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ZALL卓尔

Zall Group Ltd.

卓爾集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2098)

**DISCLOSEABLE TRANSACTION
FORMATION OF JOINT VENTURE**

The Board is pleased to announce that the Company has entered into the Joint Venture Agreement with Xiben New Line and Mr. Pan in relation to the formation of the Joint Venture which shall be principally engaged in the development and operation of a business-to-business Black Commodity online trading platform.

As one or more of the applicable percentage ratio(s) in respect of the formation of the Joint Venture exceeds 5% but is less than 25%, the formation of the Joint Venture constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

THE JOINT VENTURE AGREEMENT

The principal terms of the Joint Venture Agreement are as follows:

Date : 24 February 2018

Parties : (1) the Company
(2) Xiben New Line
(3) Mr. Pan

Principal business : The Joint Venture shall be principally engaged in the development and operation of a business-to-business Black Commodity online trading platform

Capital contribution : The registered capital of the Joint Venture is RMB100.0 million. The initial capital contribution to the Joint Venture is RMB50.0 million and shall be paid by the Parties in proportion to their equity interest in the Joint Venture in cash on or before 30 April 2018 as follows:

Party	Capital contribution (RMB)	% of equity interest in the Joint Venture
the Company	25.5 million	51%
Xiben New Line	15.0 million	30%
Mr. Pan	9.5 million	19%
Total	50.0 million	100%

The contribution to be made by the Company will be financed by the internal resources of the Group.

The Joint Venture will become a subsidiary of the Company and the financial results of the Joint Venture will be consolidated into the consolidated financial statements of the Group.

Board composition : Upon formation of the Joint Venture, the board of directors of the Joint Venture shall comprise five directors, three of whom shall be nominated by the Company and the remaining two shall be nominated by Xiben New Line and Mr. Pan, respectively. The chairman and vice chairman of the board of directors of the Joint Venture shall be the directors nominated by the Company and Xiben New Line, respectively.

Financial assistance : The Company shall provide a loan facility of RMB1.0 billion to the Joint Venture during 2018. An additional RMB2.5 billion (i.e. RMB3.5 billion in aggregate) shall be made available in 2019.

The interest rate of the loan(s) under the loan facility shall be 8% in 2018, which was determined with reference to the prevailing bank interest rate and subject to adjustment should the People's Bank of China increase the RMB benchmark interest rate. The interest rate thereafter shall be determined with reference to the market interest rate.

Incentive Shares : The Company has agreed to allot the Incentive Shares to Mr. Pan if the Joint Venture achieves the following revenue targets for the financial years ending 31 December 2019 and/or 2020:

Financial year ending 31 December	Revenue target (RMB)
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2019	30 billion
2020	50 billion

The number of Incentive Shares to be allotted to Mr. Pan for the relevant year shall be determined as follow:

$$\text{Number of Incentive Shares to be allotted} = \frac{30\% \text{ of the net profit after tax of the Joint Venture for the relevant financial year}}{\text{the then closing price per Share as quoted on the Stock Exchange}}$$

The number of Incentive Shares to be allotted, in aggregate, shall not be more than 581,400,240 Shares (being 5% of the 11,628,004,800 Shares in issue as at the date of the Joint Venture Agreement) and the allotment of the Incentive Shares is condition upon the listing committee of the Stock Exchange having granted the listing of and permission to deal in the Incentive Shares.

Covenants : The Company has covenanted with the other Parties that it shall not (i) exercise its rights as the controlling shareholder of the Joint Venture to introduce new operation team to the Joint Venture; or (ii) develop another Black Commodity online trading platform, should the Joint Venture achieve the revenue target of RMB8 billion for the period ending 31 December 2018. In addition, Mr. Pan and the senior management of the Joint Venture may participate in the Share Option Scheme.

Xiben New Line and Mr. Pan have covenanted with the other Parties that they shall not engage in any business that will compete with the business of the Joint Venture and not to set-up, invest or engage in any Black Commodity online trading platform.

Drag-along right : If a third party offers to purchase the equity interest in the Joint Venture, the Company has the right to:

(A) require Xiben New Line and Mr. Pan to sell their respective equity interest in the Joint Venture to such third party in proportion to the Parties' equity interest in the Joint Venture; or

(B) acquire the equity interest in the Joint Venture held by Xiben New Line and Mr. Pan at a price equivalent to 80% of the price offered by such third party.

