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Capital Finance Holdings Limited
首都金融控股有限公司

(incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 8239)

TERMINATION OF EXISTING VIE STRUCTURE
AND
ESTABLISHMENT OF NEW VIE STRUCTURE

TERMINATION OF EXISTING VIE STRUCTURE

Reference is made to the Circular in relation to, among other things, the Existing VIE Structure.

The Board hereby announces that, the relevant parties as detailed below have entered into the following agreements to change certain registered shareholders of Beijing Micro-financing and to terminate the Existing VIE Structure:

- (1) the Equity Transfer Agreement dated 23 October 2020, pursuant to which Beijing Yongjin agreed to transfer 20% of the equity interests in Beijing Micro-financing to Mr. Zhang at a consideration of RMB10,000,000;
- (2) the Equity Transfer Agreement dated 23 October 2020, pursuant to which Yongtai agreed to transfer 20% of the equity interests in Beijing Micro-financing to Puhui Weijin at a consideration of RMB10,000,000;
- (3) the Equity Transfer Agreement dated 23 October 2020, pursuant to which Mr. Wang agreed to transfer 13% of the equity interests in Beijing Micro-financing to Ms. Li at a consideration of RMB6,500,000 and 6% of the equity interests in Beijing Micro-financing to Ms. Chang at a consideration of RMB3,000,000; and

- (4) the Termination Agreements dated 23 October 2020, pursuant to which the Existing Majority Registered Shareholders, Beijing Wanchi and Beijing Micro-financing agreed that the Existing Structured Agreements shall be terminated upon the New Structured Agreements becoming effective.

ESTABLISHMENT OF NEW VIE STRUCTURE

On 23 October 2020, and immediately after execution of the Equity Transfer Agreements and the Termination Agreements, Beijing Wanchi, Beijing Micro-financing and the New Majority Registered Shareholders entered into the New Structured Agreements and the Undertaking to establish the New VIE Structure.

Upon the New Structured Agreements becoming effective, 79% of the financial results of Beijing Micro-financing will continue to be accounted for and consolidated in the accounts of the Group as if it is a subsidiary of the Company.

IMPLICATIONS UNDER THE GEM LISTING RULES

As (i) Mr. Zhang is an executive Director and a director of each of Beijing Wanchi and Beijing Micro-financing; (ii) Ms. Li is an executive Director and a director of each of Beijing Wanchi and Beijing Micro-financing; (iii) Puhui Weijin is indirectly wholly and beneficially owned by the Dai Family, who are the substantial shareholders of the Company; and (iv) Ms. Chang is an executive director of a subsidiary of the Company, Mr. Zhang, Ms. Li, Puhui Weijin and Ms. Chang are connected persons of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the transactions contemplated under the New Structured Agreements constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

As one or more of the applicable percentage ratios (other than profits ratio) with reference to the expected annual amount of the Exclusive Service Agreement is more than 5%, the continuing connected transactions contemplated under the New Structured Agreements are subject to the reporting, announcement, annual review and the independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH GEM LISTING RULES

The New Structured Agreements are reproduced from the Existing Structured Agreements and are on substantially the same terms as those currently in place under the Existing Structured Agreements.

The Directors consider that it would be unduly burdensome, and would add unnecessary administration costs to the Company, for transactions contemplated under each of the New Structured Agreements to be subject to (i) the independent Shareholders' approval requirement pursuant to Rule 20.34 of the GEM Listing Rules; (ii) the requirement of setting a fixed term or limiting the term to three years or less under Rule 20.50 of the GEM Listing Rules; and (iii) the requirement of setting an annual cap under Rule 20.51 of the GEM Listing Rules. Details of which are further discussed in the section headed "Waiver from strict compliance with the GEM Listing Rules" of this announcement.

The Company has applied and the Stock Exchange has granted a waiver from strict compliance with (i) the independent Shareholders' approval requirement in respect of the New Structured Agreements pursuant to Rule 20.34 of the GEM Listing Rules; (ii) limiting the term of the New Structured Agreements to three years or less pursuant to Rule 20.50 of the GEM Listing Rules; and (iii) setting maximum aggregate annual caps pursuant to Rule 20.51 of the GEM Listing Rules for the service fees payable under the relevant New Structured Agreements subject to certain conditions.

TERMINATION OF EXISTING VIE STRUCTURE

Reference is made to the Circular in relation to, among other things, the Existing VIE Structure.

The Board hereby announces that, the relevant parties as detailed below have entered into the following agreements to change certain registered shareholders of Beijing Micro-financing and to terminate the Existing VIE Structure:

- (1) the Equity Transfer Agreement dated 23 October 2020, pursuant to which Beijing Yongjin agreed to transfer 20% of the equity interests in Beijing Micro-financing to Mr. Zhang at a consideration of RMB10,000,000;
- (2) the Equity Transfer Agreement dated 23 October 2020, pursuant to which Yongtai agreed to transfer 20% of the equity interests in Beijing Micro-financing to Puhui Weijin at a consideration of RMB10,000,000;
- (3) the Equity Transfer Agreement dated 23 October 2020, pursuant to which Mr. Wang agreed to transfer 13% of the equity interests in Beijing Micro-financing to Ms. Li at a consideration of RMB6,500,000 and 6% of the equity interests in Beijing Micro-financing to Ms. Chang at a consideration of RMB3,000,000; and

- (4) the Termination Agreements dated 23 October 2020, pursuant to which the Existing Majority Registered Shareholders, Beijing Wanchi and Beijing Micro-financing agreed that the Existing Structured Agreements shall be terminated upon the New Structured Agreements becoming effective.

ESTABLISHMENT OF NEW VIE STRUCTURE

On 23 October 2020, and immediately after execution of the Equity Transfer Agreements and the Termination Agreements, Beijing Wanchi, Beijing Micro-financing and the New Majority Registered Shareholders entered into the New Structured Agreements and the Undertaking to establish the New VIE Structure.

Upon the New Structured Agreements becoming effective, 79% of the financial results of Beijing Micro-financing will continue to be accounted for and consolidated in the accounts of the Group as if it is a subsidiary of the Company.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

As at the date of this announcement, the businesses operated by the Group include the micro-financing business (the “**Micro-financing Business**”).

According to the laws of the PRC, foreign investors are not allowed to invest by means of equity investment in any micro-financing companies in Beijing, and accordingly, the Group has adopted the Existing VIE Structure, which enabled the Group, through its wholly-owned subsidiary, Beijing Wanchi, to exercise control over Beijing Micro-financing for carrying out and operating the Micro-financing Business, and to consolidate 79% of its financial results into the Group’s results.

The New Majority Registered Shareholders include the executive Directors, a company which is indirectly wholly and beneficially owned by the substantial shareholders of the Company and directors of subsidiaries of the Company. Changing the Existing Majority Registered Shareholders to the New Majority Registered Shareholders will further align the interests of the registered holders of Beijing Micro-financing with that of the Company and facilitate the internal control and management of Beijing Micro-financing. Further, for administration efficiency purpose, various administrative matters or filings which require the signatures of the registered holders of Beijing Micro-financing could be more efficiently and effectively handled, upon change of the registered shareholders of Beijing Micro-financing from the Existing Majority Registered Shareholders to the New Majority Registered Shareholders which include our executive Directors, Ms. Li and Mr. Zhang.

The PRC Legal Adviser has confirmed that (i) the parties to the New Structured Agreements have obtained all necessary approvals and authorisations for the execution and performance of such agreements; (ii) the New Structured Agreements are not in violation of applicable laws and regulations in the PRC; (iii) the New Structured Agreements do not contravene the current articles of association of either Beijing Wanchi, Beijing Micro-financing and Puhui Weijin; (iv) the New Structured Agreements would not be deemed as concealing illegal intentions with a lawful form and void under the PRC contract law; (v) the execution and performance of the New Structured Agreements will neither require additional approvals of PRC governmental authorities nor be rejected or terminated by any PRC governmental authorities, except that (a) the New Structured Agreements shall become effective upon the completion of approval and registration of change in shareholding at the relevant PRC authorities in respect of the Equity Transfer Agreements; (b) the pledge under the Equity Pledge Agreement shall become effective upon the completion of the Pledged Equity Interest's registration at the relevant PRC authorities; and (c) the arbitral award/interim measures stipulated in the dispute resolution clause shall be enforced by the PRC courts; and (vi) except for the clause providing that an arbitral body may award injunctive relief or winding up orders and that courts in Hong Kong and Bermuda may grant interim remedies which may not be enforceable under the PRC laws, the New Structured Agreements are enforceable upon the New Structured Agreement becoming effective under the laws of the PRC. Based on the above and as advised by the PRC Legal Adviser, the Directors are of the view that (i) the New Structured Agreements are narrowly tailored to minimise the potential conflict with relevant PRC laws and regulations; and (ii) each of the arrangements under the New VIE Structure conferring significant control and economic benefits from Beijing Micro-financing is enforceable upon the New Structured Agreement becoming effective under the relevant laws and regulations.

