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Chuanglian Holdings Limited

創聯控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2371)

COMPLETION OF DISCLOSEABLE AND CONNECTED TRANSACTION IN RESPECT OF THE DISPOSAL OF LEADING FORTUNE GLOBAL GROUP LIMITED

Reference is made to the announcements of Chuanglian Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 4 August 2022, 1 September 2022, 30 September 2022 and 1 December 2022 (the “**Announcements**”) in relation to the Group’s disposal of Leading Fortune Global Group Limited. Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

COMPLETION OF PROPOSED DISPOSAL

The Board is pleased to announce that all conditions precedent under the Disposal Agreement (as supplemented and amended by the First Supplemental Agreement, the Second Supplemental Agreement and the third supplemental agreement dated 1 December 2022) (hereinafter referred to as the “**Amended Disposal Agreement**”) have been fulfilled and Completion took place on 23 December 2022 (the “**Completion Date**”) accordingly.

Following Completion, (a) the Group ceases to hold any interests in Leading Fortune Global and Leading Fortune Global and its subsidiaries cease to be subsidiaries of the Group with effect from the Completion Date; and (b) CFTL has assigned the Loan owing to it by the WFOE to Mr. Pan with effect from the Completion Date.

In addition, at Completion, (a) Mr. Pan has executed a share charge (the “**Share Charge**”) dated 23 December 2022 in favour of CFTL over the entire issued share capital of Leading Fortune Global to secure his payment obligations under the Amended Disposal Agreement; and (b) CFTL and Mr. Pan executed a deed of confirmation dated 23 December 2022 confirming that the Profit Guarantee (as defined below) as stipulated in the sale and purchase agreement dated 29 July 2021 has not been achieved and hence according to the terms of the Promissory Note, the Promissory Note has been cancelled upon maturity (i.e. 30 November 2022) and CFTL shall not be liable for the repayment of the principal or any other fees payable by it to Mr. Pan or the holder of the Promissory Note thereunder.

FURTHER INFORMATION REGARDING THE PROPOSED DISPOSAL

The Board would like to provide the Shareholders and investors of the Company with additional information relating to the Proposed Disposal as follows:

Consideration and form of settling the Consideration

The Consideration of HK\$43,000,000 shall be settled by Mr. Pan to CFTL by four instalments and Mr. Pan has the right to choose to settle any instalment of the Consideration in HK\$ cash or in the form of Eligible Cryptocurrency.

In the course of negotiating the terms of the Proposed Disposal, Mr. Pan indicated that his offer to purchase the Sale Shares and the Loan is to settle the Consideration by instalments. The Company has tried to negotiate for a shorter payment schedule yet Mr. Pan insisted on his suggested payment schedule. In assessing Mr. Pan's financial capability, the Company has reviewed the amount of cryptocurrencies balances in Mr. Pan's digital wallets prior to execution of the Disposal Agreement, the amount of current outstanding debts of Mr. Pan as well as his historical repayment record as shown in the personal credit report of Mr. Pan issued by the Credit Reference Centre of the People's Bank of China. According to the aforementioned information, the value of cryptocurrencies held by Mr. Pan less his outstanding loans is approximately 1.2 times of the Consideration. Also, given the payment schedule only spreads across around seven months, the Company is of the view that Mr. Pan has good credit record with no material default history and has the financial capability to perform his payment obligations in respect of the Proposed Disposal and make timely payments in accordance with its payment terms. Furthermore, in view of the increasingly tightened regulatory environment, the business and regulatory risks faced by Leading Fortune Global Group are expected to be elevated going forward which cast serious doubt on its future prospects. Please refer to the section headed "Reasons for and Benefits of the Proposed Disposal and Basis for Determining the Consideration" below for further details regarding the risks and business prospects of Leading Fortune Global Group. Hence, the Company considers it in the Company's best interests to conclude the Proposed Disposal as soon as practicable such that the Company could realize its investment in Leading Fortune Global Group soonest.

The Company believes that blockchain technology and financial related businesses are future trends and the cryptocurrency industry is an emerging new world full of development and investment opportunities. Hence, the Company has been tapping into the blockchain and cryptocurrency industries since 2021 by investing in cryptocurrencies such as Bitcoin (BTC) and Ethereum (ETH). Furthermore, since late 2021, RuiLian Financial Group Company Limited ("**RuiLian**"), a wholly-owned subsidiary of the Company, a corporation licensed to carry out Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities as defined in Schedule 5 to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), has also commenced providing asset management services to its clients where certain portion of the fund assets is used to invest in cryptocurrency investment products.

