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HL Technology Group Limited

泓淋科技集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1087)

DISCLOSEABLE TRANSACTION IN RELATION TO ACQUISITION OF 75% EQUITY INTEREST IN THE TARGET COMPANY

Financial adviser to the Company



THE ACQUISITION

Reference is made to the announcement of the Company dated 13 October 2015 in relation to the MOU. The Board is pleased to announce that on 6 November 2015 (after trading hours), the Purchaser entered into the Sale and Purchase Agreement with the Vendor and the Vendor Guarantor, pursuant to which the Purchaser has agreed to purchase and the Vendor has agreed to sell 75% equity interest of the issued share capital of the Target Company, for a total Consideration of HK\$450 million, of which HK\$190.4 million shall be settled in cash and the balance of HK\$259.6 million shall be settled by the issue of Consideration Shares under the General Mandate.

IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Acquisition exceed 5% but are below 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

* For identification purpose only

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THE SALE AND PURCHASE AGREEMENT

Parties

Date: 6 November 2015

Parties: the Company, as the Purchaser;

Smoothly Global Holdings Limited, as the Vendor; and

Mr. Chan Sek Keung Ringo, as the Vendor Guarantor.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Vendor and its ultimate beneficial owners and the Vendor Guarantor are third parties independent of the Company and connected persons of the Company.

Assets to be acquired

The Purchaser agreed to acquire and the Vendor agreed to sell the 75% equity interest of the issued share capital of the Target Company.

Upon completion of the Acquisition, the Target Company will become a direct non-wholly owned subsidiary of the Company.

Consideration and payment terms

The Consideration for the Acquisition shall be HK\$450 million, of which HK\$190.4 million shall be settled in cash by (a) the deposit paid by the Purchaser to the Vendor in the amount of HK\$30 million on 22 October 2015 pursuant to the MOU dated 13 October 2015; and (b) payment of HK\$160.4 million in cheque/cashier order/bank transfer at Completion (or such other date as the parties to the Sale and Purchase Agreement may agree in writing) and the balance of HK\$259.6 million shall be settled by the issue of Consideration Shares under the General Mandate within five (5) business days from the date of Completion (or such other date as the parties to the Sale and Purchase Agreement may agree in writing). The Consideration has been determined after arm's length negotiations between the Purchaser and the Company after taking into account, amongst others, (i) the financial information of the Target Group; (ii) the profit guarantee to be given by the Vendor and the Vendor Guarantor; (iii) the valuation of WSL as at 31 October 2015 and the fair value of 100% interest in WSL is approximately HK\$619.8 million as at 31 October 2015 according to a valuation report applying the market approach, issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional valuer; (iv) the competitive strengths of the Target Group; and (v) the business prospect of the Target Group.

Consideration Shares

The Consideration Shares represent (i) approximately 16.42% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 14.10% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no other change to the issued share capital of the Company from the date of this announcement to the date of issue of the Consideration Shares).

The issue price of the Consideration Shares of HK\$2.36 represents:

- (i) a discount of approximately 19.73% to the closing price of HK\$2.940 per Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement; and
- (ii) a discount of approximately 19.29% to the average closing price of approximately HK\$2.924 per Share as quoted on the Stock Exchange for the five trading days immediately preceding the date of the Sale and Purchase Agreement.

The Consideration Shares will be issued under the General Mandate, which has not been used before and will be sufficient for the purpose. The Consideration Shares are not subject to any subsequent sale restriction.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares, when issued, will rank *pari passu* in all respects with the Shares in issue.

Conditions Precedent

Completion of the Sale and Purchase Agreement shall be conditional upon, *inter alia*:

- (i) the Purchaser, in its absolute discretion, being satisfied with the results of the due diligence review on, the financial, legal, commerce, trade, asset, corporation, taxation, operation and other conditions of each member of the Target Group (save and except Wafer System (Macau) Limited, a wholly owned subsidiary of the Target Company);
- (ii) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in the Consideration Shares;
- (iii) the Company having obtained all necessary consents and approvals from the relevant authorities (including but not limited to the Stock Exchange) and the Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder (if necessary);
- (iv) the registered capital of each member of the Target Group having been fully paid up and the contributed capital not having been repatriated illegally;

