11.0 million in the advertising and promotion expenses and other expenses related to Zall Football Club respectively.

Administrative and other expenses

Administrative and other expenses of the Group decreased by 3.6% from RMB161.9 million for the year ended 31 December 2013 to RMB156.0 million for the year ended 31 December 2014. The decrease was primarily due to the offsetting effect of (i) an increase of RMB4.2 million in staff related costs resulting from an increase in the number of the Group's administrative and management personnel and an increase in salaries; and (ii) a decrease of RMB10.4 million in entertainment and related expenses during the year under review.

Increase in fair value of investment properties and non-current assets classified as held for sale and fair value gain upon transfer of completed properties held for sale to investment properties

The Group holds a portion of properties developed for rental income and/ or capital appreciation purposes. The Group's investment properties are revaluated at the end of the respective review period on an open market value or existing use basis by an independent property valuer. For the year ended 31 December 2014, the Group recorded significant increases in fair value of investment properties and non-current assets classified as held for sale of RMB1,831.7 million (2013: RMB319.1 million) and fair value gain upon transfer of completed properties held for sale to investment properties of RMB325.6 million (2013: RMB1,423.0 million). The significant increase in fair value of the Group's investment properties during the years ended 31 December 2014 and 2013 reflected a rise in the property price in Wuhan and increased number of wholesale shopping mall units retained for rental purposes over the period under review and a first time recognition of increase in fair value of RMB1,319.7 million from the Group's investment properties in Tianjin during the year ended 31 December 2014.

Share of profits of joint ventures

Share of profits of joint ventures consisted primarily of share of profit from Wuhan Big World Investment Development Co., Ltd., which reflected the Group's 50% equity interest share of profit of this entity.

Fair value change on embedded derivative component of the convertible bonds

The Group issued convertible bonds on 19 June 2013 and a net loss of RMB9.3 million (2013: RMB12.7 million gain) was recognised in the consolidated statement of profit or loss during the year ended 31 December 2014 on the reevaluation of the convertible bonds as at 31 December 2014.

Finance income and costs

For the year ended 31 December 2014, interest income of RMB22.3 million (2013: RMB3.9 million) was credited to the consolidated statement of profit or loss.

For the year ended 31 December 2014, a net finance cost of RMB122.1 million (2013: RMB76.9 million) was charged to the consolidated statement of profit or loss. The increase was mainly attributable to an increase in bank and other borrowings and interest on the convertible bonds during the year ended 31 December 2014.

Income tax

Income tax was increased by 24.9% from RMB918.3 million for the year ended 31 December 2013 to RMB1,147.1 million for the year ended 31 December 2014. The increase was mainly due to an increase in PRC corporate income tax as a result of the increase in operating profits of the Group and the increase in PRC Land Appreciation Tax. The Group's effective tax rate was increased from 36.0% for the year ended 31 December 2013 to 41.6% for the year ended 31 December 2014. The increase in effective tax rate was partly because of the increase in PRC Appreciation tax on North Hankou of RMB53.9 million incurred in the year ended 31 December 2014.

Profit for the year

For the year ended 31 December 2014, the Group recorded a net profit of RMB1,610.7 million. Profit attributable to equity shareholders of the Company was RMB1,572.8 million, representing a slight decrease of 0.7% over the amount of RMB1,583.7 million for the year ended 31 December 2013.

Liquidity and capital resources

As at 31 December 2014, cash and cash equivalents of the Group was RMB250.8 million (2013: RMB738.8 million). The Group's cash and cash equivalents consist primarily of cash on hand and bank balances which are primarily held in RMB denominated accounts with banks in the PRC.

Capital expenditure

For the year ended 31 December 2014, the Group's total expenditure in respect of property, plant and equipment and investment properties under development amounted to RMB10.0 million and RMB819.3 million (2013: RMB4.4 million and RMB197.2 million) respectively.

Bank loans and loans from other financial institutions

As at 31 December 2014, the Group's total long-term and short-term loans was RMB6,158.8 million, including long-term and short-terms loans of disposal group held for sale amounted to RMB1,737.1 million, representing a increase of RMB1,061.0 million over the amount of RMB5,097.8 million as at 31 December 2013. All the loans were denominated in RMB, being the functional currency of the Group.

Convertible bonds

As at 31 December 2014, the Group had an amount equivalent to RMB677.9 million (2013: RMB608.3 million) in relation to the convertible bonds issued on 19 June 2013. The principal amount of the convertible bonds outstanding as at 31 December 2014 is USD100 million and the convertible bonds bears interest rate at 5.5% per annum, with a maturity date on 19 June 2018.

Net gearing ratio

As at 31 December 2014, the net gearing ratio (calculated by dividing total borrowings, net of cash and cash equivalents, restricted cash and short term bank deposits, by total equity attributable to equity shareholders of the Company) of the Group was 78.7% (2013: 70.1%).

Foreign exchange risk

The Group's sales were primarily denominated in RMB, being the functional currency of the Group's major operating subsidiaries. Accordingly, the Board expects any future exchange rate fluctuation will not have any material effect on the Group's business. As at 31 December 2014, the Group did not use any financial instruments for hedging purpose.

Charge on assets

As at 31 December 2014, the Group had pledged certain of its assets with a total book value of RMB10,136.2 million (2013: RMB6,045.5 million) for the purpose of securing certain of the Group's bank borrowings.

Contingent liabilities

In accordance with industrial practice, the Group has made arrangements with various PRC banks to provide mortgage facilities to the purchasers of its pre– sold properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group will be responsible to repay the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to the banks. The Group's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the buyers obtained the individual property ownership certificate and the full settlement of mortgage loans by the buyers.

As at 31 December 2014, the guarantees provided to banks in relation to mortgage facilities granted to purchasers of the Group's properties amounted to RMB1,331.7 million (2013: RMB1,533.4 million).

Employees and Remuneration Policy

As at 31 December 2014, the Group employed a total of 1,005 full time employees (2013: 939). Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the year ended 31 December 2014, the employees remuneration benefit expenses were RMB52.6 million (2013: RMB50.4 million). The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. During the year, none of the Directors waived his/her emoluments nor has agreed to waive his/her emoluments for the year.

The Group has also adopted a share option scheme (the "Share Option Scheme") and a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including the Directors, and full-time or part-time employees, executives or officers of the Group who had contributed to the success of the Group's operations.

6. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

As the global manufacturing centre as well as a giant in the internet industry, China enjoys exceptional advantages to become the world's commodities exchange centre. Since the Group announced its thorough transformation from a traditional property developer to a service-oriented and internet-based e-commerce enterprise in 2015, the Group decisively changed its business nature in accordance with the situations. Through business restructuring and strategic mergers and acquisitions, the Group has been progressively reducing the proportion of property development, developed online trade, data and featured financial service by virtue of its offline market service and logistics facilities, and created a commercial ecosphere of intelligent transactions for traditional wholesale and trading industry with new technology, new format and new model. Since its transformation, the

Group has established the largest consumer product wholesale online and offline platform in the PRC that made the Group become one of the first tier participants in the PRC's e-commerce industry.

Currently, the Group has constructed solid online and offline infrastructure. Mega trade and logistics centers, such as North Hankou International Trade Centre and Tianjin E-commerce Mall, is establishing the largest physical trading service system for e-commerce in China. Leveraged on the advantage of the ever-growing physical wholesale market as well as on properties, customers, logistics and data, and through online trade and service platforms such as Zallgo（卓爾購）, Zallsoon（卓集送）and Zallfuhui（卓服匯）, the Group quickly achieved the online transformation of wholesale trading for merchants by the provision of logistics, warehousing and other comprehensive value-added services.

The Group's transformation program, based on the advantages of the properties, clients, logistics, data basis,etc. took advantages of the offline entity trading markets with North Hankou International Trade Centre, Tianjin Zall E-commerce Mall, Jingzhou Zall City, etc. as representation, to achieve full integration of various entity wholesale markets and e-commerce throughout the country, to reduce supply chain costs of China's wholesale segment, to improve operating efficiency, and to build China's largest integrated online and offline wholesale trading platform. Three online trading and service platforms, namely Zallgo, Zall Financial Services Group Limited ("Zall Financial Services") and Zallfuhui, serve online transactions of wholesale trading, financing support and smart logistics respectively to form a closed loop of big data integration services. As at 30 June 2017, (1) Zallgo has covered 27 cities across the nation, at which there have been 1,223 national major wholesale markets, more than 210,000 merchants and approximately 800,000 registered users with accumulative transaction amount of approximately RMB98.9 billion; (2) the internet financial platform of Zall Financial Services had a total of approximately 200,200 registered members with total financing amount of approximately RMB856 million; and (3) Zallfuhui's platform recorded a turnover of approximately RMB2,490 million and its logistics orders amounted to 77,000. The cloud warehouses under its management have covered 28 cities with an area of approximately 8.64 million square meters.

The business development strategy of the Target Group is in line with the Group's one. The Board expects that the Enlarged Group's existing e-commerce and supply chain financial businesses can be enhanced through the acquisition of the Target Group. By virtue of the experience of the Target Group in B2B vertical commodities e-commence business in the chemical and plastic raw materials market in China, it forms a new driver for the Group's development in commodities e-commence business. The Enlarged Group will continue to dedicate resources to its core business segment, i.e. development and operating of large-scale consumer product and commodities oriented wholesale shopping malls and further develop its supply chain management and financial information service businesses as well as other related value added business, striving for growth in its sales revenue and profit.

7. MATERIAL ACQUISITION SINCE LATEST PUBLISHED AUDITED ACCOUNTS

As at the Latest Practicable Date, save for the Sinoagri Acquisition, no member of the Group had acquired or agreed to acquire or proposed to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditors' report or next published accounts of the Company since 31 December 2016, being the date to which the latest published audited accounts of the Company have been made up.

Details of the Sinoagri Acquisition are set out in the the Company's announcements dated 13 November 2016 and 27 June 2017 and the Company's circulars dated 15 February 2017 and 11 December 2017.

The Directors do not expect material variation to the aggregate of the reumeration payable to and benefits in kind receivable by the directors of the acquiring company in consequence of the Sinoagri Acquisition.

The following is the text a report set out on pages II–1 to II–46, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ZALL GROUP LTD.

Introduction

We report on the historical financial information of HSH International Inc. (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages II-4 to II-46, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2014, 2015 and 2016 and 30 September 2017 and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for the period from 29 May 2014 to 31 December 2014, each of the years ended 31 December 2015 and 2016 and the nine months ended 30 September 2017 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historial Financial Information"). The Historical Financial Information set out on pages II-4 to II-46 forms an integral part of this report, which has been prepared for inclusion in the circular of Zall Group Ltd. (the "Company") dated 14 February 2018 (the "Circular") in connection with the proposed acquisition of the Target Company by Zall Development (BVI) Holding Company Limited, a wholly-owned subsidiary of the Company (the "Proposed Acquisition").

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1(a) to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1(a) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2014, 2015 and 2016 and 30 September 2017 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1(a) to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Target Group which comprises the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the nine months ended 30 September 2016 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1(a) to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1(a) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
14 February 2018

A HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

Consolidated statements of profit or loss

		Period/Year ended 31 December			Nine months ended 30 September	
	Note	**2014**	**2015**	**2016**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Turnover	*3*	–	306,371	4,945,061	2,994,835	4,635,169
Cost of sales		–	(303,381)	(4,904,981)	(2,975,817)	(4,600,921)
Gross profit		–	2,990	40,080	19,018	34,248
Other income/(loss)	*4*	–	761	657	122	(427)
Selling and distribution expenses		(1,110)	(15,180)	(34,134)	(22,745)	(32,683)
Administrative expenses		(1,230)	(18,729)	(25,604)	(19,833)	(15,425)
Loss from operations		(2,340)	(30,158)	(19,001)	(23,438)	(14,287)
Finance income	*5(a)*	–	637	122	90	180
Finance costs	*5(b)*	(24)	(216)	(2,403)	(1,918)	(8,920)
Fair value loss of convertible redeemable preference shares	*17*	–	(7,541)	(12,595)	(8,627)	(38,732)
Net finance cost		(24)	(7,120)	(14,876)	(10,455)	(47,472)
Loss before taxation		(2,364)	(37,278)	(33,877)	(33,893)	(61,759)
Income tax	*6(a)*	–	–	–	–	–
Loss for the period/year		(2,364)	(37,278)	(33,877)	(33,893)	(61,759)

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of profit or loss and other comprehensive income

	Period/Year ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Loss for the period/year	(2,364)	(37,278)	(33,877)	(33,893)	(61,759)
Other comprehensive income for the period/ year:					
Exchange differences on translation of financial statements of operations outside mainland China	–	(1,015)	(3,016)	(2,375)	3,203
Loss and other comprehensive income for the period/year	(2,364)	(38,293)	(36,893)	(36,268)	(58,556)

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of financial position

	Note	As at 31 December 2014	As at 31 December 2015	As at 31 December 2016	As at 30 September 2017
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*9*	189	1,621	1,187	696
Intangible assets	*10*	5	155	6,483	5,941
		194	1,776	7,670	6,637
Current assets					
Inventories	*11*	–	5,078	43,638	95,950
Trade and other receivables	*12*	300	25,279	158,144	115,698
Amount due from related parties	*23(c)*	–	32,011	59,756	77,348
Cash and cash equivalents	*13*	2,785	17,196	18,713	38,195
Restricted bank deposits		–	–	90	3,202
		3,085	79,564	280,341	330,393
Current liabilities					
Financial liabilities at fair value through profit or loss	*14*	–	–	–	247
Trade and other payables	*15*	643	20,784	170,593	128,951
Amount due to related parties	*23(c)*	399	6,127	3,027	9,989
Bank and other loans	*16*	–	23,854	67,782	163,459
		1,042	50,765	241,402	302,646
Net current assets		2,043	28,799	38,939	27,747
Total assets less current liabilities		2,237	30,575	46,609	34,384
Non-current liabilities					
Convertible redeemable preference shares	*17*	–	66,631	118,876	164,883
NET ASSETS/(LIABILITIES)		2,237	(36,056)	(72,267)	(130,499)
CAPITAL AND RESERVES					
Share capital	*21(a)*	1,670	–	–	–
Reserves	*21(b)*	567	(36,056)	(72,267)	(130,499)
TOTAL EQUITY		2,237	(36,056)	(72,267)	(130,499)

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of changes in equity

	Note	Share capital *RMB'000*	Capital reserve *RMB'000*	Equity settle share-based payment reserve *RMB'000*	Exchange reserve *RMB'000*	Accumulated losses *RMB'000*	Total equity *RMB'000*
As at 29 May 2014		–	–	–	–	–	–
Capital injection	*21(a)*	1,670	2,931	–	–	–	4,601
Loss for the peirod		–	–	–	–	(2,364)	(2,364)
As at 31 December 2014		1,670	2,931	–	–	(2,364)	2,237
Reorganisation		(1,670)	1,670	–	–	–	–
Loss for the year		–	–	–	–	(37,278)	(37,278)
Other comprehensive income		–	–	–	(1,015)	–	(1,015)
As at 31 December 2015		–	4,601	–	(1,015)	(39,642)	(36,056)
Loss for the year		–	–	–	–	(33,195)	(33,195)
Other comprehensive income		–	–	–	(3,016)	–	(3,016)
Equity-settled share-based transactions	*21(c)*	–	–	682	–	(682)	–
As at 31 December 2016		–	4,601	682	(4,031)	(73,519)	(72,267)
Loss for the year		–	–	–	–	(61,435)	(61,435)
Other comprehensive income		–	–	–	3,203	–	3,203
Equity-settled share-based transactions	*21(c)*	–	–	324	–	(324)	–
As at 30 September 2017		–	4,601	1,006	(828)	(135,278)	(130,499)
As at 31 December 2015		–	4,601	–	(1,015)	(39,642)	(36,056)
Loss for the period		–	–	–	–	(33,319)	(33,319)
Other comprehensive income		–	–	–	(2,375)	–	(2,375)
Equity-settled share-based transactions	*21(c)*	–	–	574	–	(574)	–
As at 30 September 2016		–	4,601	574	(3,390)	(73,535)	(71,750)

The accompanying notes form part of the Historical Financial Information.