As confirmed by the Company's auditors, the New Structured Agreements will enable the Company to continue to consolidate 79% of the financial results of Beijing Micro-financing as if it was a subsidiary of the Company under prevailing accounting principles.

Having considered that (i) the New Structured Agreements are reproduced from the Existing Structured Agreements and are on substantially the same terms as those currently in place under the Existing Structured Agreements; and (ii) the New VIE Structure is fundamental to the Group's legal structure and business operations in respect of the Micro-financing Business, the Directors consider that each of the New Structured Agreements is on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Ms. Li and Mr. Zhang, who have material interest in the New Structured Agreements, had abstained from voting at the meeting of the Board to approve the establishment of the New VIE Structure and the entering into of the New Structured Agreements.

To the best of the Directors' knowledge, the Company and/or Beijing Wanchi have not encountered any interference or encumbrance from any governing bodies in operating the Micro-financing Business through Beijing Micro-financing under the Existing VIE Structure up to the date of this announcement.

EQUITY TRANSFER AGREEMENTS

(1) Between Beijing Yongjin and Mr. Zhang

Date: 23 October 2020

Parties: (i) Beijing Yongjin; and
(ii) Mr. Zhang.

Subject matter: Beijing Yongjin agreed to transfer 20% of the equity interests in Beijing Micro-financing to Mr. Zhang at a consideration of RMB10,000,000.

The consideration was determined based on arm's length negotiation with reference to the registered capital of Beijing Micro-financing in proportion to Beijing Yongjin's 20% interests in Beijing Micro-financing.

Mr. Zhang further undertook to enter into the New Structured Agreements to assume all the rights and obligations of Beijing Yongjin under the Existing Structured Agreements.

(2) Between Yongtai and Puhui Weijin

Date: 23 October 2020

Parties: (i) Yongtai; and
(ii) Puhui Weijin.

Subject matter: Yongtai agreed to transfer 20% of the equity interests in Beijing Micro-financing to Puhui Weijin at a consideration of RMB10,000,000.

The consideration was determined based on arm's length negotiation with reference to the registered capital of Beijing Micro-financing in proportion to Yongtai's 20% interests in Beijing Micro-financing.

Puhui Weijin further undertook to enter into the New Structured Agreements to assume all the rights and obligations of Yongtai under the Existing Structured Agreements.

(3) Between Mr. Wang and Ms. Li and Ms. Chang

Date: 23 October 2020

Parties: (i) Mr. Wang;
(ii) Ms. Li; and
(iii) Ms. Chang.

Subject matter: Mr. Wang agreed to transfer (i) 13% of the equity interests in Beijing Micro-financing to Ms. Li at a consideration of RMB6,500,000; and (ii) 6% of the equity interests in Beijing Micro-financing to Ms. Chang at a consideration of RMB3,000,000.

The consideration was determined based on arm's length negotiation with reference to the registered capital of Beijing Micro-financing in proportion to Mr. Wang's 19% interests in Beijing Micro-financing.

Each of Ms. Li and Ms. Chang further undertook to enter into the New Structured Agreements to assume all the rights and obligations of Mr. Wang under the Existing Structured Agreements.

Conditions to the Equity Transfer Agreements

The equity transfers contemplated under each of the Equity Transfer Agreements shall become effective upon completion of approval and registration of change in shareholding of Beijing Micro-financing pursuant to each of the Equity Transfer Agreements at the relevant PRC authorities, including 北京市地方金融監督管理局 (Beijing Local Financial Supervision and Administration*) and 北京市市場監督管理局 (Market Supervision Administration of Beijing Municipality), and the Stock Exchange (if applicable).

TERMINATION AGREEMENTS

Date: 23 October 2020

Parties: (i) Existing Majority Registered Shareholders;
(ii) Beijing Wanchi; and
(iii) Beijing Micro-financing.

Subject matter: Immediately after the execution of the Equity Transfer Agreements, the parties thereto entered into a series of termination agreements with respect to each of the Existing Structured Agreements and agreed that the Existing Structured Agreements shall be terminated upon the completion of approval and registration of change in shareholding at the relevant PRC authorities in respect of the Equity Transfer Agreements and the New Structured Agreements becoming effective.

NEW STRUCTURED AGREEMENTS AND THE UNDERTAKING

On 23 October 2020, and immediately following the execution of the Equity Transfer Agreements, Beijing Wanchi, Beijing Micro-financing and the New Majority Registered Shareholders entered into a series of agreements as follows to establish the New VIE Structure:

- (a) the New Structured Agreements, comprising:
 - (i) the Exclusive Service Agreement;
 - (ii) the Proxy Agreement;

- (iii) the Exclusive Option Agreement;
 - (iv) the Equity Pledge Agreement; and
- (b) the Undertaking.

The New Structured Agreements are reproduced from the Existing Structured Agreements and are on substantially the same terms as those currently in place under the Existing Structured Agreements, save for the following amendments:

- (i) the registered shareholders of Beijing Micro-financing will be changed from the Existing Majority Registered Shareholders to the New Majority Registered Shareholders, and each of the New Majority Registered Shareholders would accordingly assume all rights and obligations of the Existing Majority Registered Shareholders under the Existing Structured Agreements, including pledging their newly obtained equity interests in Beijing Micro-financing in favor of Beijing Wanchi and completing the registration of pledge with the competent PRC governmental authorities;
- (ii) relevant provisions are modified or inserted in observance of the requirements under the HKEx Guidance Letter, including the dispute resolution provision which is modified to exclude the court of Cayman Islands and include the court of Bermuda as competent jurisdiction to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases; and
- (iii) the Exclusive Service Agreement shall become effective upon the completion of approval and registration of change in shareholding at the relevant PRC authorities in respect of the Equity Transfer Agreements, and expire on the date when all the equity interests held by the New Majority Registered Shareholders in Beijing Micro-financing (i.e. 79% of the equity interests in Beijing Micro-financing) is transferred to Beijing Wanchi and/or its nominee(s).

Upon the New Structured Agreements becoming effective, 79% of the financial results of Beijing Micro-financing will continue to be accounted for and consolidated in the accounts of the Group as if it is a subsidiary of the Company, and Beijing Wanchi will continue to maintain and exercise control over the operation of Beijing Micro-financing.

The principal terms of the New Structured Agreements and the Undertaking are set out below:

1. Exclusive Service Agreement

Date: 23 October 2020

Parties: (i) Beijing Wanchi;
(ii) the New Majority Registered Shareholders; and
(iii) Beijing Micro-financing.

Subject matter: (i) the New Majority Registered Shareholders agreed to engage Beijing Wanchi on an exclusive basis to provide operation and management services in connection with the business of Beijing Micro-financing in the PRC;

(ii) the New Majority Registered Shareholders agreed, subject to compliance with the PRC laws and regulations, to pay to Beijing Wanchi the fees equivalent to 79% of the total profits after income tax of Beijing Micro-financing as audited in accordance with the HKFRS;

(iii) Beijing Wanchi shall receive the economic benefits and bear the economic risks related to the 79% of the total shares of Beijing Micro-financing and may provide financial support to Beijing Micro-financing if Beijing Micro-financing encounters operational losses or difficulties; and

(iv) Beijing Wanchi has the rights to decide whether Beijing Micro-financing should continue operations and the New Majority Registered Shareholders should unconditionally agree and procure Beijing Micro-financing to unconditionally agree to the decision made by Beijing Wanchi for such purpose.

Term: The Exclusive Service Agreement becomes effective upon the completion of approval and registration of change in shareholding at the relevant PRC authorities in respect of the Equity Transfer Agreements, and will expire on the date when all the equity interests held by the New Majority Registered Shareholders in Beijing Micro-financing (i.e. 79% of the equity interests in Beijing Micro-financing) is transferred to Beijing Wanchi and/or its nominee(s). Notwithstanding the foregoing, Beijing Wanchi is entitled to terminate the Exclusive Service Agreement at any time by giving a 30-day written notice to the other parties.

2. Proxy Agreement

Date: 23 October 2020

Parties: (i) Beijing Wanchi;

(ii) the New Majority Registered Shareholders; and

(iii) Beijing Micro-financing.