- (v) there being no change in the principal business of the Target Group;
- (vi) there being no promulgation, announcement, publication or enforcement of any law, judgment, decree or injunction by any government authorities before Completion which could (a) restrict or prohibit the signing of the Sale and Purchase Agreement or Completion; or (b) adversely affect, in any material aspects, the Purchaser in exercising its right or power entirely pursuant to its equity interests in the Target Company or as stipulated under the Sale and Purchase Agreement;
- (vii) no material adverse change in the financial condition, commerce, trade, asset, corporation, taxation, operation or other conditions the Target Group has occurred since the date of the Sale and Purchase Agreement to the date of Completion;
- (viii) there being no pending or potential litigation, arbitration or other legal proceedings from any third parties (including any government authorities) which would otherwise prohibit or restrict the consummation of the transaction contemplated under the Sale and Purchase Agreement;
- (ix) the receipt by the Purchaser of a disclosure letter in such substance and form to the satisfaction of the Purchaser within five(5) business days from the date of the Sale and Purchase Agreement; and
- (x) the warranties in the Sale and Purchase Agreement shall continue to be true, correct and not misleading up to the date of Completion with the same force and effect as if they had been repeated as at the date of Completion and throughout the period between the date of the Sale and Purchase Agreement and the date of Completion.

If any of the conditions set out above is not fulfilled on or before Long Stop Date (or such other date as the parties to the Sale and Purchase Agreement may agree in writing), then the Sale and Purchase Agreement will lapse while each party's rights and obligations already accrued under the Sale and Purchase Agreement will not be affected.

The Company may at its absolute discretion at any time waive in writing any of the above conditions (other than conditions (ii) and (iii)) to the extent it is capable of waiving and such waiver may be made subject to such terms and conditions as are determined by the Company.

Completion

Completion shall take place on any date falling on or before the fifth(5th) business day after all the above conditions precedent have been fulfilled (or such later date as the parties to the Sale and Purchase Agreement may mutually agree in writing).

Profit Guarantee

Pursuant to the Sale and Purchase Agreement, each of the Vendor and the Vendor Guarantor undertakes and guarantees to the Purchaser that the aggregate audited consolidated net profit after tax of the Target Group for the 2 years ending 31 December 2016 (the "**Actual Profit**") shall be not less than HK\$60 million (the "**Guaranteed Profit**").

In the event that the Actual Profit fails to meet the Guaranteed Profit, the Vendor shall indemnify the Company the amount of the Compensated Amount (as defined below) by way of cash within five(5) business days upon receipt of the written notice from the Purchaser.

“Compensated Amount” = (1 – Actual Profit/Guaranteed Profit) x Consideration

For avoidance of doubt, if the Actual Profit exceeds the Guaranteed Profit, the balance of the Consideration shall not be adjusted.

INFORMATION OF THE VENDOR

The Vendor is an investment holding company incorporated in BVI with limited liability on 1 May 2012. The Vendor is owned as to 70% by Mr. Chan Sek Keung Ringo, as to 20% by Ms. Wang Fang and as to remaining 10% by Mr. Wang Wei, all of whom are third parties independent of the Company and connected persons of the Company.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated in BVI with limited liability on 1 July 2009 and is principally engaged in investment holding. The main asset of the Target Company is its interest in WSL. WSL is a company incorporated in Hong Kong and is principally engaged in the business of network system integration, including provision of network infrastructure solutions and net professional services as well as internet related software solutions. The customers of WSL are mainly corporate customers in the PRC engaging in various industries such as finance and insurance, manufacturing, energy, logistics, retailing, hotels and others. Headquartered in Hong Kong, WSL has branch offices and representative offices in Beijing, Shanghai, Suzhou, Chengdu, Guangzhou, Nanjing, Xi'an, Shenzhen, Wuhan and Fuzhou in the PRC.

Financial information of the Target Company

Set out below are certain financial information of the Target Group for the year ended 31 December 2014 and 2013 separately:

	For the year ended 31 December 2014	For the year ended 31 December 2013
	<i>(Audited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	480,944	473,292
Profit before taxation	14,842	8,611
Net Profit after taxation	16,807	5,082
	As at	As at
	31 December 2014	31 December 2013
	<i>(Audited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	289,226	330,336
Net assets	92,537	76,466

The Target Company will become a direct 75% equity interest subsidiary of the Company, and its assets and liabilities and its profits and losses will be consolidated into the consolidated financial statements of the Company after Completion.

REASON FOR THE ACQUISITION

The Group is principally engaged in the design, development, manufacture and provision of communication system and related products.

As set out in the interim report of the Company for the six months ended 30 June 2015, in light of the widespread use of the 4G technology, the Mobile Internet technology and the Enterprise Private Network technology, demands on communication system equipment will keep increasing. The Group will accordingly keep increasing its investments in the telecommunication industry, seeking for more partners and working closely with them to develop new products and solutions. The Group will also keep exploring new technologies to be applied in the current product and service areas and new areas.