Consolidated cash flow statements

	Note	Period/Year ended 31 December			Nine months ended 30 September	
		2014	2015	2016	2016	2017
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Operating activities						
Net cash used in operating activities	*13(b)*	(1,611)	(63,722)	(66,095)	(58,750)	(77,765)
Investing activities						
Payment for the purchase of property, plant and equipment		(199)	(1,675)	(197)	(196)	(1)
Payment for the purchase of intangible assets		(6)	(182)	(6,599)	(4,747)	–
Cash receipt from disposal of property, plant and equipment		–	–	–	–	2
Net cash (used in)/generated from investing activities		(205)	(1,857)	(6,796)	(4,943)	1
Financing activities						
Proceeds from bank and other loans		–	23,854	81,838	55,809	509,828
Repayment of bank and other loans		–	–	(37,910)	(23,853)	(414,151)
Interest paid		–	(196)	(2,085)	(1,680)	(8,226)
Placement of restricted bank deposits		–	–	(10,455)	(1,398)	(256,880)
Withdrawal of restricted bank deposits		–	–	10,365	1,098	253,768
Proceeds from capital injection from shareholders		4,601	–	–	–	–
Proceeds from the issue of redeemable Preference share		–	55,433	32,295	32,295	13,648
Net cash generated from financing activities		4,601	79,091	74,048	62,271	97,987
Net increase /(decrease) in cash and cash equivalents		2,785	13,512	1,157	(1,422)	20,223
Cash and cash equivalents at the beginning of the year/period		–	2,785	17,196	17,196	18,713
Effect of foreign exchange rate changes		–	899	360	729	(741)
Cash and cash equivalents at the end of the period/year	*13*	2,785	17,196	18,713	16,503	38,195

The accompanying notes form part of the Historical Financial Information.

B NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies

(a) Basis of preparation and presentation of the Historical Financial Information

HSH International Inc. (the "Target Company") was incorporated in the Cayman Islands on 10 December 2014 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands. The Target Company is an investment holding company and has not carried on any business other than being a holding company since the date of its incorporation. The Target Company and its subsidiaries (together, "the Target Group") are principally engaged in the businesses of trading and providing an online trading platform for chemical and plastic raw materials.

Under the prevailing laws and regulations in the People's Republic of China (the "PRC"), companies with foreign ownership are prohibited from the business of providing an online trading platform in Mainland China. In order to comply with the relevant PRC laws and regulations while availing of maintaining effective control over all operations in the PRC, the Target Group had a series of offshore and onshore reorganisation (the "Reorganisation") during the Relevant Periods.

During the Relevant Periods, the above mentioned principal activities of the Target Group were carried out by Shanghai Susheng e-Commerce Company Limited ("Shanghai Susheng") and its subsidiary, Changzhou Changsusheng e-Commerce Company Limited ("Changzhou Changsusheng").

HSH Hongkong Limited ("HSH HK"), a subsidiary of the Target Company was incorporatedin Hong Kong as a limited company on 8 January 2015. Since the date of its incorporation, the Target Company has held 100% equity interest in HSH HK.

Shanghai Sulai Communications Technology Company Limited ("Shanghai Sulai"), a subsidiary of HSH HK, was established in the PRC on 30 April 2015. HSH HK has held 100% shareholding interest in Shanghai Sulai since the date of its entablishment.

As part of the Reorganisation, in order to achieve the Target Group's business purposes and be in line with common practice in industries in the PRC subject to foreign investment restrictions, a series of contractual agreements (the "Structured Contracts") was effectuated on 9 July 2015 among Shanghai Sulai, Shanghai Susheng and legal shareholders of Shanghai Susheng.

The Structured Contracts provide the Target Group through Shanghai Sulai with effective control over Shanghai Susheng. In particular, Shanghai Sulai undertakes to provide Shanghai Susheng with certain technical services as required to support their operations. In return, Shanghai Sulai is entitled to substantially all of the operating profits and residual benefits generated by Shanghai Susheng through intercompany charges levied on these services rendered. The legal shareholders of Shanghai Susheng are also required to transfer their interests in Shanghai Susheng to Shanghai Sulai or Shanghai Sulai's designee upon a request made by Shanghai Sulai when permitted by the PRC laws for a consideration at the lowest price as permitted under the PRC laws. The ownership interests in Shanghai Susheng have also been pledged by its legal shareholders to Shanghai Sulai in respect of the continuing obligations of Shanghai Susheng. Shanghai Sulai intends continuously to provide to or assist Shanghai Susheng in obtaining financial support when deemed necessary. Accordingly, Shanghai Sulai has rights to variable returns from its involvement with Shanghai Susheng and has the ability to affect those returns through its power over Shanghai Susheng.

The above mentioned Reorganisation only involved inserting investment holding companies as the holding companies of Shanghai Susheng. As these newly inserted companies had no substantive operations during the Relevant Periods, the Reorganisation did not result in any changes in the economic substance of the ownership and the business of the Target Group. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition, with Shanghai Susheng identified as the acquirer for accounting purposes.

Overall, the Historical Financial Information has been presented as a continuation of the financial statements of Shanghai Susheng, as if the Reorganisation had been completed as at the beginning of the Relevant Periods and remained unchanged throughout. Intra-group balances, transactions and unrealised gains/losses on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

As at the date of this report, no audited financial statements have been prepared for the Target Company, it is an investment holding company and is not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

Upon completion of the Reorganisation and as at the date of this report, the Target Company has direct or indirect interests in or contols pursuant to the Structured Contracts over the following subsidiaries, all of which are private companies.

Company name	Place and date of incorporation/ establishment	Issued and fully paid up/ registered capital	Portion of ownership interest		Principal activities
			Held by the Target Company	Held by the subsidiary	
Directly held					
HSH Hongkong Limited	Hongkong/8 January 2015	HK$1/HK$1	100%	–	Investment holding
Indirectly held					
Shanghai Sulai Information Technology Co., Ltd. 上海塑來信息技術有限公司 *(Notes (i) and (ii))*	PRC/30 April 2015	USD3,800,000/ USD3,800,000	–	100%	Investment holding
Shanghai Susheng Ecommerce Ltd 上海塑盛電子商務有限公司 *(Notes (i), (iii) and (iv))*	PRC/29 May 2014	RMB1,670,000/ RMB6,670,000	–	100%	Trading of chemical and plastic products
Changzhou Changsusheng Ecommerce Ltd 常州常塑盛電子商務有限公司 *(Notes (i), (iii) and (iv))*	PRC/19 June 2015	RMB5,000,000/ RMB20,000,000	–	100%	Trading of chemical and plastic products
Shanghai Yinghao Supply Chain Management Co., Ltd. ("Shanghai Yinghao") 上海鷹皓供應鏈管理有限公司 *(Notes (i), (iii) and (iv))*	PRC/23 September 2016	RMBNil/ RMB5,000,000	–	100%	Logistics services
Shanghai Enhe Financial Information Service Co., Ltd. ("Enhe Financial") 上海恩鶴金融信息服務有限責任公司 *(Notes (i), (iii) and (iv))*	PRC/22 October 2015	RMBNil/ RMB100,000	–	100%	Financial information service
Shenzhen Suying business factoring Co., Ltd. ("Shenzhen Suying") 深圳塑盈商業保理有限公司 *(Notes (i), (iii) and (iv))*	PRC/6 January 2017	RMBNil/ RMB5,000,000	–	100%	Factoring service

(i) The official name of this entity is in Chinese. The English name is for identification purpose only.

(ii) This entity was registered as a wholly foreign-owned enterprise under the PRC Law.

(iii) This entity was registered as a domestic enterprise under the PRC Law.

(iv) These entities are controlled by the Target Company pursuant to the Structured Contracts.

All companies comprising the Target Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Target Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning 1 January 2017. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2017 are set out in Note 25.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

(b) Basis of measurement

These consolidated financial statements are presented in Renminbi ("RMB") rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial assets at fair value through profit or loss are stated at their fair value as explained in the note 1(e).

(c) Use of estimates and judgements

The preparation of Historical Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in note 2.

(d) Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) the contractual arrangement with the other vote holders of the investee;

(ii) rights arising from other contractual arrangements; and

(iii) the Target Group's voting rights and potential voting rights.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(e) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

–	Motor vehicles	3 years
–	Furniture, office equipment and others	3 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Intangible assets

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible asset with finite useful life is amortised from the date it is available for use and its estimated useful life is as follows:

–	Software	3-10 years

Both the period and method of amortisation are reviewed annually.

(h) Operating lease charges

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease. Leases which do not transfer substantially all the risks and rewards of ownership to the Target Group are classified as operating leases.

Where the Target Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(i) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss for receivable carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Target Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired:

– property, plant and equipment;

– intangible assets; and

– investments in subsidiaries in the Target Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see note 1(i)).

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using an effective interest method.

(m) Convertible redeemable preference share capital

Convertible redeemable preference shares issued by the Target Company are redeemable upon occurrence of certain future events and at the option of the holders. This instrument can be converted into ordinary shares of the Target Company at any time at the option of the holders or automatically converted into ordinary shares upon occurrence of an initial public offering of the Target Company or agreed by majority of the holders as detailed in Note 17.

The Target Group designated the convertible redeemable preference shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated income statement.

Subsequent to initial recognition, the convertible redeemable preference shares are carried at fair value with changes in fair value recognized in the consolidated income statement.

The convertible redeemable preference shares are classified as non-current liabilities because the Target Group has unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labor rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Target Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Target Company or the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Target Company or the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group or the Target Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the goods ownership transfer certificate is issued to customers, goods are picked up at the third parties' premises or goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added taxes ("VAT") or other sales taxes and is after deduction of any trade discounts.

(ii) Provision of service

Revenue from provision of service is recognised at the time when service are provided. Revenue excludes VAT or other sales taxes and is after deduction of any trade discounts.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(u) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly-controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the consolidated financial statements provided regularly to the Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target Group's lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Target Group is principally engaged in B2B e-commerce for the trading of chemical and plastic products, considers that the revenue and profit are derived almost entirely from trading of chemical and plastic products for Relevant Period and financial information regularly provided to the Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target Group's lines of business and geographical locations does not meet the quantitative thresholds as set out in IFRS 8, *Operating Segments*, to be reportable. Accordingly, no segment information is presented in the Historical Financial Information.

Substantially all of the Target Group's operations are in the PRC. Consequently, no geographic information is presented.

2 Accounting judgements and estimates

Notes 19 contain information about the assumptions and their risk factors relating to valuation of fair value of share options granted. Other key sources of estimation uncertainty are as follows:

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Target Group's net assets value.

(b) Impairment of financial assets

The Target Group estimates the impairment allowances for financial assets, including trade and other receivables, by assessing the recoverability based on factors such as credit history and prevailing market conditions. This requires the use of estimates and judgements. Impairment losses are applied to financial assets where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of financial assets and thus the impairment loss in the period in which such estimate is changed.

(c) Fair value of convertible redeemable preferred shares

The convertible redeemable preferred shares issued by the Target Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The management have used the discounted cash flow method to determine the underlying equity value of the Target Company and adopted equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions, such as discount rate, risk-free interest rate and volatility are disclosed in Note 17.

3 Turnover

The Target Group is principally engaged in B2B e-commerce for the trading of chemical and plastic products. Turnover mainly represents the sales value of goods delivered to customers.

The amount of each significant category of revenue recognised during the Relevant Periods are as follows:

	Period/Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Trading of chemical prodcucts	–	238,723	4,007,673	2,423,344	3,433,013
Trading of plastic products	–	67,608	936,274	571,142	1,197,044
Others	–	40	1,114	349	5,112
	–	306,371	4,945,061	2,994,835	4,635,169

For the years ended 31 December 2015 and 2016 and for the nine months ended 30 September 2016 (unaudited) and 30 September 2017 there is no single customer with whom transactions have exceeded 10% of the Target Group's revenue.

4 Other income/(loss)

	Period/Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Government grants	–	762	119	118	319
Loss on disposal of property, plant and equipment	–	–	–	–	(2)
Net realised and unrealised loss on financial assets at fair value change through profit or loss	–	–	–	–	(731)
Others	–	(1)	538	4	(13)
	–	761	657	122	(427)

The unconditional government grants the Target Group received in respect of its contribution to technological innovation for chemical and plastic trading and information platform industry were recognised in profit or loss.

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Period/Year ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
(a) Finance income					
Interest income	–	4	122	90	180
Net foreign exchange gain	–	633	–	–	–
	–	637	122	90	180
(b) Finance costs					
Interest expenses	–	196	2,085	1,680	8,226
Bank charge and others	24	20	318	238	694
	24	216	2,403	1,918	8,920
(c) Staff costs					
Contributions to defined contribution retirement plan *(note 18)*	41	1,059	2,178	1,642	1,368
Salaries, wages and other benefits	1,604	22,550	33,187	23,349	17,450
Equity-settled share-based payments expenses *(note 19)*	–	–	682	574	324
	1,645	23,609	36,047	25,565	19,142
(d) Other items					
Depreciation of property, plant and equipment	10	243	631	466	488
Amortisation of intangible assets	1	32	271	106	542
Auditors' remuneration	–	3	11	11	18
Cost of inventories	–	303,381	4,904,981	2,975,817	4,600,921
Impairment loss on trade receivables	–	1	33	12	179
Operating lease charges in respect of property rentals	105	1,423	2,222	1,726	1,425

6 Income tax in the consolidated statement of profit or loss

(a) Taxation in the consolidated statement of profit or loss:

Pursuant to the rules and regulations of the Cayman Islands, the Target Group is not subject to any income tax in the Cayman Islands.