Subject matter: (i) Beijing Wanchi or its nominee(s) is irrevocably and unconditionally authorised to exercise shareholders' rights of the New Majority Registered Shareholders in Beijing Micro-financing, including, among other things:

(a) proposing to convene and attending the meetings of shareholders of Beijing Micro-financing and signing the minutes or resolutions thereof; exercising as equity holder voting rights of the New Majority Registered Shareholders on all matters requiring shareholders' consideration and approval including but not limited to nomination, appointment and removal of directors, supervisors and senior management of Beijing Micro-financing, and execution and filing of documents to the relevant authorities and the company registry;

- (b) passing resolutions on the disposal of the assets of Beijing Micro-financing;
 - (c) passing resolutions on the dissolution and liquidation of Beijing Micro-financing, forming a liquidation committee and exercising the rights and powers of the committee, including but not limited to dealing with the assets of Beijing Micro-financing;
 - (d) deciding on transfer or disposal of the equity interest in Beijing Micro-financing held by the New Majority Registered Shareholders;
 - (e) instructing the directors and legal representatives of Beijing Micro-financing to follow its instructions; and
 - (f) other shareholders' rights of the New Majority Registered Shareholders under applicable PRC laws and rules and the article of association of Beijing Micro-financing.
- (ii) Beijing Wanchi or its nominee(s) may exercise such shareholders' rights of the New Majority Registered Shareholders without the prior consultation with the New Majority Registered Shareholders. Further, the New Majority Registered Shareholders shall not exercise such shareholders' rights without the prior written consent of Beijing Wanchi.

(iii) In the event that Beijing Wanchi decides to liquidate or dissolve Beijing Micro-financing pursuant to the shareholders' rights granted to it under the Proxy Agreement, the New Majority Registered Shareholders guarantee that they shall procure Beijing Micro-financing to pass the resolutions relating to the liquidation and dissolution at the shareholders' meeting and coordinate with the liquidator in completing all relevant liquidation procedures, and shall transfer to Beijing Wanchi 79% of the remaining assets of Beijing Micro-financing at no cost. The New Majority Registered Shareholders shall fully coordinate with the execution and performance of all the procedures and documents for the purpose of the liquidation and the transfer of assets.

Term: The Proxy Agreement becomes effective upon the completion of approval and registration of change in shareholding at the relevant PRC authorities in respect of the Equity Transfer Agreements, and will expire on the date when all the equity interests held by the New Majority Registered Shareholders in Beijing Micro-financing (i.e. 79% of the equity interests in Beijing Micro-financing) is transferred to Beijing Wanchi and/or its nominee(s). Notwithstanding the foregoing, Beijing Wanchi is entitled to terminate the Proxy Agreement at any time by giving a 30-day written notice to the other parties.

3. Exclusive Option Agreement

Date: 23 October 2020

Parties: (i) Beijing Wanchi;
(ii) the New Majority Registered Shareholders; and
(iii) Beijing Micro-financing.

Subject matter:

- (i) the New Majority Registered Shareholders irrevocably and unconditionally granted to Beijing Wanchi the exclusive right to acquire or to nominate persons to acquire all or part of 79% equity interest in Beijing Micro-financing (i) at the consideration equivalent to the then appraised value of equity interest to be acquired in Beijing Micro-financing; or (ii) at the consideration as agreed by negotiation between Beijing Wanchi and the New Majority Registered Shareholders.
- (ii) subject to compliance with the relevant PRC laws and regulations, Beijing Wanchi may exercise the options at any time and in any manner at its sole discretion. In the event it is permissible under the relevant PRC rules and regulations for Beijing Wanchi to directly engage in the micro-financing business in future, Beijing Wanchi shall exercise the option under the Exclusive Option Agreement as soon as practicable and the New Structured Agreements shall be terminated.
- (iii) Beijing Micro-financing may not, without the prior written consent of Beijing Wanchi, declare or distribute any dividends, distributable profits, assets and income derived from equity interests in Beijing Micro-financing to the New Majority Registered Shareholders. The New Majority Registered Shareholders shall notify Beijing Wanchi upon receipt of the aforesaid benefits (including the consideration to be paid by Beijing Wanchi to the New Majority Registered Shareholders upon exercise of the option under the Exclusive Option Agreement) and assign or transfer at no cost to Beijing Wanchi such benefits.

Term: The Exclusive Option Agreement becomes effective upon the completion of approval and registration of change in shareholding at the relevant PRC authorities in respect of the Equity Transfer Agreements, and will expire on the date when all the equity interests held by the New Majority Registered Shareholders in Beijing Micro-financing (i.e. 79% of the equity interests in Beijing Micro-financing) is transferred to Beijing Wanchi and/or its nominee(s). Notwithstanding the foregoing, Beijing Wanchi is entitled to terminate the Exclusive Option Agreement at any time by giving a 30-day written notice to the other parties.

4. Equity Pledge Agreement

Date: 23 October 2020

Parties: (i) Beijing Wanchi;

(ii) the New Majority Registered Shareholders; and

(iii) Beijing Micro-financing.

Subject matter: (i) the first priority security interest (the “**Pledged Equity Interest**”) over 79% equity interest in Beijing Micro-financing was granted to Beijing Wanchi for guaranteeing the performance of the New Structured Agreements.

(ii) upon the non-performance or breach of any of the terms of the New Structured Agreements, Beijing Wanchi is entitled to exercise its rights to sell all or part of the Pledged Equity Interest and shall receive the proceeds therefrom on the first priority basis. In addition, Beijing Wanchi shall be entitled to all income derived from the Pledged Equity Interest, including but not limited to, dividends, share of profits and any other benefits.

(iii) the Equity Pledge Agreement provides that none of the Pledged Equity Interest may be transferred, or be pledged or disposed of in any other manner without prior written consent of Beijing Wanchi.

Term: The Equity Pledge Agreement becomes effective upon the completion of approval and registration of change in shareholding at the relevant PRC authorities in respect of the Equity Transfer Agreements, and shall be terminated upon the performance by the New Majority Registered Shareholders and Beijing Micro-financing in full of all of their obligations under or termination of each of the Exclusive Service Agreement, the Exclusive Option Agreement and the Proxy Agreement, or the repayment by whom of all damages arising from their breaches of the New Structured Agreements, or Beijing Wanchi having exercised its option under the Exclusive Option Agreement and obtained 79% equity interest in Beijing Micro-financing.

5. Undertaking

Date: 23 October 2020

Parties: Beijing Wanchi

Subject matter: Beijing Wanchi undertakes that the authorisations under the Proxy Agreement will be granted to officers of the Company who are unrelated to the New Majority Registered Shareholders.

Covenants and Warranties from the New Majority Registered Shareholders

The New Majority Registered Shareholders has confirmed to the effect that it/he/she warranted to Beijing Wanchi that all appropriate arrangements had been made and all necessary documents had been executed to ensure that none of their successors, guardians, creditors, spouses and other third parties would adversely impact or hinder the enforcement of the New Structured Agreements in the event of death, incapability, bankruptcy, liquidation (if applicable), divorce or any other situation of the New Majority Registered Shareholders which may affect the exercise of their shareholders' rights.

Our PRC Legal Adviser is of the view that if the above confirmation is strictly observed by relevant parties, (i) the death, divorce, bankruptcy or liquidation (if applicable) of any the New Majority Registered Shareholders would not affect the validity of the New Structured Agreements, and (ii) the successors of the New Majority Registered Shareholders would be bound by the New Structured Agreements in respect of the equity interest of Beijing Micro-financing held by such shareholders.

In addition, the New Majority Registered Shareholders confirmed that, subject to requirement by Beijing Wanchi, they will unwind the New Structured Agreements and transfer all of the shares of Beijing Micro-financing held by them to Beijing Wanchi or its designee as soon as the applicable laws of the PRC allows Beijing Wanchi to operate the business operated by Beijing Micro-financing without the New Structured Agreements. Subject to the applicable PRC laws, the New Majority Registered Shareholders have undertaken to assign or transfer at no cost to Beijing Wanchi any dividends, distributable profits, assets and income derived from their equity interest held in Beijing Micro-financing (including the consideration to be paid by Beijing Wanchi to the New Majority Registered Shareholders upon exercise of the option under the Exclusive Option Agreement).

Succession

The New Structured Agreements contain provisions that, such agreements are binding on the respective successors and permitted assignees of the parties thereto as if the successor was a signing party to the New Structured Agreements.

Under the succession law of the PRC, statutory successors may include the spouse, children, parents, siblings, maternal grandparents and paternal grandparents, and if any successor inherits the rights and obligations under the New Structured Agreements, then any breach by the successors would be deemed to be a breach of the New Structured Agreements, in which case Beijing Wanchi can enforce its rights against such successors.

Our PRC Legal Adviser is of the view that (i) the New Structured Agreements provide protection to the Group even in the event of death, divorce, bankruptcy or liquidation (if applicable) of any New Majority Registered Shareholders, and (ii) the death, divorce, bankruptcy or liquidation (if applicable) of any New Majority Registered Shareholders will not affect the validity of the New Structured Agreements, and Beijing Wanchi can enforce its rights thereunder against the successors of the New Majority Registered Shareholders.

Liquidation

Pursuant to the Exclusive Option Agreement, the New Majority Registered Shareholders have undertaken to Beijing Wanchi that, in the event of dissolution or liquidation of Beijing Micro-financing, the New Majority Registered Shareholders shall, to the extent permitted by the PRC laws, transfer 79% of the residual assets of Beijing Micro-financing to Beijing Wanchi at a consideration of the minimum purchase price permitted by the PRC laws.