As the Target Group is engaging in network system integration and software solutions, the Directors believe that the Acquisition is in line with the overall strategy of the Company and would enable the Company to broaden its revenue resource and enhance profitability. Accordingly, the Directors consider that the entering of the Sale and Purchase Agreement is in the interests of the Company. Also, as the terms of the Sale and Purchase Agreement were determined after arm's length negotiations between the parties thereto, the Directors are of the view that the terms of the Sale and Purchase Agreement (including the basis of Consideration) are on normal commercial terms and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

The Directors considered that the Acquisition will not cause any material adverse impact to the business, operations and financial position of the Group.

EFFECT ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company as at the date of this announcement and immediately after the issuance of the Consideration Shares are as follows:

	As at the date of this announcement		Immediately after issuance of the Consideration Shares	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Substantial Shareholders				
Mr. Chi Shaolin (<i>Note 1</i>)	97,000,839	14.48	97,000,839	12.44
Mr. Cheng Wen (<i>Note 2</i>)	90,000,000	13.43	90,000,000	11.54
The Vendor	–	–	110,000,000	14.10
Public Shareholders				
Public Shareholders	482,999,161	72.09	482,999,161	61.92
Total	<u>670,000,000</u>	<u>100.00</u>	<u>780,000,000</u>	<u>100.00</u>

Notes:

1. Mr. Chi Shaolin was deemed to be interested in 97,000,839 Shares held by Chenlin International Joint Stock Company Limited by virtue of it being wholly-owned by Mr. Chi Shaolin.
2. Mr. Cheng Wen was deemed to be interested in 90,000,000 Shares held by Castle Gate Ventures Limited by virtue of it being wholly-owned by Mr. Cheng Wen.

IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Acquisition exceed 5% but are below 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

“Acquisition”	the acquisition of the Sale Shares, representing 75% equity interest of the entire interest in the Target Company by the Company from the Vendor pursuant to the Sale and Purchase Agreement
“Board”	board of Directors
“BVI”	the British Virgin Islands
“Company” or “Purchaser”	HL Technology Group Limited, a company incorporated in Cayman Islands with limited liability, whose Shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Consideration”	the consideration payable by the Purchaser to the Vendor for the Acquisition which will be HK\$450 million
“Consideration Shares”	110,000,000 new Shares to be allotted and issued by the Company to the Vendor to settle part of the Consideration in relation to the Acquisition
“Director(s)”	director(s) of the Company
“General Mandate”	the general mandate granted to the Directors by the Shareholders at the annual general meeting held on 29 May 2015, among other things, to allot, issue and deal with up to 20% of the then issued share capital of the Company as at the date of the annual general meeting and adjusted for the Shares repurchased in July 2015
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Long Stop Date”	fourteen (14) days from the date of the Sale and Purchase Agreement or such other date as the parties to the Sale and Purchase Agreement may agree in writing
“MOU”	The memorandum of understanding dated 13 October 2015 entered into between the Company and the Target Company in relation to the proposed acquisition by the Company of not less than 51% interest in WSL
“PRC”	the People’s Republic of China, excluding Hong Kong, Taiwan and Macau Special Administrative Region of the PRC for the purpose of this announcement
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 6 November 2015 entered into among the Company, the Vendor and the Vendor Guarantor in relation to the sale and purchase of the Sale Shares
“Sale Shares”	75 issued shares of the Target Company representing 75% equity interest of the issued capital of the Target Company
“Share(s)”	ordinary share(s) of US\$0.02 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Fortune Grace Management Limited, a company incorporated in BVI
“Target Group”	The Target Company and its subsidiaries
“US\$”	the United States dollars, the lawful currency of the United States of America
“Vendor”	Smoothly Global Holdings Limited, a company incorporated in BVI, which is owned as to 70% by Mr. Chan Sek Keung Ringo, as to 20% by Ms. Wang Fang and as to remaining 10% by Mr. Wang Wei
“Vendor Guarantor”	Mr. Chan Sek Keung Ringo

“WSL”

Wafer Systems Limited, a company incorporated in Hong Kong and is a wholly owned subsidiary of the Target Company

“%”

per cent.

By order of the Board
HL Technology Group Limited
Wu Chi Luen
Executive Director and CEO

Hong Kong, 6 November 2015

As at the date of this announcement, the executive Directors are Mr. Wu Chi Luen (CEO), Mr. Cheng Wen and Mr. Lu Chengye, the non-executive Director is Mr. Wong Kui Shing, Danny and the independent non-executive Directors are Mr. Thomas Tam, Mr. Pao Ping Wing, Mr. Qu Wen Zhou and Mr. Lu, Brian Yong Chen.