No provision for Hong Kong Profits Tax has been made as the Target Group does not have assessable profits subject to Hong Kong Profits Tax for the Relevant Periods.

The subsidiaries in the PRC are subject to PRC Corporate Income Tax ("CIT") at statutory rate of 25%. There was no assessable profits for the Relevant Periods in accordance with the relevant income tax rules and regulations of the PRC.

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	Period/Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Loss before taxation	(2,364)	(37,278)	(33,877)	(33,893)	(61,759)
Notional tax on loss before taxation, calculated at applicable rates in the tax jurisdictions conncerned	(591)	(7,267)	(5,603)	(6,548)	(5,826)
Tax effect of non-deductible expenses	2	33	144	111	12
Tax effect of tax losses not recognised	589	7,213	5,451	6,434	5,708
Tax effect of deductible temporary differences not recognised	–	21	8	3	106
Actual tax expense	–	–	–	–	–

7 Directors' remuneration

Directors' emoluments are as follows:

	Period ended 31 December 2014						
	Directors' fee	**Salaries, allowances and benefits**	**Discretionary bonuses**	**Retirement scheme contributions**	**Sub-total**	**Entity settled share-based payments** *(note)*	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:							
Zhi Jianpeng *(i)*	–	240	–	–	240	–	240

	Year ended 31 December 2015						
	Directors' fee	**Salaries, allowances and benefits**	**Discretionary bonuses**	**Retirement scheme contributions**	**Sub-total**	**Entity settled share-based payments** *(note)*	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:							
Zhi Jianpeng *(i)*	–	240	–	–	240	–	240
Li Li *(ii)*	–	120	–	8	128	–	128
Huang Yuanxi *(iii)*	–	120	–	5	125	–	125
Wan Dingyu *(iv)*	–	78	–	6	84	–	84
Xu Bingdong *(v)*	–	–	–	–	–	–	–
Jiang Haotian *(vi)*	–	–	–	–	–	–	–
He Chaoyi *(vii)*	–	–	–	–	–	–	–
Han Bing *(viii)*	–	–	–	–	–	–	–
Zou Yang *(ix)*	–	–	–	–	–	–	–
	–	558	–	19	577	–	577

	Year ended 31 December 2016						
	Directors' fee	Salaries, allowances and benefits	Discretionary bonuses	Retirement scheme contributions	Sub-total	Entity settled share-based payments *(note)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:							
Zhi Jianpeng *(i)*	–	480	–	–	480	36	516
Li Li *(ii)*	–	300	–	17	317	118	435
Huang Yuanxi *(iii)*	–	360	–	17	377	176	553
Wan Dingyu *(iv)*	–	180	–	16	196	16	212
Xu Bingdong *(v)*	–	–	–	–	–	–	–
Jiang Haotian *(vi)*	–	–	–	–	–	–	–
He Chaoyi *(vii)*	–	–	–	–	–	–	–
	–	1,320	–	50	1,370	346	1,716

	Period ended 30 September 2016 (unaudited)						
	Directors' fee	Salaries, allowances and benefits	Discretionary bonuses	Retirement scheme contributions	Sub-total	Entity settled share-based payments *(note)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:							
Zhi Jianpeng *(i)*	–	360	–	–	360	14	374
Li Li *(ii)*	–	225	–	13	238	107	345
Huang Yuanxi *(iii)*	–	270	–	13	283	159	442
Wan Dingyu *(iv)*	–	135	–	12	147	14	161
Xu Bingdong *(v)*	–	–	–	–	–	–	–
Jiang Haotian *(vi)*	–	–	–	–	–	–	–
He Chaoyi *(vii)*	–	–	–	–	–	–	–
Gong Tim T *(x)*	–	–	–	–	–	–	–
	–	990	–	38	1,028	294	1,322

	Period ended 30 September 2017						
	Directors' fee	Salaries, allowances and benefits	Discretionary bonuses	Retirement scheme contributions	Sub-total	Entity settled share-based payments *(note)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:							
Zhi Jianpeng *(i)*	–	360	–	–	360	67	427
Li Li *(ii)*	–	225	–	13	238	33	271
Huang Yuanxi *(iii)*	–	360	–	13	373	50	423
Wan Dingyu *(iv)*	–	135	–	12	147	5	152
Xu Bingdong *(v)*	–	–	–	–	–	–	–
Jiang Haotian *(vi)*	–	–	–	–	–	–	–
He Chaoyi *(vii)*	–	–	–	–	–	–	–
Gong Tim T *(x)*	–	–	–	–	–	–	–
	–	1,080	–	38	1,118	155	1,273

Note: These represent the estimated value of share options granted to the directors under the Target Company's share option scheme. The value of these share options is measured according to the Target Group's accounting policies for share-based payment transactions as set out in note 1(p)(ii), and the details are disclosed in note 19.

(i) Mr. Zhi Jianpeng has been appointed as an executive director, with effect from 9 December 2014 (date of incorporation of the Target Company).

(ii) Ms. Li Li has been appointed as an executive director, with effect from 9 July 2015.

(iii) Mr. Huang Yuanxi has been appointed as an executive director, with effect from 9 July 2015.

(iv) Mr. Wan Dingyu has been appointed as an executive director, with effect from 9 December 2015.

(v) Mr. Xu Bingdong was appointed as an executive director from 9 July 2015 to 28 November 2016.

(vi) Mr. Jiang Haotian has been appointed as an executive director, with effect from 9 July 2015.

(vii) Ms. He Chaoyi has been appointed as an executive director, with effect from 7 December 2015.

(viii) Mr. Han Bing was appointed as an executive director from 9 July 2015 to 7 December 2015.

(ix) Mr. Zou Yang was appointed as an executive director from 9 July 2015 to 7 December 2015.

(x) Mr. Gong Tim T has been appointed as an executive director, with effect from 28 November 2016.

For the Relevant Periods, there were no amounts paid or payable by the Target Group to the directors or any of the highest paid individual set out in note 8 below as an inducement to join or upon joining the Target Group or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration for the Relevant Periods.

8 Individuals with highest emoluments

During the period/year ended 31 December 2014, 2015, 2016 and 30 September 2016 and 2017, 1, 3, 1, 1 (unaudited) and 1 of the five individuals with highest emoluments are directors whose emoluments are disclosed in note 7 respectively. The aggregate of the emoluments in respect of remaining 4, 2, 4, 4 (unaudited) and 4 individuals are as follows:

	Period/Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries and other emoluments	480	600	1,980	1,485	1,530
Entity settled share-based payments	–	–	37	20	76
Retirement scheme contributions	37	26	50	37	37
	517	626	2,067	1,542	1,643

The emoluments of the 4, 2, 4, 4 (unaudited) and 4 individuals with the highest emoluments are within the following bands:

	Period/Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016** (Unaudited)	**2017**
Nil to HK$1,000,000	4	2	4	4	4

9 Property, plant and equipment

	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost:			
At 29 May 2014	–	–	–
Additions	199	–	199
At 31 December 2014 and 1 January 2015	199	–	199
Additions	1,002	673	1,675
At 31 December 2015 and 1 January 2016	1,201	673	1,874
Additions	197	–	197
At 31 December 2016 and 1 January 2017	1,398	673	2,071
Additions	1	–	1
Disposals	(6)	–	(6)
At 30 September 2017	1,393	673	2,066
Accumulated depreciation:			
At 29 May 2014	–	–	–
Charge for the period	10	–	10
At 31 December 2014 and 1 January 2015	10	–	10
Charge for the year	201	42	243
At 31 December 2015 and 1 January 2016	211	42	253
Charge for the year	418	213	631
At 31 December 2016 and 1 January 2017	629	255	884
Charge for the year	328	160	488
Written back on disposals	(2)	–	(2)
At 30 September 2017	955	415	1,370
Net book value:			
At 31 December 2014	189	–	189
At 31 December 2015	990	631	1,621
At 31 December 2016	769	418	1,187
At 30 September 2017	438	258	696

10 Intangible assets

	Software
	RMB'000
Cost:	
At 29 May 2014	–
Additions	6
At 31 December 2014 and 1 January 2015	6
Additions	182
At 31 December 2015 and 1 January 2016	188
Additions	6,599
At 31 December 2016, 1 January 2017 and 30 September 2017	6,787
Accumulated amortisation:	
At 29 May 2014	–
Charge for the period	1
At 31 December 2014 and 1 January 2015	1
Charge for the year	32
At 31 December 2015 and 1 January 2016	33
Charge for the year	271
At 31 December 2016 and 1 January 2017	304
Charge for the year	542
At 30 September 2017	846
Net book value:	
At 31 December 2014	5
At 31 December 2015	155
At 31 December 2016	6,483
At 30 September 2017	5,941

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

11 Inventories

	As at 31 December			As at 30 September
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Plastic and chemical products	–	5,078	43,638	95,950

12 Trade and other receivables

	As at 31 December			As at 30 September
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	7,299	83,916	61,045
Bills receivable	–	2,975	10,416	7,121
Trade and bills receivables	–	10,274	94,332	68,166
Less: allowance for doubtful debts	–	1	34	213
	–	10,273	94,298	67,953
Prepayments	241	13,949	59,669	45,880
Other receivables	59	1,057	4,177	1,865
	300	25,279	158,144	115,698

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

The trade receivable of RMB 14,603,000, RMB 52,606,000 were pledged to a bank and other financial institutions to secure certain loans as at 31 December 2016 and 30 September 2017 respectively (see note 16).

As at 31 December 2016, the Group had discounted bank acceptance bills totalling RMB3,155,000, which are derecognised as financial assets. These bank acceptance bills matured within six months from date of issue.

(a) Ageing analysis

At the end of the reporting period, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As at 31 December			As at 30 September
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	–	8,595	92,241	61,521
3 to 12 months	–	1,679	2,086	6,155
Over 12 months	–	–	5	490
	–	10,274	94,332	68,166

Trade and bills receivables are normally due within 30 to 90 days from the date of billing. Further details on the Target Group's credit policy are set out in note 24(a).

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Target Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 1(i)(i)).

The movement in the allowance for doubtful debts during the year/period, including the specific and collective loss components, is as follows:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	–	–	1	34
Impairment loss recognised	–	1	33	179
At 31 December/30 September	–	1	34	213

As 31 December 2015, 2016 and 30 September 2017, trade receivables of RMB19,000, RMB664,000, RMB2,785,000 were determined to be impaired respectively. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB1,000, RMB34,000 and RMB213,000 were recognized as at 31 December 2015, 2016 and 30 September 2017 respectively.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	–	10,255	93,668	65,381

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Target Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Target Group does not hold any collateral over these balances.

13 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand	2,785	17,196	18,713	38,195

(b) Reconciliation of loss before taxation to cash used in operations:

		Year ended 31 December			Nine months ended 30 September	
	Note	**2014**	**2015**	**2016**	**2016**	**2017**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Operating activities						
Loss before taxation		(2,364)	(37,278)	(33,877)	(33,893)	(61,759)
Adjustments for:						
Depreciation	*5(d)*	10	243	631	466	488
Amortisation of intangible assets	*5(d)*	1	32	271	106	542
Finance costs	*5(b)*	–	196	2,085	1,680	8,226
Loss on disposal of property, plant and equipment	*4*	–	–	–	–	2
Net unrealised loss on financial assets at fair value change through profit or loss		–	–	–	–	247
Fair value loss of convertible Redeemable preference shares		–	7,541	12,595	8,627	38,732
Impairment loss on trade receivables	*5(d)*	–	1	33	12	179
Equity-settled share-based payment expenses		–	–	682	574	324
Exchange gain		–	(633)	–	–	–
		(2,353)	(29,898)	(17,580)	(22,428)	(13,019)
Changes in working capital						
Increase in inventory		–	(5,078)	(38,560)	(12,570)	(52,312)
(Increase)/decrease in trade and other receivables		(300)	(54,615)	(156,664)	(8,099)	42,946
Increase/(decrease) in trade and other payables		1,042	25,869	146,709	(15,653)	(55,380)
Net cash used in operating activities		(1,611)	(63,722)	(66,095)	(58,750)	(77,765)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Target Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Target Group's consolidated cash flow statement as cash flows from financing activities.

	Convertible redeemable preference shares	Bank and other loans	Total
At 24 May 2014, 31 December 2014 and 1 January 2015	–	–	–
Changes from Financing cash flows:			
Proceeds from bank and other loans	–	23,854	23,854
Proceeds from the issue of redeemable Preference share	55,433	–	55,433
Total change from financing cash flow	55,433	23,854	79,287
Changes in fair value	7,541	–	7,541
Currency translation differences	3,657	–	3,657
At 31 December 2015 and 1 January 2016	66,631	23,854	90,485
Changes from Financing cash flows:			
Proceeds from bank and other loans	–	81,838	81,838
Repayment of bank and other loans	–	(37,910)	(37,910)
Proceeds from the issue of redeemable Preference share	32,295	–	32,295
Total change from financing cash flow	32,295	43,928	76,223
Changes in fair value	12,595	–	12,595
Currency translation differences	7,355	–	7,355
At 31 December 2016 and 1 January 2017	118,876	67,782	186,658
Changes from Financing cash flows:			
Proceeds from bank and other loans	–	509,828	509,828
Repayment of bank and other loans	–	(414,151)	(414,151)
Proceeds from the issue of redeemable Preference share	13,648	–	13,648
Total change from financing cash flow	13,648	95,677	109,325
Changes in fair value	38,732	–	38,732
Currency translation differences	6,373	–	6,373
At 30 September 2017	164,883	163,459	328,342

14 Financial liabilities at fair value through profit or loss

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	–	–	–	247

15 Trade and other payables

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payable	–	4,180	41,953	10,210
Receipts in advance	–	6,304	96,334	89,720
Accrued staff costs	485	3,357	2,884	1,872
VAT and other taxes payable	158	6,911	28,750	27,053
Others	–	32	672	96
	643	20,784	170,593	128,951

All of the trade and other payables are expected to be settled within one year or repayable on demand.

At the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	–	4,180	41,953	10,210

16 Bank and other loans

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	–	23,854	50,219	70,103
Secured loans from other financial institutions	–	–	12,563	42,913
Unsecured loans from other financial institutions	–	–	5,000	50,443
	–	23,854	67,782	163,459

All of the bank and other loans were repayable within one year.