Dispute resolution

Each of the New Structured Agreements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the New Structured Agreements, any party has the right to submit the relevant dispute to the China International Economic and Trade Arbitration Commission (Beijing branch) for arbitration, in accordance with the then effective arbitration rules. The arbitration award shall be final and binding on all parties. Subject to the PRC laws, the arbitrators may grant a verdict and award remedies to Beijing Wanchi including: (i) remedies over equity interest in or land or other assets of Beijing Micro-financing; (ii) injunctive relief, such as injunction that requires Beijing Micro-financing to operate certain business or to transfer its assets; and (iii) winding-up of Beijing Micro-financing. In addition, the New Structured Agreements also contain provisions to the effect that courts of competent jurisdiction are empowered to grant interim remedies in support of the arbitration: (a) before formation of an arbitral tribunal under China International Economic and Trade Arbitration Commission (Beijing branch); or (b) where appropriate, courts of (1) Hong Kong, (2) the place of continuance of the Company (i.e. Bermuda); (3) the place of establishment of Beijing Micro-financing (i.e. Beijing, the PRC); and (4) the place(s) where the Company's or Beijing Micro-financing's principal assets are located shall have jurisdictions for such limited purpose.

However, our PRC Legal Adviser has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of Beijing Micro-financing pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and Bermuda may not be recognisable or enforceable in the PRC.

As a result of the above, in the event that Beijing Micro-financing or the New Majority Registered Shareholders breach any of the New Structured Agreements, the Company may not be able to obtain sufficient remedies in a timely manner, and the Company's ability to exert effective control over Beijing Micro-financing and conduct the Company's business could be materially and adversely affected.

INTERNAL CONTROL MEASURES

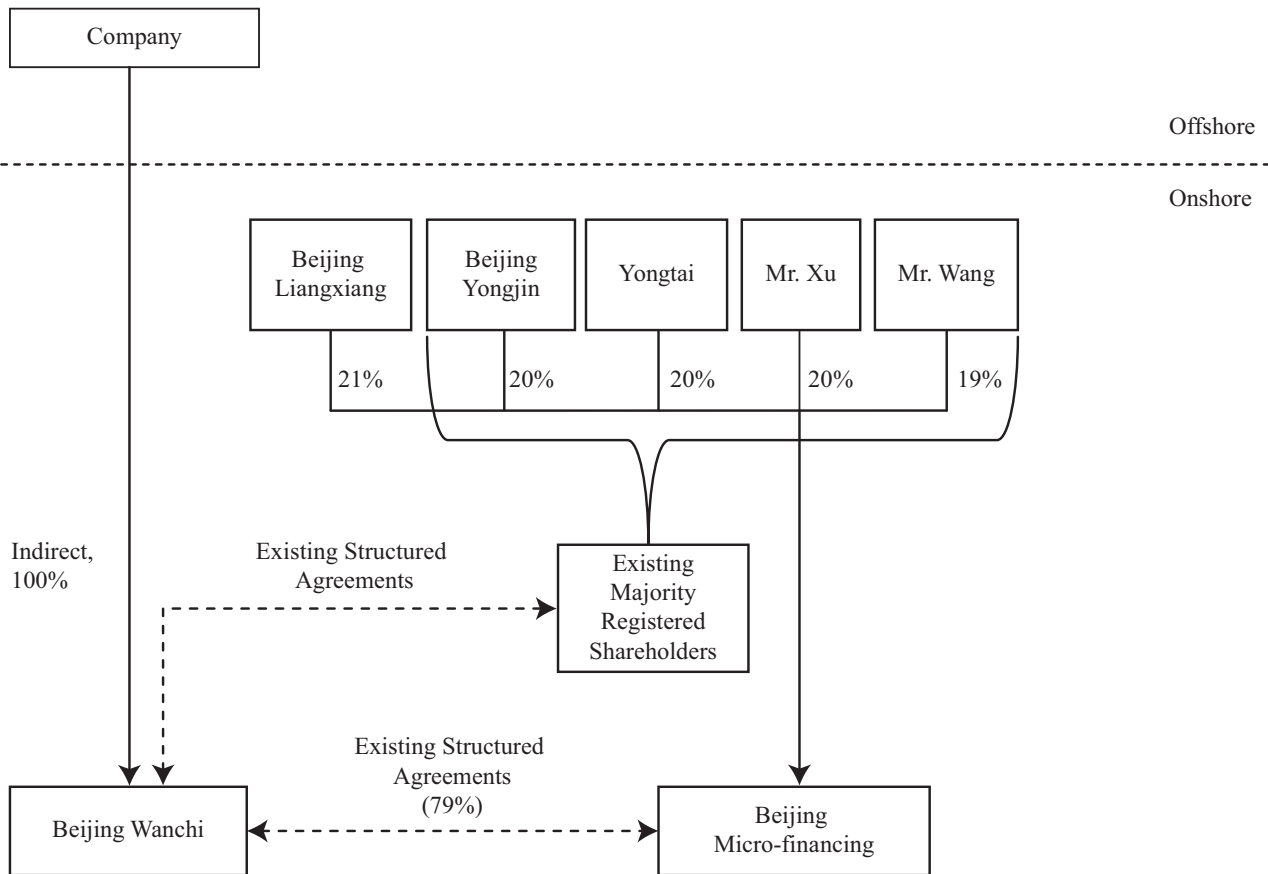
To mitigate potential conflict of interests and ensure Beijing Wanchi's effective control over Beijing Micro-financing, the following measures have been implemented:

- (i) pursuant to the Exclusive Option Agreement, the New Majority Registered Shareholders irrevocably granted exclusive options to Beijing Wanchi or its designated nominee(s) to, subject to compliance with applicable PRC laws and regulations, elect to purchase all or part of 79% equity interest and/or assets (as the case may be) in Beijing Micro-financing;
- (ii) pursuant to the Proxy Agreement, the New Majority Registered Shareholders irrevocably appointed Beijing Wanchi or its designee to act as its/his/her attorney on its/his/her own behalf to exercise all rights in connection with matters concerning its/his/her rights as shareholder of Beijing Micro-financing;
- (iii) pursuant to the Exclusive Option Agreement, the New Majority Registered Shareholders, irrevocably undertake that, without Beijing Wanchi's prior written consent (i) they shall not sell, transfer, enter into mortgage on, or dispose of, in any way, the equity interests they hold in Beijing Micro-financing, or allow any encumbrances thereupon, except the pledge with respect to the Pledged Equity Interest as set out under the Equity Pledge Agreement; and (ii) they shall not appoint or remove any directors, supervisors or any other management who shall be appointed by the shareholders of Beijing Micro-financing. However, once requested by Beijing Wanchi, they shall appoint or employ the person designated by Beijing Wanchi as the director or senior management personnel of Beijing Micro-financing;
- (iv) each of the New Majority Registered Shareholders has executed in blank an authorisation letter (as appended to the Exclusive Option Agreement) with respect to its/his/her shareholding in Beijing Micro-financing. Pursuant to the aforesaid authorisation letter, each of such shareholders has irrevocably authorised any representatives as nominated by Beijing Wanchi to execute the transfer of its/his/her respective equity interests in and/or assets of Beijing Micro-financing to any other persons or entities as directed by and at the sole discretion of Beijing Wanchi. The Company will keep all these executed authorisation letters and in the event that any of such shareholders fails to discharge its/his/her obligations under the New Structured Agreements, the Company may procure Beijing Wanchi to sign and date the respective authorisation letter and nominate a representative to execute the share transfer agreement or asset transfer agreement (as the case may be) on behalf of such shareholder in default;

- (v) Beijing Micro-financing is required to report timely to the Board of any major issues arising from implementation of the New Structured Agreements, including but not limited to the compliance and performance of the New Structured Agreements;
- (vi) suitable approval and reporting system has been put in place as to ensure that the Group would have full access and control over the books and records of Beijing Micro-financing and to obtain periodic financial information to ensure proper financial record are kept. In particular, (a) the cash and bank balance could be monitored by the Group on a daily basis; (b) the purchase of fixed asset over a prescribed limit and all the disposal and write-off of all fixed asset are required to be pre-approved by the Group; and (c) related party transaction (if any) is required to be pre-approved by the Group;
- (vii) suitable representative(s) from the Group will (i) review the operation of the accounting system of Beijing Micro-financing to ensure its efficiency, and (ii) make enquires as to any material variance of the budget with the actual result so as to identify any unusual loss of assets. The representative(s) will report results timely to senior management of the Group or, if necessary, to the Board;
- (viii) the proper record system for shareholders' meeting and directors' meeting of Beijing Micro-financing will continue to be in place, and a copy of the notice for meeting and resolution will also be passed to the Group before and after the meeting to keep the Group informed of all important development of Beijing Micro-financing;
- (ix) the Group will work closely with its in-house legal department of Beijing Micro-financing to understand and obtain update of rules and regulations of the PRC and will unwind the New Structured Agreements when it is permissible under the relevant PRC rules and regulations for Beijing Wanchi to engage in the micro-financing services business in the PRC in future; and
- (x) Beijing Micro-financing's internal audit department will continue to monitor the operational, financial and compliance aspects of Beijing Micro-financing and report timely to the Group of any issues identified.