THE INCENTIVE SHARES

The Incentive Shares will be allotted and issued under the General Mandate, and hence no further Shareholders' approval is required. As at the date of this announcement, other than 357,141,000 new Shares issued on 16 June 2017, no Shares have been issued under the General Mandate. Application will be made to the Stock Exchange for the approval for the listing of and permission to deal in the Incentive Shares. The Incentive Shares, if allotted and issued, will be free from any subsequent sale restriction and will rank pari passu in all respects with the existing Shares in issue.

INFORMATION ON THE GROUP, XIBEN NEW LINE AND MR. PAN

The Group

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

Xiben New Line

Xiben New Line is a company incorporated in the PRC with limited liability and is principally engaged in providing electronic trading platforms for standardized commodities, including mineral, steel, coal and cement. Xiben New Line is also the official publisher of the purchasing managers' index of the steel industry in the PRC.

To the best of the directors' knowledge, information and belief, having made all reasonable enquiry, save for Xiben New Line's interest in the Joint Venture, Xiben New Line and its ultimate beneficial owner(s) are Independent Third Parties.

Mr. Pan

Mr. Pan has over 20 years of operation and management experiences in trading of steel and other commodities trading and e-commerce industries. To the best of the directors' knowledge, information and belief, having made all reasonable enquiry, save for his interest in the Joint Venture, Mr. Pan is an Independent Third Party.

BASIS OF DETERMINATION OF THE CONSIDERATION

The total amount of capital contribution to the Joint Venture and amount of financial assistance to be provided to the Joint Venture by the Company was determined after arm's length negotiation among the Parties, taking into account of the estimated capital needs of the Joint Venture for development and operation of the Black Commodity online trading platform. The formula for determining the number of Incentive Shares to be allotted was determined after arm's length negotiation between the Parties, taking into consideration of the expected contribution to be made by Mr. Pan to, and Mr. Pan's equity interest in, the Joint Venture.

REASONS FOR AND BENEFITS OF THE FORMATION OF THE JOINT VENTURE

The Directors believe that the formation of the Joint Venture may allow the Group to leverage on the experience and resources of Xiben New Line in Black Commodity trading and related businesses and the experience and skills of Mr. Pan, who is expected to be primarily responsible for the daily operation of the Joint Venture, to develop the business-to-business Black Commodity online trading platform of the Joint Venture, which can expand the Group's e-commerce, trading and supply chain management business on the Black Commodity sector, thereby enlarging the Group's client base and increasing the Group's revenue in the long run. In addition, by agreeing to allot the Incentive Shares to Mr. Pan upon achieving the revenue targets will give incentives to Mr. Pan to improve the profitability of the Joint Venture.

The Directors are of the view that the terms of the Joint Venture Agreement, including the terms of the capital contribution and the loan facility provided by the Company and the Incentive Shares to be allotted upon achieving the revenue targets, are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratio(s) in respect of the formation of the Joint Venture exceeds 5% but is less than 25%, the formation of the Joint Venture constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Black Commodity”	black commodity (黑色系大宗商品), including steel, coal, iron ore and petroleum
“Board”	the board of Directors
“Incentive Shares”	the Shares to be allotted to Mr. Pan pursuant to the Joint Venture Agreement as further described in the section headed “The Joint Venture Agreement” in this announcement
“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
“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted to the Directors pursuant to an ordinary resolution of the Company passed at the Company’s annual general meeting held on 18 May 2017 to allot, issue and deal with 2,149,115,550 Shares (representing 20% of the total number of Shares in issue as at the date thereof)
“Group”	the Company and its subsidiaries
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Joint Venture”	a company to be incorporated in the PRC or an existing company incorporated in the PRC to be provided by Xiben New Line for the joint venture under the Joint Venture Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Pan”	Mr. Pan Fujie (潘富杰)
“Parties”	the Company, Xiben New Line and Mr. Pan, and each a “Party”
“percentage ratio(s)”	has the meanings ascribed to it under Rule 14.07 of the Listing Rules

“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“Joint Venture Agreement”	the joint venture agreement dated 24 February 2018 entered into between the Parties in relation to the formation of the Joint Venture
“Shares”	ordinary shares of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 20 June 2011
“Shareholder(s)”	holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xiben New Line”	Xiben New Line Stock Co. Ltd.* (西本新幹線股份有限公司), a company incorporated in the PRC with limited liability

* *for identification purposes only*

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

Hong Kong, 25 February 2018

As at the date of this announcement, the Board comprises eight members, of which Mr. Yan Zhi, Dr. Gang Yu, Mr. Wei Zhe, David, Mr. 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.