As at 31 December 2015, 2016 and 30 September 2017, the secured bank loans of RMB23,854,000, RMB50,219,000 and RMB63,020,000 were secured by bank deposits pledged by HSH Group Limited. The secured bank loan of RMB7,083,000 as at 30 September 2017 was secured by trade receivables of RMB33,969,000.

As at 31 December 2016 and 30 September 2017, the secured loans from other financial institutions of RMB12,563,000 and RMB42,913,000 were secured by restricted cash of RMB90,000 and RMB3,202,000, and trade receivables of RMB14,603,000 and RMB18,637,000, respectively.

Further details of the Target Group's management of liquidity risk are set out in note 24(b).

17 Convertible redeemable preference shares

Since the date of incorporation, the Target Company has issued certain convertible redeemable preference shares, namely, series Seed A preference shares, series Seed B preference shares (collectively refer as "Series Seed Preference Shares"), series A-1 preference shares and series A-2 preference shares issued on 9 July 2015, series A-3-1 preference shares and series A-3-2 preference shares issued on 12 May 2016 and series A-3-3 preference shares and series A-3-4 preference shares issued on 21 June 2017 (collectively refer as "Series A Preference Shares").

The information of the convertible redeemable preference shares is set out as below:

Class of preference share	Date of issurance	No. of shares	Issued price per share	Total Amount	
			(USD)	*USD'000*	*RMB'000*
Series Seed A	9 July 2015	51,282,000	0.0012	62	379
Series Seed B	9 July 2015	2,137,000	0.0015	3	20
Series A-1	9 July 2015	53,419,000	0.0749	4,000	24,460
Series A-2	9 July 2015	31,250,000	0.1600	5,000	30,574
Series A-3	12 May 2016	28,125,000	0.1778	5,000	32,295
Series A-3	21 June 2017	11,250,000	0.1778	2,000	13,648

The key terms of the preference shares are summarized as follows:

(a) Dividends rights

Each holder of Series A Preference share shall be entitled to receive, prior and in preference to any payment of any dividend to the holders of Seed Preference shares, the holders of ordinary shares or holders of any other series or class of shares of the Target Company, out of any funds legally available, dividends at the rate of six percent (6%) of the respective issued price per annum on each outstanding Series A Preference share (the "Series A Preference Dividends"). Such dividends shall be noncumulative and shall be payable only if declared by the Board of the Directors. If the total amount of the Series A Preference Dividends exceeds the total amount of dividends available for distribution, the Series A Preference Dividends shall be distributed ratably among the holders of the Series A Preference shares in proportion to the full amounts to which they would otherwise be respectively entitled thereon.

After distribution or payment in full of all Series A Preference Dividends, holder of each Series Seed Preference shareholder shall be entitled to receive, prior and in preference to any payment of any dividend to the holders of ordinary shares, out of any funds legally available, dividends at the rate of six percent (6%) of the respective issued prices per annum on each outstanding Series Seed Preference share (the "Series Seed Preference Dividends"). Such dividends shall be noncumulative and shall be payable only if declared by the Board of the Directors. If the total amount of the Series Seed Preference Dividends exceeds the total amount of remaining dividends available for distribution, the Series Seed Preference Dividends shall be distributed ratably among the holders of the Series Seed Preference shares in proportion to the full amounts to which they would otherwise be respectively entitled thereon.

Any additional dividend available for distribution after the payment of all Series A Preference Dividends and all Seed Preference Dividends shall be distributed ratably among the holders of, ordinary shares, Series Seed Preference Shares and Series A Preference Shares (on an as-converted basis).

(b) Conversion feature

Each Series Seed Preference Share or Series A Preference Share may, at the option of the holder thereof, be converted at any time into ordinary shares based on the then-effective applicable conversion price for such shares, subject to certain anti-dilution adjustments.

Each Series Seed Preference Share or Series A Preference Share shall automatically be converted into ordinary share based on the then-effective applicable conversion price upon the earlier of (a) closing of the Qualified Initial Public Offering ("QIPO" as defined below), or (b) the prior written approval of the majority of holders of respective class of Series Seed Preference Share or Series A Preference Share, as the case may be.

QIPO means a firm underwritten public offering of the ordinary shares of the Target Company or any other Target Group Companies in the U.S. by a major underwriter that has been registered under the Securities Act of 1933, as amended, with a minimum pre-money market capitalization of US$230 million and net proceeds to the Target Company in excess of US$75 million (excluding underwriting discounts, commissions and expenses), or in a similar public offering of ordinary shares in a jurisdiction and on a recognized securities exchange outside the U.S. acceptable to the majority of the holders of Series Seed Preference Share or Series A Preference Share; provided that such public offering in terms of market capitalization, offering proceeds and regulatory approval is reasonably equivalent to the aforementioned public offering in the U.S..

(c) Redemption feature

At any time, the holders of preference shares shall be entitled to a redemption right ("Maturity Redemption"): (i) with respect to the Series A-3 Preference Shares, after the earlier of (a) the fifth (5th) anniversary of the respective issuance date, or (b) the time when any other series of shares become redeemable; and (ii) with respect to the Series A-2 Preference Shares, the Series A-1 Preference Shares and Series Seed Preference Shares, after the earlier of (a) the fifth (5th) anniversary of July 9, 2015, or (b) the time when any other series of shares become redeemable.

In the case of the Maturity Redemption, for each preference share an amount equal to the sum of (x) one hundred percent (100%) of the respective issuance price, (y) a ten percent (10%) of annual compound interest thereon for a period of time commencing from the respective issuance date and ending on the date that the redemption price is paid in full by the Target Company in respect of all preference shares in a class held by such redeeming holder, and (z) any declared but unpaid dividends on such preference share;

(d) Liquidation preferences

In the event of any liquidation, dissolution or winding up of the Target Company, either voluntary or involuntary, all assets and funds of the Target Company legally available for distribution to the shareholders shall, by reason of the shareholders' ownership of the shares, be distributed as follows:

Prior and in preference to any distribution of any of the assets of the Target Company to the holders of the Series Seed Preference Shares, the holders of the Ordinary Shares or holders of any other series or class of shares of the Target Company, the holders of the Series A Preference shares shall be entitled to receive, for each outstanding Series A Preference share then held by holders of such Series A Preference shares, an amount equal to one hundred and fifty percent (150%) of the Series A Issue Price plus all declared but unpaid dividends thereon (the "Series A Preference Amount").

After the Series A Preference Amount has been paid in full and prior and in preference to any distribution of any of the assets of the Target Company to the holders of the Ordinary Shares, the holders of the Series Seed Preference shares shall be entitled to receive for each outstanding Series Seed Preference share held, an amount equal to one hundred percent (100%) of the Applicable Issue Price of such Series Seed Preference share plus all declared but unpaid dividends thereon (the "Series Seed Preference Amount"); provided that, if, after the payment of the Series A Preference Amount, the remaining assets and funds thus distributed among the holders of Series Seed Preference shares shall be insufficient for the full payment of Series Seed Preference Amount to all the holders of Series Seed Preference shares, then all of the remaining assets and funds of the Target Company legally available for distribution shall be distributed ratably among the holders of Series Seed Preference shares in proportion to the aggregate Series Seed Preference Amount each such holders of Series Seed Preference shares is otherwise entitled to receive.

After distribution or payment in full of the Series A Preference Amount and the Series Seed Preference Amount, the remaining assets and funds of the Target Company legally available for distribution to the Shareholders shall be distributed ratably among the holders of Ordinary Shares and the holders of Preference shares in proportion to the number of Ordinary Shares held by them (on an as-converted basis) immediately prior to the occurrence of any Liquidation Event.

The Target Group monitors Preference Shares on a fair value basis which is in accordance with its risk management strategy and does not bifurcate any embedded derivatives from the host instruments and designates the entire instruments as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the income statement.

The movement of the convertible redeemable preference shares is set out as below:

	No. of share	**Amount**	
		USD'000	*RMB'000*
At 24 May 2014, 31 December 2014 and 1 January 2015	–	–	–
Issuance of series Seed A preference shares	51,282,000	62	379
Issuance of series Seed B preference shares	2,137,000	3	20
Issuance of series A-1 preference shares	53,419,000	4,000	24,460
Issuance of series A-2 preference shares	31,250,000	5,000	30,574
Changes in fair value	–	1,196	7,541
Currency translation differences	–	–	3,657
At 31 December 2015 and 1 January 2016	138,088,000	10,261	66,631
Issuance of series A-3 preference shares	28,125,000	5,000	32,295
Changes in fair value	–	1,876	12,595
Currency translation differences	–	–	7,355
At 31 December 2016 and 1 January 2017	166,213,000	17,137	118,876
Issuance of series A-3 preference shares	11,250,000	2,000	13,648
Changes in fair value	–	5,706	38,732
Currency translation differences	–	–	(6,373)
At 30 September 2017	177,463,000	24,843	164,883

The directors have used the discounted cash flow method to determine the underlying share value of the Target Company and adopted equity allocation model to determine the fair value of the Preference shares preferences as at the dates of issuance and at the end of each reporting period.

Key valuation assumptions used to determine the fair value of preference shares are as follows:

	Period/Year ended 31 December			**Nine months ended 30 September**	
	2014	**2015**	**2016**	**2016**	**2017**
				(Unaudited)	
Discount rate	N/A	14.00%	15.00%	14.50%	15.00%
Risk-free interest rate	N/A	2.65%	2.82%	2.47%	2.81%
Volatility	N/A	53.60%	52.30%	46.6%	51.30%

Discount rate was estimated by weighted average cost of capital as at each valuation date. The directors estimated the risk-free interest rate based on the yield of China Bond corporate bond yield curve (BBB rated) with a maturity life close to the period from the respective valuation dates to the expected redemption dates and liquidation dates. Volatility was estimated on each valuation date based on average of historical volatilities of the comparable companies in the same industry for a period from the respective valuation dates to expected redemption dates and liquidation dates. Probability weight under each of the redemption feature and liquidation preferences was based on the directors' best estimates. In addition to the assumptions adopted above, the Target Company's projections of future performance were also factored into the determination of the fair value of Preference shares on each valuation date.

Changes in fair value of preference shares were recorded in "fair value loss of convertible redeemable preference shares". Management considered that fair value changes in the preference shares that are attributable to changes of credit risk of this liability are not significant.

18 Employee retirement benefits

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Target Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local authorities whereby the entities are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries during the year. Contributions to the Schemes vest immediately. Under the Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Target Group has no further obligations beyond the annual contributions.

19 Equity-settled share-based transactions

Pursuant to a board resolution passed on 22 August 2016, a share option scheme (the "Share Option Scheme") was approved and adopted to provide garantees with the opportunity to acquire equity interest in the Target Company. Pursuant to the Share Option Scheme, the vesting conditions of the Share Option Scheme only include service condition. The vesting date ranged from 22 August 2016 to 4 August 2020. The options are exercisable within 10 years.

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time) and directors of the Target Group and to promote the success of the business of the Target Group.

Each option gives the holder the right to subscribe for one ordinary share in the Target Company and is settled gross in shares.

(a) Besides the terms and conditions of the grants mentioned above, the number of share options granted is as follows:

	Directors	employees	Total
Number of Share options granted	9,300,000	10,110,000	19,410,000

(b) The number and weighted average exercise price of Share Option Scheme are as follows:

	Weighted average exercise price *RMB*	Number of options
Granted during the year of 2016	0.07	19,410,000
Outstanding at 31 December 2016 and 2017	0.07	19,410,000
Exercisable at 31 December 2016	0.07	7,682,418
Exercisable at 30 September 2017	0.07	11,311,822

At 30 September 2017, the weighted average remaining expected life of Share Option is 8.92 years (31 December 2016: 9.67 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for the share option is measured by reference to the fair value of share options granted. The estimated fair value of the share options is measured based on a Black-Scholes Option Pricing Model with the following assumptions:

Expected volatility	67.6%
Option life	10 year
Expected dividends	0%
Risk-free interest rate	2.8%

The expected volatility is based on past few years' historical price volatility of similar listed companies. Expected dividends are based on management's best estimation. The risk-free rate is referenced to the yields of CNY China Sovereign Zero Coupon Curve.

Except for the conditions mentioned above, there were no market conditions and no other service conditions associated with the share options.

20 Income tax in the consolidated statement of financial position

(a) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(q), the Target Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB2,357,000, RMB31,344,000, RMB53,142,000 and RMB76,671,000 respectively as at 31 December 2014, 2015, 2016 and 30 September 2017, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses for the PRC subsidiaries amounting to RMB2,357,000, RMB28,606,000, RMB21,811,000 and RMB22,091,000 will expire in 2020, 2021, 2022 and 2023 respectively.

21 Capital and reserves

(a) Share capital

	Period/Year ended 31 December						Nine months ended 30 September	
	2014		2015		2016		2017	
	No. of shares	*Amount RMB'000*	*No. of shares*	*Amount RMB'000*	*No. of shares*	*Amount RMB'000*	*No. of shares*	*Amount RMB'000*
Authorised:								
Ordinary shares of USD0.001 each	10,000,000	61	–	–	–	–	–	–
Ordinary shares of USD0.0001 each	–	–	89,743,590	55	89,743,590	55	89,743,590	55
Ordinary shares, issued:								
At the beginning of the period/year	–	–	–	–	89,743,590	–	89,743,590	–
Issuance of new shares (USD0.0001 each)	–	–	89,743,590	–	–	–	–	–
At the end of the year	–	–	89,743,590	–	89,743,590	–	89,743,590	–

Note: The share capital of 2014 represents the paid-in capital of Shanghai Susheng.

(b) Capital reserve

The capital reserve represents the capital reserve of Shanghai Susheng and the paid-in capital of Shanghai Susheng after reorganization.

(c) Equity settled share-based payments reserve

The equity settled share-based payments reserve represents the portion of the grant date fair value of share options granted to the directors and employees of the Target Company and its subsidiaries that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(p)(ii).

(d) Capital management

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to financing at a reasonable cost.

The Target Group manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions affecting the Target Group.

The Target Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

22 Operating lease commitments

At 31 December 2014, 2015 and 2016 and 30 September 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	122	836	673	634

The Target Group leases properties under operating lease. The leases typically run for an initial period of one year. None of the leases includes contingent rentals.