DIAGRAMS OF THE GROUP'S EXISTING VIE STRUCTURE AND THE NEW VIE STRUCTURE

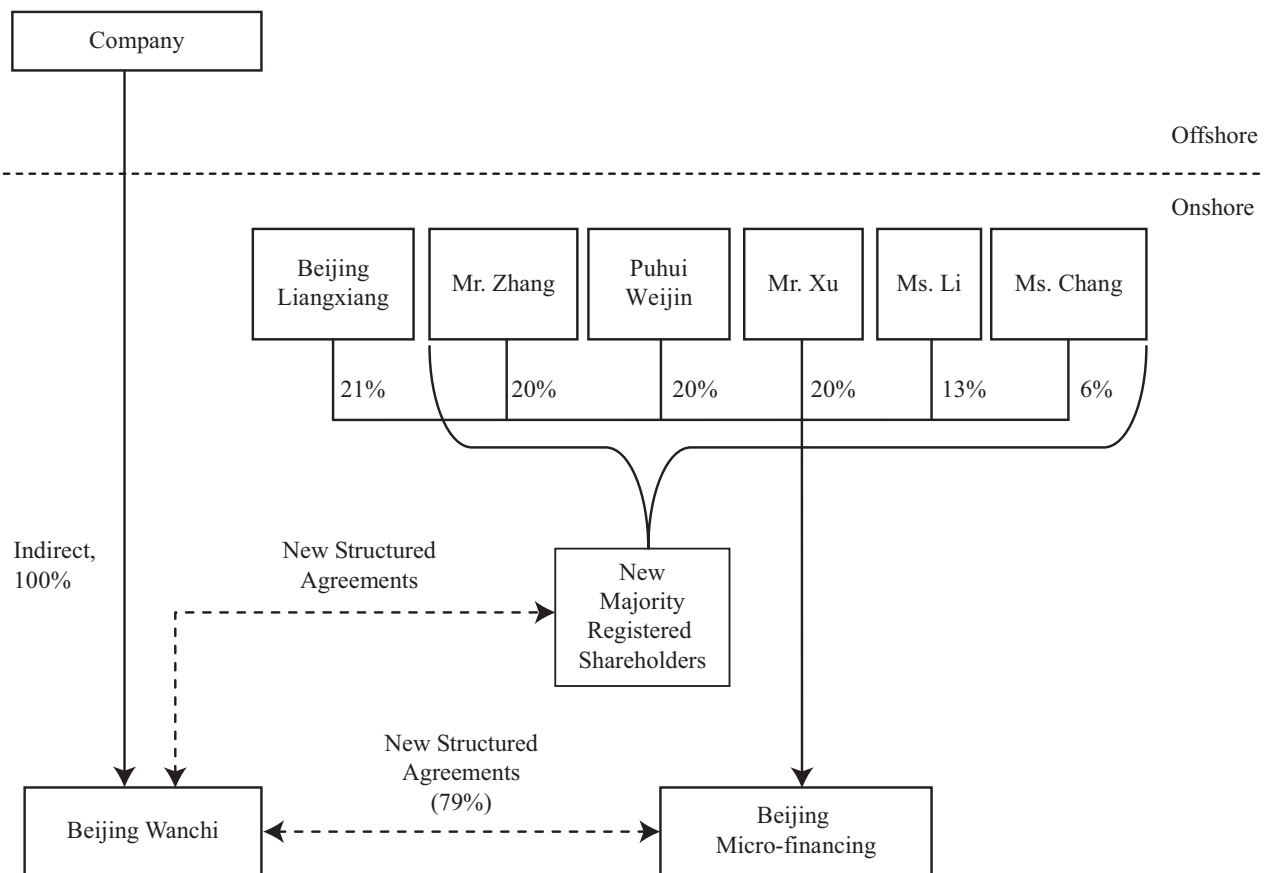
The following simplified diagram illustrates the Group's Existing VIE Structure prior to the entering of the New Structured Agreements:



Notes:

1. “——” denotes shareholding relationship.
2. “-----” denotes contractual relationship.

The following simplified diagram illustrates the New VIE Structure after entering into the New Structured Agreements:



Notes:

1. “——” denotes shareholding relationship.
2. “-----” denotes contractual relationship.

RISKS RELATING TO THE NEW VIE STRUCTURE

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

According to The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “FIL”), which was adopted at the Second Session of the Thirteenth National People’s Congress of the PRC on 15 March 2019 and came into force as of 1 January 2020, foreign investments in the micro-financing business are neither restricted nor prohibited.

According to Article 22 of the Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing, shareholders of micro-financing companies established in Beijing shall be the PRC domestic natural persons, enterprise legal persons or other social organisations and the largest shareholder shall be PRC domestic natural persons, enterprise legal persons or other social organisations of the county where such companies are established. Therefore, the shareholders of Beijing Micro-financing shall be the PRC domestic natural persons, enterprise legal persons or other social organisations and foreign investors are not allowed to directly invest in Beijing Micro-financing.

Subject to the above-mentioned restrictions under the PRC laws and regulations on foreign investment in micro-financing services business, the Group has entered into the New Structured Agreements under which 79% of the economic interest and risks arising from the business of Beijing Micro-financing are transferred to Beijing Wanchi by means of management and operation fees payable by Beijing Micro-financing to Beijing Wanchi. As the Group currently cannot be granted any required licence, the Group can only rely on Beijing Micro-financing to hold and maintain such necessary licences to operate the micro-financing business in the PRC.

Despite the fact that the New Structured Agreements have not been and are not currently interfered or objected by any PRC regulatory authorities, the PRC Legal Adviser has advised that there is a possibility that the relevant PRC legislative, administrative or judicial authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the New Structured Agreements comply with the current PRC laws, regulations or rules or those that may be adopted in future, and in that case the New Structured Agreements shall be adjusted accordingly.

Therefore, though the PRC Legal Adviser has advised that the New Structured Agreements do not contravene PRC laws and regulations and are valid and enforceable and binding upon the parties thereto upon the New Structured Agreements becoming effective, there is no assurance that the PRC government will not determine the New Structured Agreements to be in violation of the PRC laws or regulations, including but not limited to the Implementation Measures for the Pilot Operation of Micro-financing Companies in Beijing in future. To the best knowledge of the Directors, if the New Structured Agreements are considered to be in breach of any existing or future PRC laws or regulations or government policies, the relevant regulatory authorities would have broad discretion in dealing with such violations and may impose the following actions, including but not limited to:

- (i) imposing economic penalties;
- (ii) restricting the Beijing Wanchi's entitlement to revenues;
- (iii) restricting or discontinuing the operations of Beijing Micro-financing;

- (iv) revoking the business licences and/or certificates of Beijing Micro-financing;
- (v) imposing additional conditions or requirements in respect of the New Structured Agreements which Beijing Wanchi and Beijing Micro-financing may not be able to comply with and as a result of which may have to terminate the New Structured Agreements;
- (vi) requiring Beijing Wanchi and Beijing Micro-financing to restructure the relevant ownership structure or operations; or
- (vii) taking other regulatory or enforcement actions that could adversely affect the businesses of Beijing Micro-financing.

Any of these actions could have a material adverse impact on the Group's businesses, financial condition and results of operations.

Possible impact of the FIL

The FIL does not expressly stipulate the VIE structure as a form of foreign investment, we cannot assure you that future laws, administrative regulations or provisions to be issued by the State Council of the PRC (中華人民共和國國務院) or other competent authorities will not deem the VIE structure as a way of foreign investment, and then whether the New VIE Structure will be deemed to be in violation of the foreign investment access requirements remains uncertain. If the New VIE Structure is classified as a way of foreign investment, the Group may be required to terminate the New Structured Agreements and dispose of the business conducted by Beijing Micro-financing.

The Board will monitor the development of the FIL and discuss with the PRC Legal Adviser on a regular basis in order to assess its possible impacts on the New Structured Agreements and the business of the Company. In case there would be material impacts on the Group's or Beijing Micro-financing's business, the Company will timely publish announcements in relation to (i) any updates or material changes to the FIL, and (ii) if any updates or material changes to the FIL is implemented, a clear description and analysis of the law, any material impact on the Company's operations and financial position and specific measures to be taken to comply with the law (supported by advice from the PRC Legal Adviser).