23 Material related party transactions

Transactions with the following entities are considered as significant related party transactions for the period ended 31 December 2014, years ended 31 December 2015 and 2016 and nine months ended 30 September 2016 and 2017:

Name of party	Relationship with the Target Group
Mr. Zhi Jianpeng ("Founder")	Founder of the Target Company
HSH Group Limited ("HSH Group")	Entity controlled by the Founder of the Target Company
Xian Feng HZ Limited ("Xian Feng HZ")	Preference shareholder of the Target Company
K2 Evergreen Partners Limited ("K2 Evergreen")	Preference shareholder of the Target Company

(a) Key management personnel remuneration

Remuneration for key management personnel of the Target group, including amounts paid to the Target Group's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	Period/Year ended 31 December			**Nine months ended 30 September**	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Short-term employee benefits	240	930	3,204	2,403	2,538
Equity compensation benefits	–	–	367	300	226
	240	930	3,571	2,703	2,764

Remuneration is included in "staff costs" (see note 5(c)).

(b) Transaction with related parties

	Period/Year ended 31 December			**Nine months ended 30 September**	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cash advance to					
– Mr. Zhi Jianpeng	–	6,896	4,870	4,336	6,590
– Mr. Mao Jiaquan	–	–	150	150	–
– HSH Group	–	25,589	29,907	26,370	38,845
– Xian Feng HZ	–	379	–	–	–
– K2 Evergreen	–	20	–	–	–
	–	32,884	34,927	30,856	45,435
Cash advance from					
– Mr. Zhi Jianpeng	–	6,601	4,082	4,082	6,723
– Mr. Mao Jiaquan	–	–	–	–	70
– HSH Group	–	–	–	–	28,012
– Xian Feng HZ	379	–	–	–	–
– K2 Evergreen	20	–	–	–	–
	399	6,601	4,082	4,082	34,805

As at 31 December 2015, 2016 and 30 September 2017, the secured bank loans of RMB23,854,000, RMB50,219,000 and RMB63,020,000 were secured by bank deposits pledged by HSH Group Limited.

(c) Balance with related parties

(i) Amounts due from related parties

At 31 December 2014, 2015, 2016 and 30 September 2017, the Target Group had the following balances with related parties which were expected to be recovered/repaid on demand, unsecured and interest-free:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– Mr. Zhi Jianpeng	–	6,422	4,110	10,939
– Mr. Mao Jiaquan	–	–	150	80
– HSH Group	–	25,589	55,496	66,329
	–	32,011	59,756	77,348

(ii) Amounts due to related parties

At 31 December 2014, 2015, 2016 and 30 September 2017, the Target Group had the following non-trade related balances with related parties:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– Mr. Zhi Jianpeng	–	6,127	3,027	9,989
– Xian Feng HZ	379	–	–	–
– K2 Evergreen	20	–	–	–
	399	6,127	3,027	9,989

24 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity and interest rate arises in the normal course of the Target Group's business.

The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

(a) Credit risk

The Target Group's credit risk is primarily attributable to trade and other receivables and deposits with banks. Management has a credit policy in place and the exposure to these credit risks is monitored on an ongoing basis.

In respect of trade and bills receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors are normally due within 30 to 90 days from the date of billing. Normally, the Target Group does not obtain collateral from customers.

The Target Group's exposure to credit risk is influenced mainly by the industry, no significant concentrations of credit risk arising from individual customers.

Cash and cash equivalents are placed with financial institutions with sound credit ratings to minimize credit exposure.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Further quantitative disclosures in respect of the Target Group's exposure to credit risk arising from trade and bills receivables are set out in notes 12.

(b) Liquidity risk

Individual operating entities within the Target Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

During the Track Record Period, the Target Group has primarily funded the cash requirements principally from financing through issuance and sale of the Preference shares in private placement transactions.

As of 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017, the Preference shares were classified as a non-current liability because the Target Group believe that the likelihood of occurrence of redemption event is remote and that the Target Group have unconditional rights to defer settlement of the liability for at least 12 months after the end of each reporting period.

The maximum exposure of the redemption of Preference shares is the contractual redemption price, which is equal to 100% of issue price of the respective Preference shares plus interest at the rate of 10% per annum accrued during the period from the issuance of the Preference shares until the date on which the redemption price is paid in full, and plus any declared but unpaid dividends if a redemption event occurs. See Note 17 to the Accountant's Report included in Appendix II to this prospectus for a description of the redemption events. We recognize the Preference shares at fair value through profit or loss. Accordingly, Preference shares are managed on a fair value basis rather than by maturity dates.

The following tables show the remaining contractual maturities at the end of the reporting period of the Target Group's financial liabilities (expect convertible redemption of Preference Shares), which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Target Group can be required to pay.

	At 31 December 2014		
	Contractual undiscounted cash outflow		**Carrying amount at 31 December 2014**
	Within 1 year or on demand	**Total**	
	RMB'000	*RMB'000*	*RMB'000*
Trade and other payables	643	643	643
Amount due to related parties	399	399	399
	1,042	1,042	1,042

	At 31 December 2015		
	Contractual undiscounted cash outflow		Carrying amount at 31 December 2015
	Within 1 year or on demand	Total	
	RMB'000	*RMB'000*	*RMB'000*
Trade and other payables	20,784	20,784	20,784
Amount due to related parties	6,127	6,127	6,127
Bank and other loans	24,110	24,110	23,854
	51,021	51,021	50,765

	At 31 December 2016		
	Contractual undiscounted cash outflow		Carrying amount at 31 December 2016
	Within 1 year or on demand	Total	
	RMB'000	*RMB'000*	*RMB'000*
Trade and other payables	170,593	170,593	170,593
Amount due to related parties	3,027	3,027	3,027
Bank and other loans	69,530	69,530	67,782
	243,150	243,150	241,402

	At 30 September 2017		
	Contractual undiscounted cash outflow		Carrying amount at 30 September 2016
	Within 1 year or on demand	Total	
	RMB'000	*RMB'000*	*RMB'000*
Trade and other payables	128,951	128,951	128,951
Amount due to related parties	9,989	9,989	9,989
Bank and other loans	165,871	165,871	163,459
	304,811	304,811	302,399

(c) Interest rate risk

The Target Group's interest rate risk arises primarily from the Preference shares, the valuation of which is affected by market interest rate and the fixed rate borrowings that expose the Target Group to fair value interest rate risk.

The Target Group monitor the Preference shares on a fair value basis in accordance with the Target Group's risk management strategy. The Target Group do not bifurcate any embedded derivatives from the host instruments and designate the entire instruments as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the consolidated income statement. Directors of the Target Group have used the discounted cash flow method to determine the underlying share value of the Target Group any and have adopted equity allocation model to determine the fair value of the Preference shares as at the dates of issuance and at the end of each reporting period.

The Target Group defines "net borrowings" as being interest bearing financial liabilities less interest-bearing receivables (excluding cash held for short-term working capital purposes).The Target Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Target Group's interest bearing borrowings at the end of the reporting period:

	Period/Year ended 31 December						**Nine months ended 30 September**	
	2014		**2015**		**2016**		**2017**	
	Effective interest rate	**Principal amount**	**Effective interest rate**	**Principal amount**	**Effective interest rate**	**Principal amount**	**Effective interest rate**	**Principal amount**
		RMB'000		*RMB'000*		*RMB'000*		*RMB'000*
Net fixed rate borrowing:								
Bank loans	–	–	3.47%	23,854	1.85%	50,219	1.85%-7%	70,103
Other loans	–	–	–	–	10%	17,563	6%-10.8%	93,356
		–		23,854		67,782		163,459

The Target Group's future interest expense and income will fluctuate in line with any change in borrowing rates. Management considers the Target Group's exposure to interest rate risk is minimal as all borrowings are at fixed rate.

(ii) Sensitivity analysis

At 31 December 2014, 2015 and 2016 and 30 September 2017, all of the Target Group's interest bearing borrowings are fixed rate borrowings, no sensitivity analysis on interest rate risk is presented.

(d) Fair value measurement

(i) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Target Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2015	Fair value measurements as at 31 December 2015 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurements				
Liabilities:				
Convertible redeemable preference shares	66,631	–	–	66,631

	Fair value at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurements				
Liabilities:				
Convertible redeemable preference shares	118,876	–	–	118,876

	Fair value at 30 September 2017	Fair value measurements as at 30 September 2017 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurements				
Liabilities:				
Derivative financial instruments:				
– Future contracts	247	247	–	–
Convertible redeemable preference shares	164,883	–	–	164,883

During the nine months ended 30 September 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Target Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2014, 2015 and 2016 and 30 September 2017.

25 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period beginning 1 January 2017

Up to the date of issue of the Historical Financial Information, the ISAB has issued a few amendments and new standards which are not yet effective for the accounting period beginning 1 January 2017 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Target Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Target Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Target Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

Expected impacts of the new requirements on the Target Group's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Target Group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Target Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Target Group on adoption of IFRS 9.

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Target Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Target Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the preliminary assessment, the Target Goup has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Target Group's revenue recognition policies are disclosed in note 1(s). Currently, revenue arising from the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by– contract transfer-of-control approach, it is possible that once the Target Group adopts IFRS 15 some of the Target Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Target Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Target Group's arrangements with its customers. Currently, the Target Group does not apply such a policy when payments are received in advance.

The Target Group is in the process of assessing whether this component in the Target Group's advance payment schemes would be significant to the contract and therefore whether, once IFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue.

(c) Sales with a right of return

Currently when the customers are allowed to return the products, the Target Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Target Group expects that the adoption of IFRS 15 will not materially affect how the Target Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Target Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

IFRS 16, Leases

As disclosed in note 1(h), currently the Target Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Target Group enters into some leases as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Target Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 22, at 30 September 2017 the Target Group's future minimum lease payments under non-cancellable operating leases amount to RMB163,000 for properties and other assets, which is payable within one year after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Target Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

The Target Group is considering whether to adopt IFRS 16 before its effective date of 1 January 2019. However, early adoption of IFRS 16 is only permitted if this is no earlier than the adoption of IFRS 15. It is therefore unlikely that IFRS 16 will be adopted before the effective date of IFRS 15, being 1 January 2018.

D SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company and its subsidiaries in respect of any period subsequent to 30 September 2017.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for each of the period/two financial years ended 31 December 2014, 2015, 2016 and the nine months ended 30 September 2016 and 2017.

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

	Period/Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trading of chemical prodcucts	–	238,723	4,007,673	2,423,344	3,433,013
Trading of plastic products	–	67,608	936,274	571,142	1,197,044
Others	–	40	1,114	349	5,112
	–	306,371	4,945,061	2,994,835	4,635,169

As the Target Group commenced the operation since July 2015, no revenue was generated during the period ended 31 December 2014. The revenue of the Target Group were approximately RMB306,371,000, RMB4,945,061,000, RMB2,994,835,000 and RMB4,635,169,000 for the two years ended 31 December 2015 and 2016 and for the nine months ended 30 September 2016 and 2017, respectively. From 2015 to 2016, the sales of the Target Group increased by approximately RMB4,638,690,000, such increase was mainly attributable to increase in trading of chemical products, which represented over 81% of the total sales.

As the Target Group commenced the operation since July 2015, no gross profit was generated during the period ended 31 December 2014. The gross profit of the Target Group were approximately RMB2,990,000, RMB40,080,000, RMB19,018,000 and RMB34,248,000 for the two years ended 31 December 2015 and 2016 and for the nine months ended 30 September 2016 and 2017, respectively.

The Target did not have any other income/(loss) during the period ended 31 December 2014. Other income/(loss) of the Target Group includes government grants amounting to approximately RMB762,000, RMB119,000, RMB118,000 and RMB319,000 for the two years ended 31 December 2015 and 2016 and for the nine months ended 30 September 2016 and 2017, respectively.

The Target Group did not have other gains and losses during the period ended 31 December 2014. Other gains and losses of the Target Group were approximately RMB(1,000), RMB538,000, RMB4,000 and RMB(746,000) for the two years ended 31 December 2015 and 2016 and for the nine months ended 30 September 2016 and 2017, respectively. For the nine months ended 30 June 2017, the amount mainly represented net realised and unrealised loss on financial assets at fair value change through profit or loss. For the two years ended 31 December 2015, 2016 and for nine months ended 30 September 2016, the amount mainly represented others.

The selling and distribution expenses of the Target Group were approximately RMB1,110,000, RMB15,180,000, RMB34,134,000, RMB22,745,000 and RMB32,683,000 for the period/two years ended 31 December 2014, 2015 and 2016 and for the nine months ended 30 September 2016 and 2017, respectively. Such increase was mainly attributable to expansion of chemical products trading business scale as well as increased sales personnel.

The administrative expenses of the Target Group were approximately RMB1,230,000, RMB18,729,000, RMB25,604,000, RMB19,833,000 and RMB15,425,000 for the period/two years ended 31 December 2014, 2015 and 2016 and for the nine months ended 30 September 2016 and 2017, respectively. Such increase was mainly attributable to the increase in staff number, wages and other benefits arising from the business expansion.

The finance costs of the Target Group were approximately RMB24,000, RMB216,000, RMB2,403,000, RMB1,918,000 and RMB8,920,000 for the period/two years ended 31 December 2014, 2015 and 2016 and for the nine months ended 30 September 2016 and 2017, respectively. The increase in finance costs was mainly attributable to the increased bank and other borrowings arisen from the expansion of chemical products trading business.

The fair value loss of convertible redeemable preference shares of the Target Group were approximately RMB7,541,000, RMB12,595,000, RMB8,627,000 and RMB38,732,000 for the two years ended 31 December 2015, 2016 and for the nine months ended 30 September 2016 and 2017, respectively.

According to Industrial Development Report, total revenue of petrochemical and chemical Industry achieved RMB11.8 trillion in 2015. Under the trend of advancing new urbanisation construction and promoting upgraded consumption, the market demand of petrochemical and chemical industrial maintains rapid growth. It is expected that average output growth rate of industrial will be 8% in the 13th Five-Year Plan (Year 2016 to 2020).

The loss for the Target Group were approximately RMB2,364,000, RMB37,278,000, RMB33,877,000, RMB33,893,000 and RMB61,759,000 for the period/two years ended 31 December 2014, 2015 and 2016 and for the nine months ended 30 September 2016 and 2017, respectively.

The Target Group had expended a significant amount of funds in advertising, research and development expenses since its commencement of operations in 2015. Such expenses were crucial for the Target Group in order for it to develop its online trading platform and brand name. As a result, the Target Group had recorded continued losses since 2014. Nonetheless, as the Target Group gradually built its market share, developed its clientele and sources of revenue, the amount of revenue of the Target Group in both the trading of chemical products sector and trading of plastic products sector has recorded a gradual growth. In view of the positive prospect and the market potential of the e-commerce and supply chain management and trading business in chemical and plastic raw materials in the

PRC, the operating profits of the Target Group is likely to be on an upward trend. As the business of the Target Group expands in its scale of operation, the relative management costs of its operations will decrease.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017, the total liabilities of the Target Group were approximately RMB1,042,000, RMB117,396,000, RMB360,278,000 and RMB467,529,000, respectively. The total current liabilities were approximately RMB1,042,000, RMB50,765,000, RMB241,402,000 and RMB302,646,000, respectively.