The New Structured Agreements may not be as effective in providing the Group with the control over and entitlement to the economic interests in Beijing Micro-financing as direct ownership

The New Structured Agreements may not be as effective in providing the Group with control and entitlement to the economic interests over Beijing Micro-financing as direct ownership. The Group can only look to and rely on Beijing Micro-financing and their respective registered shareholders to perform their contractual obligations under the New Structured Agreements such that the Group can exercise effective control over Beijing Micro-financing. The New Majority Registered Shareholders may not act in the best interests of the Group or may not perform their obligations under the New Structured Agreements. As such, the Group will face difficulties in effecting control over the structured entities' operation of business through the New Structured Agreements, which may adversely affect the Group's business efficiency.

The New Majority Registered Shareholders may potentially have a conflict of interests with the Group

The Group's control over Beijing Micro-financing is based on the contractual arrangement under the New Structured Agreements. Therefore, conflict of interests of the New Majority Registered Shareholders will adversely affect the interests of the Company. Pursuant to the Proxy Agreement, the New Majority Registered Shareholders irrevocably appointed Beijing Wanchi or its designee as their exclusive agent and authorised person to exercise their rights as the shareholders of Beijing Micro-financing. Further, pursuant to the Undertaking, it is provided that the authorisations under the Proxy Agreement will be granted to officers of the Company who are unrelated to the New Majority Registered Shareholders. Therefore, it is unlikely that there will be potential conflict of interests between the Group and the New Majority Registered Shareholders. However, in the unlikely event that conflict of interests arises and cannot be resolved, the Group will consider removing and replacing the New Majority Registered Shareholders.

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

The Group may face adverse tax consequences if the PRC tax authorities determine that the New Structured Agreements were not entered into on an arm's length basis, as they may adjust the income and expenses of the Beijing Wanchi and/or Beijing Micro-financing for the PRC tax purposes which could result in higher tax liabilities on the Group.

The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of Beijing Wanchi and/or Beijing Micro-financing increase significantly or if they are required to pay interest on late payments and other penalties.

Certain terms of the New Structured Agreements may not be enforceable under PRC laws

The New Structured Agreements are governed by the PRC laws and all disputes which cannot be resolved by negotiations will be submitted for arbitration, whose ruling will be final and binding. Accordingly, the New Structured Agreements would be interpreted in accordance with the PRC laws and disputes would be resolved in accordance with PRC legal procedures. The uncertainties in the PRC legal system could limit the Group's ability to enforce the New Structured Agreements. In the event that the Group is unable to enforce the New Structured Agreements, or if the Group suffers significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert control over Beijing Micro-financing.

The New Structured Agreements provide that the arbitral tribunal of the PRC may award remedies over the equity interests or assets of Beijing Micro-financing or injunctive relief (such as for the conduct of business and mandatory transfer of equity interest or assets) or order the winding up of Beijing Micro-financing. The New Structured Agreements also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitral tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, Bermuda, the PRC and the locations where the principal assets of the Company and Beijing Micro-financing are located.

However, the PRC Legal Adviser is of the view that pursuant to the PRC laws, the arbitral tribunal may have no power to grant the aforementioned remedies or injunctive relief or to issue a provisional or final liquidation order. In addition, even though the New Structured Agreements provide that overseas courts (e.g. courts in Hong Kong and Bermuda) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC laws. As a result, in the event that Beijing Micro-financing or any of the New Majority Registered Shareholders breaches the terms of the New Structured Agreements, the Group may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over Beijing Micro-financing could be materially and adversely affected.

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

A substantial amount of costs and time may be involved in transferring the ownership of Beijing Micro-financing to the Group under the Exclusive Option Agreement

The Exclusive Option Agreement provides Beijing Wanchi or its nominee(s) with exclusive and irrevocable option to acquire all or part of 79% equity interest in Beijing Micro-financing held by the New Majority Registered Shareholders at a consideration and each of the New Majority Registered Shareholders shall transfer such consideration to Beijing Wanchi at no cost. However, other costs (if any), expenses and time may be involved in transferring the ownership of Beijing Micro-financing. If these costs, expenses and time are substantial, it may have a material adverse impact on the Group's businesses, prospects and results of operation.

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

The insurance of the Group does not cover the risks relating to the New Structured Agreements and the transactions thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the New Structured Agreements in the future, such as those affecting the enforceability of the New Structured Agreements and the operation of Beijing Micro-financing, the results of the Group may be adversely affected.

However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, the Group will implement relevant internal control measures to reduce the operational risk. The Group will continue evaluating the feasibility, the cost and the benefit of insuring the transactions under the New Structured Agreements.

Economic risks that Beijing Wanchi bears as the primary beneficiary of Beijing Micro-financing, financial support to Beijing Micro-financing and potential exposure of the Group to losses

As the primary beneficiary of Beijing Micro-financing, Beijing Wanchi will share both profit and loss of Beijing Micro-financing and bears economic risks which may arise from difficulties in the operation of Beijing Micro-financing's business. Beijing Wanchi may have to provide financial support in the event of financial difficulty of Beijing Micro-financing. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of Beijing Micro-financing and the need to provide financial support to it.

INFORMATION OF THE GROUP, BEIJING WANCHI AND THE NEW MAJORITY REGISTERED SHAREHOLDERS

The Group is principally engaged in short-term financing services in the PRC and Hong Kong.

Beijing Wanchi is a wholly-foreign-owned enterprise established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. Beijing Wanchi is principally engaged in provision of entrusted loan and financial consultancy service in the PRC.

Beijing Micro-financing is a company established in the PRC with limited liability and an indirect subsidiary of the Company. Beijing Micro-financing is principally engaged in provision of micro-financing services.

Mr. Zhang is an executive Director and a director of each of Beijing Wanchi and Beijing Micro-financing.

Puhui Weijin is a company established in the PRC with limited liability which is indirectly wholly and beneficially owned by the Dai Family.

Mr. Xu was an ex-director of Beijing Micro-financing and, as at the date of this announcement, is a party independent of and not connected with the Company and its connected persons.

Ms. Li is an executive Director and a director of each of Beijing Wanchi and Beijing Micro-financing.

Ms. Chang is an executive director of a subsidiary of the Company.

IMPLICATIONS UNDER THE GEM LISTING RULES

As (i) Mr. Zhang is an executive Director and a director of each of Beijing Wanchi and Beijing Micro-financing; (ii) Ms. Li is an executive Director and a director of each of Beijing Wanchi and Beijing Micro-financing; (iii) Puhui Weijin is indirectly wholly and beneficially owned by the Dai Family, who are the substantial shareholders of the Company; and (iv) Ms. Chang is an executive director of a subsidiary of the Company, Mr. Zhang, Ms. Li, Puhui Weijin and Ms. Chang are connected persons of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the transactions contemplated under the New Structured Agreements constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

As one or more of the applicable percentage ratios (other than profits ratio) with reference to the expected annual amount of the Exclusive Service Agreement is more than 5%, the continuing connected transactions contemplated under the New Structured Agreements are subject to the reporting, announcement, annual review and the independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

OPINION OF THE INDEPENDENT FINANCIAL ADVISER

According to Rule 20.50 of the GEM Listing Rules, the terms of the New Structured Agreements must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. Taking into account the indefinite terms of the New Structured Agreements, the Company has appointed Ever-Long Securities Company Limited as the independent financial adviser of the Company to explain why the New Structured Agreements require a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

In arriving at its opinion, the Independent Financial Adviser has taken into account the following principal considerations:

- (1) as disclosed in the annual report of the Company for the year ended 31 December 2019, foreign investors are not allowed to invest by means of equity investment in any micro-financing companies in Beijing according to the laws of the PRC. Therefore the Company's indirect wholly-owned subsidiary, Beijing Wanchi has entered into a series of structured agreements, including among others, the Existing Structured Agreements, to allow the Group to conduct the Micro-financing Business through Beijing Micro-financing. As explained in the section headed "REASONS FOR AND BENEFITS OF THE TRANSACTIONS" in this announcement, the New Structured Agreements, which replaced the Existing Structured Agreements, were entered into (i) to enable the Group to continue to exercise control over Beijing Micro-financing for carrying out and operating the Micro-financing Business; (ii) to continue to consolidate 79% of the financial results of Beijing Micro-financing into the Group's results; (iii) to further align the interests of the registered holders of Beijing Micro-financing with those of the Company and to facilitate the internal control and management of Beijing Micro-financing; and (iv) to enhance the efficiency and effectiveness of administrative matters of Beijing Micro-financing;
- (2) with the reference to the paragraph headed "Waiver from fixing the term of the New Structured Agreements and limiting the term of the New Structured Agreements to three years or less pursuant to Rule 20.50 of the GEM Listing Rules", the New Structured Agreements were entered into by the Group to enable the Group to continue to exercise effective control over Beijing Micro-financing as its own subsidiary for carrying out and operating the Micro-financing Business, which is the ordinary course of business of the Group. It is the intention of the Group to continuously and further grow the Micro-financing Business as operated by Beijing Micro-financing. The Company considers that the New VIE Structure will be a long term arrangement of the Group and it is vital to the stability of the future business operations of the Group relating to Micro-financing Business and hence the financial performance of the Group; and

- (3) based on the research conducted by the Independent Financial Adviser on prospectuses of companies listed on the Stock Exchange during the period from 1 October 2019 to 30 September 2020 with businesses operated under VIE structures due to restriction under the relevant PRC laws and regulations, which the Independent Financial Adviser considers the research results based on these research criteria are able to form a meaningful comparison for duration of VIE agreements as, sufficient number of comparable companies can be identified, comprehensive information for terms of VIE agreements can be located for comparison purpose, and that nature of VIE arrangements is more relevant as against nature of businesses contemplated under, it is noted that it is a normal business practice for companies adopting VIE structures to enter into contractual agreements of similar nature to the New Structured Agreements without fixed terms.

Based on the above, the Independent Financial Adviser is of the opinion that (i) the indefinite terms of the New Structured Agreements will allow the Group to continuously enjoy the economic benefits derived from Beijing Micro-financing under the contractual arrangements as long as the New Structured Agreements are effective; and (ii) it is a normal business practice for agreements of this type to be of such duration.

WAIVER FROM STRICT COMPLIANCE WITH GEM LISTING RULES

The New Structured Agreements are reproduced from the Existing Structured Agreements and are on substantially the same terms as those currently in place under the Existing Structured Agreements.

The Directors consider that it would be unduly burdensome, and would add unnecessary administration costs to the Company, for transactions contemplated under each of the New Structured Agreements to be subject to (i) the independent Shareholders' approval requirement pursuant to Rule 20.34 of the GEM Listing Rules; (ii) the requirement of setting a fixed term or limiting the term to three years or less under Rule 20.50 of the GEM Listing Rules; and (iii) the requirement of setting an annual cap under Rule 20.51 of the GEM Listing Rules, after taking into account the following reasons:

Waiver from independent Shareholders' approval requirement in respect of the New Structured Agreements pursuant to Rule 20.34 of the GEM Listing Rules

The Company is of the view that it is reasonable for the New Structured Agreements and the transactions contemplated thereunder not to be subject to the independent Shareholders' approval after having taken into account the following reasons:

- (a) the acquisition of 100% interest in Beijing Wanchi was completed by the Company in June 2014 as a very substantial acquisition under Chapter 19 of the GEM Listing Rules and the Company had complied with the relevant requirements, including announcement and Shareholders' approval. Since then, the Group has been operating the Micro-financing Business through the Existing Structured Agreements, and it has become one of the principal, ordinary and usual course of businesses of the Group;

- (b) the New Structured Agreements are reproduced from the Existing Structured Agreements and are on substantially the same terms as those currently in place under the Existing Structured Agreements;
- (c) the Micro-financing Business segment has accounted for approximately 36% and 40% of the total interest income of the Group for the year ended 31 December 2019 and the six months ended 30 June 2020, respectively. If the Company is required and fails to obtain independent Shareholders' approval for the New Structured Agreements, the Company will not be able to enjoy the benefits to be derived from the New Structured Agreements, and might have certain impacts to the efficiency and effectiveness of the operations of Beijing Micro-financing, and thus its performance;
- (d) as (i) no consideration is payable by the Company, and no economic benefits will be received by the New Majority Registered Shareholders from the operation by Beijing Micro-financing under the New Structured Agreements; and (ii) no annual cap nor term will be set for the New Structured Agreements, the Company considers that there are no material terms to be considered or approved by the independent Shareholders;
- (e) the New Structured Agreements and the transactions contemplated thereunder are fundamental to Group's legal structure and business operations in respect of its existing Micro-financing Business, and are driven solely for the purpose of complying with PRC laws and regulations; and
- (f) based on the above, there is no genuine continuing connected transactions while the New Structured Agreements merely constitute a technical continuing connected transactions implication owing to a typical VIE structure.

Waiver from fixing the term of the New Structured Agreements and limiting the term of the New Structured Agreements to three years or less pursuant to Rule 20.50 of the GEM Listing Rules

Under the New Structured Agreements, 79% of the economic benefits derived by Beijing Micro-financing will continue to be effectively flowed to the Group in a continuous and on-going basis. The New VIE Structure will enable the Group to continue to exercise effective control over Beijing Micro-financing as its own subsidiary for carrying out and operating the Micro-financing Business, which is the ordinary course of business of the Group.

Given that it is intention of the Group to continuously and further grow the Micro-financing Business as operated by Beijing Micro-financing, the Company considers that the New VIE Structure will be a long term arrangement of the Group and it is vital to the stability of the future business operations of the Group relating to the Micro-financing Business and hence the financial performance of the Group.

Therefore, the Company is of the view that it would be unduly burdensome for a renewal of the New Structured Agreements for a fixed term periodically. It is commercially reasonable for Beijing Micro-financing to enter into the New Structured Agreements without a fixed term in order to secure revenue generated from the Micro-financing Business in the long run, until the current restriction on the foreign investment in micro-financing services business is removed under the PRC laws and regulations.

Waiver from the setting a maximum aggregate annual cap pursuant to Rule 20.51 of the GEM Listing Rules for the service fees payable by the New Majority Registered Shareholders of Beijing Micro-financing to Beijing Wanchi under the Exclusive Service Agreement

As provided in the Exclusive Service Agreement, the New Majority Registered Shareholders shall pay to Beijing Wanchi the fees equivalent to 79% of the total profits after income tax of Beijing Micro-financing. This arrangement is equivalent to the Group operating Beijing Micro-financing as its own subsidiary and the Group can enjoy 79% of economic benefits generated by Beijing Micro-financing. Setting a maximum annual cap for such service fees will limit the ability of the Group to grow or operate the Micro-financing Business and receive 79% of the economic benefits generated by Beijing Micro-financing.

Therefore, the Company is of the view that it is commercially reasonable not to set a maximum aggregate annual cap for the service fees payable by the New Majority Registered Shareholders of Beijing Micro-financing to Beijing Wanchi under the Exclusive Service Agreement in order to allow effective operation of the Group, given that the New Structured Agreements are fundamental to the Group's legal structure and business operations in respect of the Micro-financing Business, and are driven solely for the purpose of complying with PRC laws and regulations.

In view of the above, the Company has applied and the Stock Exchange has granted a waiver from strict compliance with (i) the independent Shareholders' approval requirement in respect of the New Structured Agreements pursuant to Rule 20.34 of the GEM Listing Rules; (ii) limiting the term of the New Structured Agreements to three years or less pursuant to Rule 20.50 of the GEM Listing Rules; and (iii) setting maximum aggregate annual caps pursuant to Rule 20.51 of the GEM Listing Rules for the service fees under the relevant New Structured Agreements subject to the following conditions:

1. No change without independent Shareholders' approval:

Save as disclosed in condition 5 – “Renewal and reproduction of the New Structured Agreements” below, no change to the New Structured Agreements will be made without the approval of the independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 20 of the GEM Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the New Structured Agreements as set out in condition 4 – “Ongoing reporting and approvals” below will however continue to be applicable.

2. No change without independent non-executive Directors' approval:

No change to the terms of the New Structured Agreements will be made without the approval of the independent non-executive Directors.

3. Economic benefits and flexibility:

The New Structured Agreements shall continue to enable the Group to receive 79% of the economic benefits derived by Beijing Micro-financing through: (i) the Group's options (if and when so allowed under applicable PRC laws) to purchase, all or part of 79% equity interests in Beijing Micro-financing; (ii) the business structure under which 79% of the total profits after income tax generated by Beijing Micro-financing are retained by the Group; and (iii) the Group's absolute right to control the management and operation of, as well as, in substance, 79% of the voting rights of Beijing Micro-financing.