As at 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017, the total cash and bank balances of the Target Group were approximately RMB2,785,000, RMB17,196,000, RMB18,713,000 and RMB38,195,000, respectively.

The Target Group did not have any bank and other borrowings as at 31 December 2014. As at 31 December 2015, 31 December 2016 and 30 September 2017, the total borrowings of approximately RMB23,854,000, RMB67,782,000 and RMB163,459,000, respectively. The bank loans interest at an average fixed interest rate were approximately 3.47%, 1.85% and 1.85-7% per annum, respectively. As at 31 December 2016 and 30 September 2017, the other loans interest at an average fixed interest rate were approximately 10% and 6%-10.8% per annum, respectively.

Taking into account the internally generated funds of and the banking facilities available to the Target Group, the Target Group have sufficient capital to meet its working capital requirements and to finance foreseeable capital expenditure.

CAPTIAL STRUCTURE

The Target Group's operations were financed mainly by shareholders' equity, banking facilities available to the Target Group and internal resources. The Target Group's borrowings and cash and cash equivalents were mainly denominated in Renminbi.

As at 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017, the Target Group's gearing ratio (defined as total liabilities as a percentage of total assets) were 31.8%, 144.3%, 125.1% and 138.7%, respectively. The increase of the gearing ratios were due to the issue of convertible redeemable preference shares and increase of bank and other loans.

PLEDGE OF ASSETS

As at 31 December 2015, 2016 and 30 September 2017, the secured bank loans of RMB23,854,000, RMB50,219,000 and RMB63,020,000 were secured by bank deposits pledged by HSH Group Limited. The secured bank loan of RMB7,083,000 as at 30 September 2017 was secured by trade receivables of RMB33,969,000. As at 31 December

2016 and 30 September 2017, the secured loans from other financial institutions of RMB12,563,000 and RMB42,913,000 were secured by restricted cash of RMB90,000 and RMB3,202,000, and trade receivables of RMB14,603,000 and RMB18,637,000, respectively.

CONTINGENT LIABILITIES

The Target Group did not have any significant contingent liabilities as at 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017.

COMMITMENTS

As at 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017, the Target Group had commitments of approximately RMB122,000, RMB836,000, RMB673,000 and RMB634,000, respectively, which were related to property lease agreements which are not provided in the consolidated financial statements.

Dividend

For the period/two years ended 31 December 2014, 31 December 2015, 31 December 2016 and the nine months ended 30 September 2017, no dividends were declared by the Target Group.

FOREIGN EXCHANGE RISK

The Target Group's business operations are mainly conducted in the PRC. All of the revenue and expense were principally denominated in Renminbi. Other than aforementioned, the Target Group did not have material exchange risk exposure for the period/two years ended 31 December 2014, 31 December 2015, 31 December 2016 and for the nine months ended 30 September 2017. The Target Group had not used any financial instrument to hedge against the exposure in foreign exchange.

INTEREST RATE RISK

Since the loans of the Target Group were mainly sourced from the banks and other financial institutions, the benchmark lending rate announced by the People's Bank of China had a direct impact on the Target Group's cost of debt. Future changes in interest rate would also have certain impact on the Target Group's cost of debt. The Target Group will strive to reduce the finance cost by actively monitoring the changes in credit policies, taking pre-emptive actions, strengthening capital management and expanding financing channels.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017, the Target Group employed a total of about full time 32, 260, 249 and 200 employees respectively. The Target Group's staff recruitment and promotion are primarily based on individuals' merits, relevant experiences, development potentials for the positions offered and performance. Staff remuneration and benefit policies are formulated with reference to the competitive market conditions, and individual performance.

For the period/two years ended 31 December 2014, 2015, 2016 and for the nine months ended 30 September 2016 and 2017, the staff cost of the Target Group amounted to approximately RMB1,645,000, RMB23,609,000, RMB36,047,000, RMB25,565,000 and RMB19,142,000 respectively, including basic salaries, year-end bonus and staff benefits such as statutory social insurances.

PROSPECTS

As an e-commerce provider which leads the future development, the Target Group's e-commerce platform has been committed to promoting the Internet+chemical and plastic infrastructure construction by opening up the chemical and plastic whole industry chain's closed loop of information flow, logistics and capital flow with services and risk management as the core. It constructs a new ecosystem for the whole industry chain of the chemical and plastic industry with an innovative management model of distributive sharing platform.

The number of clients served by the Target Group shows an exponential growth and various selected product varieties have occupied an important position in their respective areas. The Target Group takes the provision of perfect services to clients as its biggest driving force for it to move forward continuously. Currently the Target Group is gradually realizing the online transactions of chemical and plastic with constant exploration and innovation in business model with an aim to create an open online platform for chemical and plastic transactions to continue to lead the development of the industry. In the future, the Target Group will continue to follow the "3-focus strategy" to focus on products, downstream applications and regions in order to increase its market share, heighten the competition barriers, cultivate professional personnel, improve the internal operating system and enhance operational efficiency, as well as explore the business models of international markets.

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF ZALL GROUP LTD.

We have completed our assurance engagement to report on the compilation of pro forma financial information of Zall Group Ltd. (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2017 and the unaudited pro forma consolidated statement of profit or loss, pro forma consolidated statement of profit or loss and other comprehensive income and pro forma consolidated cash flow statement for the year ended 31 December 2016 and related notes as set out in Appendix IV to the circular dated 14 February 2018 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of HSH International Inc. (the "Proposed Acquisition") on the Group's financial position as at 30 June 2017 and the Group's financial performance and cash flows for the year ended 31 December 2016 as if the Proposed Acquisition had taken place at 30 June 2017 and 1 January 2016, respectively. As part of this process, information about the Group's financial position as at 30 June 2017 and the Group's financial performance and cash flow for the year ended 31 December 2016 have been extracted by the Directors from the unaudited pro forma financial information as set out in Appendix IV to the published circular of the Company dated 11 December 2017.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2017 or 1 January 2016 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong
14 February 2018

(A) Introduction to the unaudited pro forma financial information

The following is the unaudited pro forma financial information of the Enlarged Group as if its acquisition of the 66.21% equity interest (based on the adjustment represents 94,631,304 preference shares out of the total of 177,462,606 preference share having been converted into ordinary shares and 53,418,804 share options under the Target Group ESOP having been exercised into ordinary shares) in HSH International Inc. (the "Target Company") and its subsidiaries (herein after collectively referred to as the "Target Group", and together with the Group referred to as the "Enlarged Group") ("the Proposed Transactions") (the "Unaudited Pro Forma Financial Information") had been completed on 30 June 2017 for the unaudited pro forma consolidated statement of financial position and on 1 January 2016 for the unaudited pro forma consolidated statement of profit or loss, pro forma consolidated statement of profit or loss and other comprehensive income and pro forma consolidated cash flow statement. Details of the Proposed Transactions are set out in the section headed "Letter from the Board" contained in this circular.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the directors of the Company (the "Directors") in accordance with Rules 4.29 and 14.69(4)(a)(ii) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purposes of illustrating the effect of the Proposed Transactions pursuant to the terms of the sale and purchase agreements and because of its hypothetical nature, it may not give a true picture of the financial position or results of Group had the Proposed Transactions been completed as of the specified dates or any future date.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2017 is prepared as if the Proposed Transactions had taken place on 30 June 2017 and is based on the unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2017, which has been extracted from Appendix IV of the published circular to the Company dated 11 December 2017 and adjusted on a pro forma basis to reflect the effect of the Proposed Transactions.

The unaudited pro forma consolidated statement of profit or loss, pro forma consolidated statement of profit or loss and other comprehensive income and pro forma consolidated cash flow statement of the Enlarged Group for year ended 31 December 2016 are prepared as if the Proposed Transactions had taken place on 1 January 2016 and are based on the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated cash flow statement of the Group for the year ended 31 December 2016, which have been extracted from Appendix IV to the published circular of the Company dated 11 December 2017 and adjusted on a pro forma basis to reflect the effect of the Proposed Transactions.

These pro forma adjustments are (i) directly attributable to the Proposed Transactions and not relating to other future events or decisions and (ii) factually supportable.

The Unaudited Pro Forma Financial Information should be read in conjunction with the unaudited pro forma consolidated financial information of the Group for the year ended 31 December 2016 and as at 30 June 2017 as set out in Appendix IV to the published circular of the Group dated 11 December 2017, historical financial information of the Group set out in the annual report of the Company for the year ended 31 December 2016 and the interim report of the Company for the six months ended 30 June 2017, the Accountants' Report on the historical financial information of the Target Group as set out in Appendix II to this circular and other financial information contained in this circular.

(B) Unaudited Pro Forma Consolidated Statement of Financial Position as at 30 June 2017

	Unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2017	Consolidated statement of financial position of the Target Group as at 30 September 2017	Other pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (3)*	*Note (4)*	*Note (5)*	*Note (6)*	
Non-current assets							
Property, plant and equipment	211,626	696					212,322
Investment properties	18,564,070	–					18,564,070
Interest in associates	531,174	–					531,174
Interest in joint ventures	113,495	–					113,495
Intangible assets	913,930	5,941	60,981				980,852
Deferred tax assets	198,600	–					198,600
Long-term receivables	309,423	–					309,423
Goodwill	1,303,513	–	156,958				1,460,471
	22,145,831	6,637					22,370,407

	Unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2017	Consolidated statement of financial position of the Target Group as at 30 September 2017	Other pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (3)*	*Note (4)*	*Note (5)*	*Note (6)*	
Current assets							
Financial assets at fair value through profit or loss	5,239,968	–	26,072				5,266,040
Properties under development	4,548,299	–					4,548,299
Completed properties held for sale	2,384,244	–					2,384,244
Inventories	612,032	95,950					707,982
Current tax assets	34,846	–					34,846
Trade and other receivables, prepayments	3,364,074	115,698					3,479,772
Loans receivable	2,749,186	–					2,749,186
Amount due from related parties	71,993	77,348					149,341
Restricted cash	2,563,701	–					2,563,701
Cash and cash equivalents	877,641	38,195	(149,973)	3,554			769,417
Restricted bank deposits	–	3,202	8,272				11,474
	22,445,984	330,393					22,664,302
Non-current assets classified as held for sale	200,593	–					200,593
	22,646,577	330,393					22,864,895
Current liabilities							
Financial liabilities at fair value through profit or loss	62,096	247					62,343
Trade and other payables	13,292,110	128,951					13,421,061
Bank loans and loans from other financial institutions	4,390,564	163,459					4,554,023
Amount due to related parties	197,817	9,989					207,806
Current taxation	258,148	–					258,148
Deferred income	9,784	–					9,784
Liabilities directly associated with non-current assets classified as held for sale	55,136	–					55,136

	Unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2017	Consolidated statement of financial position of the Target Group as at 30 September 2017	Other pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (3)*	*Note (4)*	*Note (5)*	*Note (6)*	
	18,265,655	302,646					18,568,301
Net current assets	4,380,922	27,747					4,296,594
Total assets less current liabilities	26,526,753	34,384					26,667,001
Non-current liabilities							
Trade and other payables	–	–	48,507				48,507
Bank loans and loans from other financial institutions	5,227,415	–					5,227,415
Deferred income	13,477	–					13,477
Deferred tax liabilities	4,030,101	–	15,245				4,045,346
Convertible redeemable preference shares	–	164,883			(92,243)	193	72,833
	9,270,993	164,883					9,407,578
NET ASSETS/(LIABILITIES)	17,255,760	(130,499)					17,259,423
CAPITAL AND RESERVES							
Share capital	32,561	–	(99)	36	63		32,561
Reserves	16,809,523	(130,499)	34,994	3,518	92,180	(193)	16,809,523
Total equity attributable to equity shareholders of the Company	16,842,084	(130,499)	34,895	3,554	92,243	(193)	16,842,084
Non-controlling interests	413,676	–	3,663				417,339
TOTAL EQUITY	17,255,760	(130,499)					17,259,423

(C) Unaudited Pro Forma Consolidated Statement of Profit or Loss for the year ended 31 December 2016

	Unaudited pro forma consolidated statement of profit or loss of the Group for the year ended 31 December 2016	Consolidated statement of profit or loss of the Target Group for the year ended 31 December 2016	Other pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (5)*	*Note (7)*	*Note (8)*	
Revenue	21,685,115	4,945,061				26,630,176
Cost of sales	(21,158,358)	(4,904,981)				(26,063,339)
Gross profit	526,757	40,080				566,837
Other income	1,175,405	657				1,176,062
Selling and distribution expenses	(190,039)	(34,134)				(224,173)
Administrative and other expenses	(358,417)	(25,604)		(11,278)		(395,299)
Profit/(loss) from operations before changes in fair value of investment properties	1,153,706	(19,001)				1,123,427
Increase in fair value of investment properties and non-current assets classified as held for sale	111,298	–				111,298
Fair value gain upon transfer of completed properties held for sale to investment properties	1,164,399	–				1,164,399
Profit/(loss) from operations after changes in fair value of investment properties	2,429,403	(19,001)				2,399,124
Share of loss of joint ventures	(163)	–				(163)
Share of loss of associates	(8,804)	–				(8,804)
Gain on disposal of subsidiaries	95,561	–				95,561
Finance income	11,197	122				11,319
Finance costs	(230,746)	(2,403)				(233,149)
Fair value loss of convertible redeemable preference shares	–	(12,595)	(7,754)			(4,841)

	Unaudited pro forma consolidated statement of profit or loss of the Group for the year ended 31 December 2016	Consolidated statement of profit or loss of the Target Group for the year ended 31 December 2016	Other pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (5)*	*Note (7)*	*Note (8)*	
Profit/(loss) before taxation	2,296,448	(33,877)				2,259,047
Income tax	(295,258)	–		2,819		(292,439)
Profit/(loss) for the year	2,001,190	(33,877)				1,966,608
Attributable to:						
Equity shareholders of the Company	1,984,571	(33,877)			10,979	1,961,673
Non-controlling interests	16,619	–			(11,684)	4,935
Profit/(loss) for the year	2,001,190	(33,877)				1,966,608

(D) Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

	Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2016	Consolidated statement of profit or loss and other comprehensive income of the Target Group for the year ended 31 December 2016	Other pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (5)*	*Note (7)*	*Note (8)*	
Profit/(loss) for the year	2,001,190	(33,877)	7,754	(8,459)		1,966,608
Other comprehensive income for the year (after tax and reclassification adjustments):						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translation of						
– financial statements of subsidiaries in other jurisdictions	(43,116)	(3,016)				(46,132)
Other comprehensive income for the year	(43,116)	(3,016)				(46,132)
Total comprehensive income for the year	1,958,074	(36,893)				1,920,476
Attributable to:						
Equity shareholders of the Company	1,941,455	(36,893)			11,999	1,916,561
Non-controlling interests	16,619	–			(12,704)	3,915
Total comprehensive income for the year	1,958,074	(36,893)				1,920,476

(E) Unaudited Pro Forma Consolidated Cash Flow Statement for the year ended 31 December 2016

	Unaudited pro forma consolidated cash flow statement of the Group for the year ended 31 December 2016	Consolidated cash flow statement of the Target Group for the year ended 31 December 2016	Other pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (3)*	*Note (4)*	*Note (7)*	
Operating activities						
Cash generated from/(used in) operations	73,427	(66,095)				7,332
PRC tax paid	(78,718)	–				(78,718)
Net cash used in operating activities	(5,291)	(66,095)				(71,386)
Investing activities						
Payment for the purchase of property, plant and equipment	(15,674)	(197)				(15,871)
Payment for the purchase of intangible assets	(9,645)	(6,599)				(16,244)
Cash receipt from disposal of property, plant and equipment	3,041	–				3,041
Cash receipt from disposal of investment of properties	28,108	–				28,108
Net proceeds from disposal of subsidiaries	96,019	–				96,019
Payment for acquisition of subsidiaries	(172,021)	–				(172,021)
Payment for investment in associates	(522,864)	–				(522,864)
Payment for investment in joint ventures	(15,000)	–				(15,000)
Payment for investment in warrant to subscribe ordinary shares	(7,528)	–				(7,528)
Interest received	5,962	–				5,962
Dividend received from financial assets at fair value through profit or loss	6,805	–				6,805
Prepayment to subscribe shares of an insurance company	(1,000,000)	–				(1,000,000)
Proceeds from acquisition	277,326	–				277,326
Payment for acquisition, net of cash acquired	–	–	(124,505)		3,554	(120,951)
Net cash used in investing activities	(1,325,471)	(6,796)				(1,453,218)

	Unaudited pro forma consolidated cash flow statement of the Group for the year ended 31 December 2016	Consolidated cash flow statement of the Target Group for the year ended 31 December 2016	Other pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (3)*	*Note (4)*	*Note (7)*	
Financing activities						
Proceeds from loans from the Immediate Parent and the Ultimate Controlling Party	165,002	–				165,002
Proceeds from new bank loans and loans from other financial institutions	4,571,215	81,838				4,653,053
Repayment of bank loans	(2,342,054)	(37,910)				(2,379,964)
Increase in restricted cash	(108,803)	–				(108,803)
Interest and other borrowing costs paid	(658,955)	(2,085)				(661,040)
Dividends paid to equity shareholders of the Company	(39,014)	–				(39,014)
Proceeds/withdraw from non-controlling shareholders	3,600	–				3,600
Capital injection by non-controlling equity holder	–	32,295				32,295
Repayment of loans from the Immediate Parent	(264,533)	–				(264,533)
Prepayments for acquisition of equity interests from non-controlling shareholders	10,000	–				10,000
Proceeds from disposal of equity interests in a subsidiary	12,000	–				12,000
Payment for acquisition of non-controlling interest	(200,000)	–				(200,000)
Proceeds fom capital injection from shareholders	155,194	–				155,194
Proceeds from loan from a third party	1,000,000	–				1,000,000
Placement of restricted bank deposits	–	(10,455)	(8,272)			(18,727)
Withdraw of restricted bank deposits	–	10,365				10,365
Payment for acquisition of non-controlling interests in subsidiaries	(527,335)	–				(527,335)

	Unaudited pro forma consolidated cash flow statement of the Group for the year ended 31 December 2016	Consolidated cash flow statement of the Target Group for the year ended 31 December 2016	Other pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2)*	*Note (3)*	*Note (4)*	*Note (7)*	
Net cash generated from financing activities	1,776,317	74,048				1,842,093
Net increase/(decrease) in cash and cash equivalents	445,555	1,157	(132,777)	3,554		317,489
Cash and cash equivalents at 1 January	243,470	17,196	(17,196)			243,470
Effect of foreign exchange rate changes	(77,312)	360				(76,952)
Cash and cash equivalents at 31 December	611,713	18,713				484,007

Notes to the Unaudited Pro Forma Financial Information

1. The unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2017, the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated cash flow statement of the Group for the year ended 31 December 2016 are extracted from Appendix IV to the published circular of the Company dated 11 December 2017, which were compiled by the Directors to illustrate the impact of the acquisition of 9.89% equity interest of the Shenzhen Sinoagri E-commerce Co., Ltd. (the "Project Company") by the allotment and issue of 101,094,000 new shares of the Company (the "Remaining Acquisition") and purchase up to 14.36% equity interest of the Project Company at a consideration tentatively fixed at RMB527,335,000 to be settled in cash (the "Further Acquisition"), on the Group's financial position as at 30 June 2017 and the Group's financial performance and cash flows for the year ended 31 December 2016 as if the Remaining Acquisition and the Further Acquisition together had taken place at 30 June 2017 and 1 January 2016, respectively.

2. The consolidated statement of financial position of the Target Group as at 30 September 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income and the consolidated cash flow statement of the Target Group for the year ended 31 December 2016 are extracted from the Accountants' Report of the Target Group as set out in Appendix II to the Circular.

3. The identifiable assets and liabilities of the Target Group acquired by the Group will be accounted for in the consolidated financial statements of the Group at fair value under the acquisition method of accounting in accordance with International Financial Reporting Standards 3, Business Combinations ("IFRS 3").

   For the purpose of the preparation of the unaudited pro forma consolidated statement of financial position, the adjustments represent (i) the elimination of the Target Group's share capital and pre-acquisition reserves at the date of acquisition of the Target Group; (ii) the recognition of fair value adjustments of identifiable assets and liabilities and related tax impact, as well as the goodwill recognised in accordance with the applicable standard under IFRS 3; and (iii) the recognition of non-controlling interests for the remaining 33.79% equity interest.

   For the purpose of the Unaudited Pro Forma Financial Information, the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed is determined with reference to the valuation results (which is for the purchase price allocation for the accounting purpose) of the Target Group as at 30 September 2017 issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle"). The amounts of fair values of the identified assets and liabilities of the Target Group are subject to change upon the completion of the valuation of the fair values of the identified assets and liabilities of the Target Group on the date of completion of the Proposed Transactions. Consequently, the fair value of indentifiable assets and liabilities and goodwill could be different from the estimated amounts used in the preparation of the Unaudited Pro Forma Financial Information.

	RMB'000
Fair value of the consideration *(note (i))*	190,208
Less:	
Net fair value of the Target Group's identifiable asset and liabilities as at 30 June 2017	
Carrying amount of Target Group's net liabilities as at 30 September 2017	(130,499)
Pro forma fair value adjustment to intangible assets *(note (ii))*	60,981
Other pro forma adjustments *(notes 4, 5 and 6)*	95,604
Deferred tax liabilities arising from pro forma fair value adjustment to intangible assets *(note (iii))*	(15,245)
	10,841
Contingent receivables *(note (iv))*	26,072
Add:	
Non-controlling interests *(note (v))*	3,663
Goodwill arising from the Proposed Transactions	156,958

Notes:

(i) It represent the fair value of the consideration of US$29,500,000 to be settled. The consideration is to be settled by cash as follows.

The consideration for the proposed subscription of Subscription Shares (the "Subscription") of US$14,342,000 will be settled in cash within five business days of completion of the Subscription.

The consideration for the proposed acquisition of the sale shares (the "Aquisition") of US$15,158,000 will be settled in cash by two instalments. The first installment in the amount of US$6,957,000 will be made within five business days of completion of the Acquisition and the second installment in the amount of US$6,957,000 will be made on 30 September 2018. The remaining balance of US$1,244,000 (the "Withheld Consideration") will be withheld for settlement of any shortfall arising from the performance guarantee jointly given by Mr. Zhi Jianpeng and HSH Group Limited. The Withheld Consideration will be held by Zall Development (BVI) Holding Company Limited ("Zall BVI") in escrow under an escrow agreement, and one third of the Withheld Consideration shall be reserved for the settlement of any shortfall arising from the performance guarantee jointly given by Mr. Zhi Jianpeng and HSH Group Limited to Zall BVI for each Guaranteed Period (have the meaning set forth in the paragraph headed "Revenue and Net Profit Guarantee" under the subsection headed "The Agreement" in the section headed "Letter from the Board" in this circular).

The fair value of the consideration was estimated by reference to the valuation report isuused by Jones Lang LaSalle and was dertermined by using probability-weighted average method with scenarios under different financial forecasts.

The pro forma adjustments to payment for acquisition net of cash acquired represents:

	RMB'000
Cash consideration paid*	141,701
Cash and cash equivalents acquired	(17,196)
	124,505

* This related to the consideration excluding the deferred payments of US$6,957,000 and US$1,244,000 aforementioned.

The pro forma adjustments to cash and cash equivalent represents:

	RMB'000
Cash consideration paid	141,701
Withheld Consideration held in escrow	8,272
	149,973

(ii) The pro forma fair value adjustments to intangible assets mainly related to the recognition of customer relationship, trademark and assembled workforce which were estimated by reference to the valuation report issued by Jones Lang LaSalle.

Fair value of customer relationship amounted to RMB55 million and was determined using multi-period excess earning method under the income approach. In the application of this method, contributory asset charges are then taken against the after-tax cash-flows available for distribution to capital providers to recognize the support of many other assets, tangible and intangible, which contribute to the realization of those cash flows. The discount rate applied is 15.17% and the useful life is assumed to be 5.25 years.

Fair value for trade mark amounted to RMB4.8 million and was determined using the relief-from-royalty method under the income approach. In the application of this method, the value of the trade mark depends on the present worth of future economic benefits to be derived from the projected royalty incomes. Indications of value have been developed by discounting projected net royalty incomes to their present worth at discount rate to account for the risks of the trade mark. The discount rate applied is 15.17% and the useful life is assumed to be 8.49 years.

The Directors have assessed whether there is any impairment on goodwill expected to arise from the Acquisition in accordance with International Accounting Standard 36, Impairment of Assets ("IAS 36") and concluded that there is no impairment in respect of goodwill. The recoverable amount of the cash generating unit to which the goodwill will be allocated is determined based on value in use calculation. The value in use calculation uses cash flow forecast based on the most recent financial budget of the cash generating unit for the next five years with key assumptions including budgeted gross margins and operating expenses. Such estimation is based on the cash generating unit's past performance and the management's expectations for the market development.

According to the Group's accounting policies, goodwill arising from the acquisition fo the Target Group will be tested for impairment at least annually or whenever events or changes in circumstances indicate its carrying amount may not be revoverable in accordance with the requirements of IAS 36. For the purpose of impairment testing, goodwill will be allocated to the cash generating units that are expected to benefit from the Proposed Transactions. The Directors confirmed that they will apply consistent accounting policies, principal assumption and valuation methods to assess impairment of goodwill in subsequent reporting periods in accordance with IAS 36.

(iii) Deferred tax liabilities relating to the pro forma fair value adjustment of intangible assets amounted to RMB15.2 million and is calculated at the income tax rate of the Target Group of 25%.

(iv) It represents the fair value of contingent receivables to be recognised under the performance guarantee arrangement. Upon the occurrence of a shortfall in the Target Group's actual revenue or net profits from the target revenue or target net profit for the years ending 31 December 2017, 2018 and 2019 as stated in the Proposed Transactions agreement, the Company will be entitled to a proportion of the Guaranteed Period Reserve (have the meaning set forth in the paragraph headed "Revenue and Net Profit Guarantee" under the subsection headed "The Agreement" in the section headed "Letter from the Board" in this circular). The fair value of contingent receivables was estimated by reference to the valuation report issued by Jones Lang LaSalle and and was determined using probability-weighted average method with scenarios under different financial forecasts.

(v) Non-controlling interests of approximately RMB3.7 million is calculated as 33.79% of the faivalue of Target Group's identifiable assets and liabilities.

4. The adjustment represents 53,418,804 share options have been issued and exercised under the Target Group ESOP for the benefits of the members of the core management of the Target Group by 30 June 2017 as if the Proposed Transactions had been completed on 30 June 2017 for the unaudited pro forma consolidated statement of financial position and on 1 January 2016 for the unaudited pro forma cash flow statement.

5. The adjustment represents number of 94,631,304 preference shares (out of a total of 177,462,606 preference shares) having been converted to ordinary shares by preferred shareholders at the conversion ratio of 1:1 before selling them to Zall BVI by 30 June 2017 as if the Proposed Transactions had been completed on 30 June 2017 for the unaudited pro forma consolidated statement of financial position and on 1 January 2016 for the unaudited pro forma consolidated statement of profit or loss and unaudited pro forma consolidated statement of profit or loss and other comprehensive income.

6. According to the conditional share purchase and subscription agreement in relation to the Proposed Transactions, a shareholders' agreement (the "Shareholders' Agreement") will be entered into to revise the redemption right of preference shares held by preferred shareholders of the Target Company. The adjustment represents the financial impact on the convertible redeemable preference shares (71,581,302 preference shares in total) according to clause 5 of the Shareholders' Agreement as if the Shareholders' Agreement has been signed and the Proposed Transactions had been completed on 30 June 2017. Fair value of preference shares as at 30 June 2017 was estimated by reference to the valuation report issued by an independent valuer using the implied purchase price of each class of preference shares based on Zall BVI's total purchase price and the post deal capitalization table.

7. The adjustment represents the additional amortisation of RMB11.3 million arising from the fair value adjustment on the intangible assets on a straight line basis over the estimated useful lives ranging from 5 to 9 years as if the Proposed Transactions had been completed on 1 January 2016. The amount of RMB2.8 million represented the corresponding reversal of deferred tax liabilities relating to the fair value adjustments of intangible assets. These adjustments are expected to have a continuing effect on the Enlarged Group.

8. The adjustment represents profit and total comprehensive income attributable to non-controlling interests which is calculated as 33.79% of the profit and total comprehensive income of the Target Group taking into the consideration of the financial impact as stated in Note 7.

9. For the purpose to prepare the Unaudited Pro Forma Financial Information, the amounts of the pro-forma adjustments are coverted using the following exchange rates:

   US$1 = RMB6.6528. No representation is made that the USD amounts have been, could have been or could be converted into RMB, or vice versa, at that rate or at any other rates or at all.