4. Ongoing reporting and approvals:

The Group will disclose details relating to the New VIE Structure on an ongoing basis as follows:

- (a) the New Structured Agreements in place during each financial period will be disclosed in the Company's annual reports and accounts in accordance with the relevant provisions of the GEM Listing Rules;
- (b) the independent non-executive Directors will review the related New Structured Agreements annually and confirm in the Company's annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the New Structured Agreements, have been operated so that 79% of the total profits after income tax generated by Beijing Micro-financing has been retained by the Group; (ii) no dividends or other distributions have been made by Beijing Micro-financing to the New Majority Registered Shareholders which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group, Beijing Micro-financing and/or the New Majority Registered Shareholders during the relevant financial period under condition 5 – "Renewal and reproduction of the New Structured Agreements" below are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole;
- (c) the Company's auditors will carry out review procedures annually on the related transactions carried out pursuant to the New Structured Agreements and will provide a letter to the Directors with a copy to the Stock Exchange, at least ten business days before bulk printing of the Company's annual report, confirming that the transactions have received the approval of the Directors, have been entered into in accordance with the relevant New Structured Agreements and that no dividends or other distributions have been made by Beijing Micro-financing to the New Majority Registered Shareholders which are not otherwise subsequently assigned or transferred to the Group;

- (d) for the purpose of Chapter 20 of the GEM Listing Rules, and in particular the definition of “connected person”, Beijing Micro-financing will be treated as the Company’s subsidiary, and therefore its directors, chief executives or substantial shareholders and their respective associates will be treated as the Company’s connected persons. The transactions between these connected persons and the Group other than those under the New Structured Agreements shall comply with Chapter 20 of the GEM Listing Rules; and
- (e) Beijing Micro-financing will undertake that, during the term of the Exclusive Service Agreement, Beijing Micro-financing will provide the Group’s management and the Company’s auditors with full access to its relevant records for the purpose of auditors’ review of the connected transactions.

5. Renewal and reproduction of the New Structured Agreements:

On the basis that the New Structured Agreements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has direct shareholding on the one hand, and Beijing Micro-financing on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the New Structured Agreements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group might wish to establish will, upon renewal and, or reproduction of the New Structured Agreements, however be treated as connected persons of the Company and transactions between these connected persons and the Company other than those under similar contractual arrangements shall comply with Chapter 20 of the GEM Listing Rules. This condition is subject to the relevant laws, regulations and approvals of the PRC.

DEFINITIONS

In this announcement, the following terms shall have the meanings ascribed to them below unless the context otherwise requires:

“associate”	has the meaning ascribed to it in the GEM Listing Rules
“Beijing Liangxiang”	北京良鄉經濟開發區實業有限公司 (Beijing Liangxiang Economic Development Zone Enterprise Holding Company Limited*), a company established in the PRC with limited liability and a PRC State-owned enterprise under Liangxiang Economic Development Zone and holds 21% equity interests in Beijing Micro-financing
“Beijing Micro-financing”	北京中金福小額貸款有限責任公司 (Beijing Zhongjinfu Micro-financing Company Limited*), a company established in the PRC with limited liability
“Beijing Wanchi”	北京萬馳科技有限公司 (Beijing Wanchi Technology Company Limited*), a wholly-foreign-owned enterprise established in the PRC with limited liability
“Beijing Yongjin”	北京永進基業科技孵化器有限公司 (Beijing Yongjin Jiye Technology Incubator Company Limited*), a company established in the PRC with limited liability and holds 20% equity interests in Beijing Micro-financing before completion of the Equity Transfer Agreement
“Board”	the board of Directors
“Circular”	the circular dated 30 May 2014 of the Company in relation to, among other things, the Existing VIE Structure
“Company”	Capital Finance Holdings Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued shares of which are listed on the GEM (stock code: 8239)

“connected person(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Dai Family”	collectively, Mr. Dai Di, Ms. Jin Yu (being the spouse of Mr. Dai Hao) and Mr. Dai Hao (being the brother of Mr. Dai Di), who in aggregate are beneficially interested in approximately 77,600,000 shares, representing approximately 27.59% of the issued share capital of the Company as at the date of this announcement
“Director(s)”	the director(s) of the Company
“Equity Pledge Agreement”	the equity pledge agreement dated 23 October 2020 between Beijing Wanchi, the New Majority Registered Shareholders and Beijing Micro-financing as further detailed in the section headed “Equity Pledge Agreement” of this announcement
“Equity Transfer Agreement(s)”	collectively, (i) the equity transfer agreement dated 23 October 2020 entered into among Beijing Yongjin and Mr. Zhang; (ii) the equity transfer agreement dated 23 October 2020 entered into among Yongtai and Puhui Weijin; and (iii) the equity transfer agreement dated 23 October 2020 entered into among Mr. Wang, Ms. Li and Ms. Chang, detailed of which are set out in the section headed “Equity Transfer Agreements” of this announcement
“Exclusive Option Agreement”	the exclusive option agreement dated 23 October 2020 between Beijing Wanchi, the New Majority Registered Shareholders and Beijing Micro-financing as further detailed in the section headed “Exclusive Option Agreement” of this announcement
“Exclusive Service Agreement”	the exclusive management and consultation service agreement dated 23 October 2020 between Beijing Wanchi, the New Majority Registered Shareholders and Beijing Micro-financing as further detailed in the section headed “Exclusive Service Agreement” of this announcement
“Existing Majority Registered Shareholders”	collectively, Yongtai, Beijing Yongjin, Mr. Xu and Mr. Wang, being the registered shareholders collectively holding 79% equity interest in Beijing Micro-financing as at the date of this announcement

“Existing Structured Agreements”	collectively, the equity pledge agreement, the exclusive management and consultation service agreement, the proxy agreement and the exclusive option agreement entered into by and among the Existing Majority Registered Shareholders, Beijing Wanchi and Beijing Micro-financing in respect of the Existing VIE Structure, details of which are disclosed in the Circular
“Existing VIE Structure”	the existing structure established through the entering into of the Existing Structured Agreements, which enables Beijing Wanchi to effectively hold and control 79% of the effective economic benefit in Beijing Micro-financing
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKEx Guidance Letter”	the guidance letter HKEx-GL77-14 “Guidance on listed issuers using contractual arrangements for their businesses” published by the Stock Exchange
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Financial Adviser”	Ever-Long Securities Company Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and is the independent financial adviser appointed for the purpose of advising the duration of the New Structured Agreements under Rule 20.50 of the GEM Listing Rules

“Mr. Wang”	Mr. Wang Feng (王峰), who holds 19% equity interests in Beijing Micro-financing before completion of the Equity Transfer Agreement
“Mr. Xu”	Mr. Xu Ya Liang (徐亞亮), who holds 20% equity interests in Beijing Micro-financing
“Mr. Zhang”	Mr. Zhang Wei (張偉), an executive Director and a director of each of Beijing Wanchi and Beijing Micro-financing
“Ms. Chang”	Ms. Chang Shu Wen (常淑文), an executive director of a subsidiary of the Company
“Ms. Li”	Ms. Li Wei (李巍), an executive Director and a director of each of Beijing Wanchi and Beijing Micro-financing
“New Majority Registered Shareholders”	collectively, Mr. Zhang, Puhui Weijin, Mr. Xu, Ms. Li and Ms. Chang
“New Structured Agreement(s)”	collectively, (i) the Equity Pledge Agreement; (ii) the Exclusive Service Agreement; (iii) the Proxy Agreement; and (iv) the Exclusive Option Agreement, details of which are set out in the section headed “New Structured Agreements and the Undertaking” of this announcement
“New VIE Structure”	the new structure established through the entering into of the New Structured Agreements, which enables Beijing Wanchi to effectively hold and control 79% of the effective economic benefit in Beijing Micro-financing
“PRC”	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Adviser”	北京世輝律師事務所 (Shihui Partners), the legal adviser to the Company as to the PRC laws

“Puhui Weijin”	普惠微金(北京)教育諮詢有限公司 (Puhui Weijin (Beijing) Education Consultation Company Limited*), a company established in the PRC with limited liability which is indirectly wholly and beneficially owned by the Dai Family
“Proxy Agreement”	the proxy agreement dated 23 October 2020 between Beijing Wanchi, the New Majority Registered Shareholders and Beijing Micro-financing as further detailed in the section headed “Proxy Agreement” of this announcement
“Shareholder(s)”	holder(s) of the Share(s) of the Company from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Termination Agreements”	the termination agreements dated 23 October 2020 between the Existing Majority Registered Shareholders, Beijing Wanchi and Beijing Micro-financing as further detailed in the section headed “Termination Agreements” of this announcement
“Undertaking”	the undertaking dated 23 October 2020 issued by Beijing Wanchi as further detailed in the section headed “New Structured Agreements and the Undertaking” of this announcement
“VIE”	variable interest entity(ies)
“Yongtai”	永泰房地產(集團)有限公司 (Yongtai Real Estate (Group) Company Limited*), a company established in the PRC with limited liability and holds 20% equity interests in Beijing Micro-financing before completion of the Equity Transfer Agreement
“%”	per cent.

* *English name is for identification purpose only*

By Order of the Board
Capital Finance Holdings Limited
Zhang Wei
Chairman and Executive Director

Hong Kong, 23 October 2020

As at the date of this announcement, the executive Directors are Mr. Zhang Wei and Ms. Li Wei; the non-executive Director is Mr. Zang Wei; and the independent non-executive Directors are Mr. Chen Yihua, Mr. Du Hui and Dr. Wong Wing Kuen Albert.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement 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 announcement misleading.

This announcement will remain on the “Latest Listed Company Information” page of the GEM website for at least seven days from the date of its posting and the Company’s website at <http://www.capitalfinance.hk>.