10. No adjustment has been made to the Unaudited Pro Forma Financial Information for acquisition-related costs (including fees to legal advisers, financial adviser, reporting accountants, valuer, printer and other expenses) as the directors determined that such costs are insignificant.

11. No adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Enlarged Group subsequent to 30 June 2017.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN THE GROUP

At the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Company and the Stock Exchange were as follows:

Name of Director(s)	Nature of interest	Number of Shares or underlying Shares held	Approximate percentage of shareholding[3]
Mr. Yan[1]	Interest of a controlled corporation	6,605,545,268	56.81%
	Beneficial owner	56,613,000	0.49%
Mr. Gang Yu	Beneficial owner	112,890,840	0.97%
Mr. Cui Jinfeng	Beneficial owner	1,312,500	0.01%
Mr. Wei[2]	Interest of a controlled corporation	132,144,000(L) 89,163,000(S)	1.14% 0.77%
	Beneficial owner	10,746,000	0.09%

Notes:

(1) 6,605,545,268 Shares are held by Zall Development Investment, a company which is wholly owned by Mr. Yan.

(2) 89,163,000 Shares are held by EJC Group Limited, a company which is indirectly controlled by Mr. Wei and 42,981,000 Shares are held by Vision Knight Capital Management Limited, a company which is directly controlled by Mr. Wei.

(3) The percentage represents the number of ordinary Shares interested divided by the number of the Company's issued Shares as at the Latest Practicable Date, being 11,628,004,800 Shares.

(4) (L) represents long position; (S) represents short position.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they would be taken or deemed to have under such provisions of the SFO), or (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. SUBSTANTIAL SHAREHOLDERS' AND OTHER SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors or chief executive of the Company, none of the Directors is a director or employee of a company which has and no other person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name	Nature of interest	Number of Shares or underlying Shares held	Approximate percentage of shareholding(3)
Zall Development Investment	Beneficial owner	6,605,545,268	56.81%
Mr. Ji Changqun	Interest in a corporation	949,224,000(2)	8.16%
Magnolia Wealth International Limited	Interest in a corporation	949,224,000(2)	8.16%
Fullshare Holdings Limited	Interest in a corporation	949,224,000(2)	8.16%
Rich Unicorn Holdings Limited	Beneficial owner	949,224,000(2)	8.16%

Notes:

(1) Zall Development Investment is a company wholly owned by Mr. Yan. In addition, 56,613,000 Shares are held directly by Mr. Yan as at the Latest Practicable Date.

(2) 949,244,000 Shares are held by Rich Unicorn Holdings Limited, a Company which is wholly owned by Fullshare Holdings Limited, which in turn is owned as to approximately 46.58% by Magnolia Wealth International Limited, which in turn is wholly owned by Mr. Ji Changqun. Mr. Ji Changqun also directly owns approximately 4.78% of Fullshare Holdings Limited.

(3) The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at the Latest Practicable Date, being 11,628,004,800 Shares.

4. INTERESTS OF DIRECTORS IN ASSETS/CONTRACTS AND OTHER INTERESTS

Save for the Agreement, there is no contract or arrangement entered into by any member of the Group, subsisting as at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Group as a whole.

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest, direct or indirect, in any assets which has been, since 31 December 2016, being the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

5. INTEREST OF DIRECTORS IN COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware and save as disclosed in this circular, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Group, or has or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

6. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance that is known to the Directors to be pending or threatened against any member of the Enlarged Group.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has provided advice referred to or contained in this circular:

Name	**Qualification**
KPMG	Certified Public Accountants

The expert named above has given and has not withdrawn its written consent to the issue of this circular with copies of its letter or report (as the case may be) and the references to its name included herein the form and context in which they respectively appear.

8. EXPERT'S INTEREST

As at the Latest Practicable Date, KPMG:

(a) did not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and

(b) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016 (being the date to which the latest published audited financial statements of the Company were made up).

9. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, with any member of the Group, a service agreement which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

10. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the members of the Enlarged Group within two years preceding the Latest Practicable Date and are or may be material:

(a) the Agreement;

(b) the lease agreement entered into between Jiangsu Eastide Group Co., Ltd.* as lessee to Wuhan North Hankou Trade Market Investment Co., Ltd.*（武漢漢口北商貿市場投資有限公司）("North Hankou Trade Market") and Zall Investment Group Co., Ltd.*（卓爾投資集團有限公司）as lessors dated 11 September 2017 in respect of the lease of the Group's relevant real estate properties situated at Liudian and Shekou Villages, Panlongcheng Economic and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC（中國湖北省武漢市黃陂區盤龍城經濟及科技開發區劉店及灄口村）and No. 1 Chutian Road, Panlongcheng Economic and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC（中國湖北省武漢市黃陂區盤龍城經濟及科技開發區楚天大道特1號）for a lease period of ten years, commencing from 11 September 2017 to 10 September 2027. Details of the lease agreement are set out in the announcements of the Company dated 12 September 2017 and 3 October 2017, and the circular of the Company dated 24 October 2017;

(c) the framework agreement dated 27 June 2017 entered into among the Purchaser, the Company, Zall Development Investment, Mr. Yan and Shenzhen Agricultural Products Co., Ltd.*（深圳市農產品股份有限公司）and Shenzhen HiGreen Investment

Management Co., Ltd.*（深圳市海吉星投資管理股份有限公司）in relation to the acquisition of Shenzhen Sinoagri E-commerce Co., Ltd.*（深圳市中農網有限公司）(“**Sinoagri**”);

(d) the subscription agreement entered into between the Company and OBOR Global Innovation Fund SPC – OBOR Innovation Technology Fund SP dated 30 May 2017 in relation to the allotment and issue by the Company of 357,141,000 shares, the details of which are set out in the Company’s announcement dated 31 May 2017;

(e) the agreement entered into among Guangxi Liuzhou Industrial Investment Development Group Co., Ltd*（廣西柳州市產業投資發展集團有限公司）, Liuzhou Bangzhe Investment Co., Ltd.*（柳州市邦哲投資有限公司）, Sinoagri and 33 individuals on 29 March 2017, pursuant to the terms and conditions of which, the respective parties agreed to subscribe a new registered capital of 88 million shares of Guangxi Msweet Technology Co,. Ltd.*（廣西沐甜科技股份公司）in return for 100% equity interest of Guangxi Sugar Market Network Co., Ltd.*(廣西糖網食糖批發市場有限責任公司), Shenzhen Kunshang Yitang Supply Chain Co., Ltd.*（深圳市昆商易糖供應鏈有限公司）and Guangxi Kangchen Shitang Trading Co. Ltd*（廣西康宸世糖貿易有限公司);

(f) the subscription agreement entered into between Wuhan Zhuo Futong Technology Co., Ltd*（武漢卓付通科技有限公司）and Zall Fintech Co., Ltd*（深圳卓爾智聯科技有限公司）dated 27 February 2017 in relation to the allotment and issue by Zall Fintech Co., Ltd*（深圳卓爾智聯科技有限公司）of its 2,500,000 shares, the details of which are set out in the Company’s announcement dated 27 February 2017;

(g) the termination agreement entered into between Mr. Jiang Yong and Zall Interconnection (BVI) Limited（卓爾互聯(BVI)有限公司）dated 27 February 2017 in relation to the termination of the agreement in relation to the sale and purchase of 55% of the entire issued shares of JPL Investment Co., Limited, the details of which are set out in the Company’s announcement dated 27 February 2017;

(h) the termination agreement entered into between Shenzhen Huixin Trading Limited*（深圳市匯欣貿易有限公司）and Shenzhen Qianhai Zall Tech Limited*（深圳市前海卓爾互聯科技有限公司）dated 27 February 2017 in relation to the termination of the agreement in relation to the sale and purchase of 3,335,200 shares in Sinocan International Technologies Co., Ltd（深圳市匯茂科技股份有限公司), the details of which are set out in the Company’s announcement dated 27 February 2017;

(i) the termination agreement entered into between Sinocan International Technologies Co., Ltd（深圳市匯茂科技股份有限公司）and Shenzhen Qianhai Zall Tech Limited*（深圳市前海卓爾互聯科技有限公司）dated 27 February 2017 in relation to the termination of the agreement in relation to the subscription of 12,000,000 shares in Sinocan International Technologies Co., Ltd（深圳市匯茂科技

股份有限公司）by Shenzhen Qianhai Zall Tech Limited*（深圳市前海卓爾互聯科技有限公司）, the details of which are set out in the Company's announcement dated 27 February 2017;

(j) the acquisition agreement dated 28 October 2016 entered into by, inter alias, Zall BVI and the Company in relation to the proposed acquisition of 60.49% equity interest of Sinoagri;

(k) the consultancy agreement and the supplemental agreement entered into between the Company and Vision Knight Capital Management Company Limited on 14 November 2016 and 27 April 2017 respectively;

(l) the service agreement entered into between Mr. Wei and the Company on 14 November 2016;

(m) the equity transfer agreement entered into among Zalljinfu Information Technology (Wuhan) Co., Ltd.*（卓爾金服資訊科技(武漢)有限公司）, Zall Financial Services Group Co., Ltd. （卓爾金融服務集團有限公司）, Harvest Capital Management Co., Ltd.* （嘉實資本管理有限公司）, New Resource Energy International Private Limited （新鑫國際能源有限公司） and Harvest Financial Leasing Co., Ltd.*（嘉實融資租賃有限公司）dated 31 May 2016 in relation to the sale and purchase of 100% equity interests in Harvest Financial Leasing Co., Ltd (嘉實融資租賃有限公司), the details of which are set out in the Company's announcement dated 3 June 2016;

(n) the equity transfer agreement entered into among Zalljinfu Information Technology (Wuhan) Co., Ltd.* （卓爾金服資訊科技(武漢)有限公司）, Capital Management Co., Ltd.* （嘉實資本管理有限公司）, Harvest Financial Information Services (Hangzhou) Co., Ltd.*（嘉實金融資訊服務(杭州)有限公司）and Hangzhou Jiuyu Asset Management Co., Ltd.*（杭州九魚資產管理有限公司）dated 31 May 2016 in relation to the sale and purchase of the entire equity interests in Hangzhou Jiuyu Asset Management Co., Ltd.*（杭州九魚資產管理有限公司）and 90% equity interests in Harvest Financial Information Services (Hangzhou) Co., Ltd.*（嘉實金融資訊服務(杭州)有限公司）, the details of which are set out in the Company's announcement dated 3 June 2016;

(o) the subscription agreement entered into between Lightinthebox Holding Co., Ltd. and Zall Cross-border E-commerce Investment Company Limited dated 17 March 2016 in relation to the allotment and issue by Lightinthebox Holding Co., Ltd. of its 42,500,000 shares and the warrant which entitling the holder to subscribe up to 7,455,000 shares, the details of which are set out in the Company's announcement dated 17 March 2016 and the Company's circular dated 25 May 2016; and

(p) the investor rights agreement entered into between Lightinthebox Holding Co., Ltd., Mr. Quji (Alan) Guo, Wincore Holdings Limited and Zall Cross-border E-commerce Investment Company Limited dated 30 March 2016 to regulate certain matters in respect of Lightinthebox Holding Co., Ltd., the details of which are set out in the Company's announcement dated 17 March 2016 and the Company's circular dated 25 May 2016.

11. MISCELLANEOUS

(a) The registered office of the Company is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Suite 2101, 21/F, Two Exchange Square, Central, Hong Kong.

(c) The principal share registrar and transfer office of the Company is SMP Partners (Cayman) Limited, Royal Bank House – 3rd Floor, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY1-1110, Cayman Islands.

(d) The Hong Kong share registrar and transfer office of the Company is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The company secretary of the Company is Mr. Lung Shei Kei, a member of the Hong Kong Institute of Certified Public Accountants.

(f) This circular is in both English and Chinese. In the event of inconsistency, the English text shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at Suite 2101, 21/F, Two Exchange Square, Central, Hong Kong for a period of 14 days from the date of this circular:

(a) the memorandum and articles of association of the Company;

(b) each of the material contracts referred to in the section headed "Material Contracts" in this appendix;

(c) the annual reports of the Company for the years ended 31 December 2014 to 2016;

(d) the interim report of the Company for the six months ended 30 June 2017;

(e) all circulars published after 31 December 2016 until the date of this circular;

(f) the accountants' report of the Target Group, the text of which is set out in Appendix II to this circular;

(g) the management discussion and analysis on the Target Group, the text of which is set out in Appendix III to this circular;

(h) the report on unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(i) the written consent referred to in paragraph headed "Experts and Consents" of this appendix; and

(j) this circular.

Zall Group Ltd.

卓爾集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2098)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of Zall Group Ltd. (the "**Company**") will be held at Suite 2101, 21/F, Two Exchange Square, Central, Hong Kong on Monday, 5 March 2018 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions of the Company:

Capitalised terms used in this notice shall have the same meaning as those defined in the circular of the Company dated 14 February 2018 to the Shareholders unless otherwise specified.

ORDINARY RESOLUTION

"**THAT**

(a) the Agreement (a copy of which is tabled at the meeting and marked "A" and signed by the chairman of the meeting for identification purpose) entered into by and among the Purchaser, the Company, the Vendors, Mr. Zhi Jianpeng, the Target Company and OPCO in relation to (i) the proposed acquisition of the Sale Shares, representing approximately 32.76% of the total equity interest of the Target Company as enlarged by the Subscription Shares and on a fully diluted and as-converted basis, for the consideration of approximately US$14.34 million; and (ii) the proposed subscription of the Subscription Shares representing approximately 19.72% of the total equity interest of the Target Company as enlarged by the Subscription Shares and on a fully diluted and as-converted basis, for the consideration of approximately US$15.16 million, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) any one Director be and is hereby authorized to, on behalf of the Company, do all such acts and sign, seal, executive and deliver all such documents and take all such actions as he/she may consider necessary or desirable for the purpose of or in connection with or to give effect to the Agreement and the transactions contemplated thereunder.**"**

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

Hong Kong, 14 February 2018

Notes:

(1) A member entitled to attend and vote at the above meeting may appoint one or, if he holds two or more shares, more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

(2) Where there are joint holders of any Share, any one of such joint holder may vote, either in person or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

(3) In order to be valid, a form of proxy together with the power of attorney (if any) or other authority (if any) under which it is signed or a certified copy thereof shall be deposited at the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 48 hours before the time designated for holding of the EGM or any adjournment thereof. The proxy form will be published on the website of the Stock Exchange. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the EGM or any adjourned meeting thereof should they so wish and in such event the relevant form of proxy shall be deemed to be revoked.

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