In view of the above, the Company considers that it has the necessary expertise and experience in managing, advising and monitoring cryptocurrencies investments. In addition, in view of the ample growth opportunities in the cryptocurrency industries and the increased acceptance of cryptocurrencies as a payment method, the Company considers that it is beneficial to the Company and its Shareholders as a whole to agree to accept Eligible Cryptocurrency as a settlement method which would enable the Group to have an additional form of treasury management and benefit from any potential appreciation in value of the Eligible Cryptocurrency in the long term. In particular, the cryptocurrency market is currently in the consolidation and accumulation period where market prices of cryptocurrency have dropped considerably recently and market prices are expected to either remain considerably stable or move downwards in the coming few months before an expected beginning of a new bullish cycle. As such, if the market prices of cryptocurrency drop in the coming few months, the Group would be able to take the advantage of receiving more Eligible Cryptocurrencies (in units) from Mr. Pan via settling the Consideration by instalments instead of receiving the Consideration in full at Completion, which in turn will be more beneficial to the Group when the cryptocurrency market enters into the expected bullish cycle. Nevertheless, the Share Charge executed by Mr. Pan provides an additional safeguard to the Group in the event of default in payment by Mr. Pan.

Further information on the Eligible Cryptocurrency

Type A Eligible Cryptocurrency comprises cryptocurrency Bitcoin (BTC), Ethereum (ETH) and MXC.

Currently, Bitcoin (BTC) and Ethereum (ETH) respectively ranks the first and second in the cryptocurrencies market in terms of market capitalization. They are considered as the most widely accepted and recognised cryptocurrencies in the world.

MXC (Meta X Connect) was founded in 2018 which aimed at building a free and decentralized global data network, by the technology of LPWAN (low-power wide-area data network) and basing on the principle of proof-of-participation. MXC is a utility token in the decentralized data network for data transactions, allows for the increased frequency of data transactions and data flows within the AI and blockchain markets. Its mechanism also allows for the provision of any tangible smart IoT (Internet of Things) devices with minimal cost, creating a framework for data providers and receivers to produce their own GDPR (General Data Protection Regulation)-safe AI and blockchain NFTs. Currently, MXC is trading on over 10 cryptocurrency exchanges worldwide with an average daily trading volume of over USD7 million. The Company considers the direction and unique technology hierarchy of the MXC project to be valuable in founding the future fundamental platform of data flows, especially for the development of blockchain network platform for IoT devices, which is in line with the Company's direction of business development in the crypto-related industries. As such, the Company agrees to accept MXC as one of the Type A Eligible Cryptocurrency.

Type B Eligible Cryptocurrency comprises cryptocurrency USD Coin (USDC) and Tether (USDT).

Currently, Tether (USDT) and USD Coin (USDC) respectively ranks the first and second in the cryptocurrencies stable-coins market in terms of market capitalization and trading volume and they are backed by USD, a generally accepted and recognised fiat currency worldwide.

Pricing volatility risk

In view of the volatility in the prices of cryptocurrencies, in particular for Type A Eligible Cryptocurrency, and to minimize the Company’s risk exposure to price volatility, the Board has introduced a 30% discount to the market prices in setting the conversion formula for Type A Eligible Cryptocurrency.

In respect of Type B Eligible Cryptocurrency, each of USD Coin (USDC) and Tether (USDT) is a stable coin and less subject to price volatility as compared with Type A Eligible Cryptocurrency. In particular, USD Coin (USDC) is issued by The Centre Consortium, which is founded by regulated and licensed financial institutions including Coinbase and Circle. USD Coin (USDC) is a stable coin pegged to USD on a 1:1 basis, subject to monthly examination conducted by Grant Thornton LLP. Despite the volatility in the prices of cryptocurrencies, the prices of Tether (USDT) and USD Coin (USDC) are relatively stable over the last 12 months. Set out below are the highest, lowest and average closing prices of Tether (USDT) and USD Coin (USDC) over the last 12 months according to Yahoo Finance:

	Average closing price	Highest closing price	Lowest closing price
Tether (USDT)	1 USDT: USD0.999939	1 USDT: USD1.001202 (24 December 2021)	1 USDT: USD0.995872 (11 May 2022)
USD Coin (USDC)	1 USDC: USD1.000006	1 USDC: USD1.000841 (28 December 2021)	1 USDC: USD0.999022 (7 February 2022)

Hence, the Board considers the pricing risk associated with Type B Eligible Cryptocurrency is low and hence no discount mechanism is introduced in the conversion formula for Type B Eligible Cryptocurrency.

Liquidity risk

Given each of the Eligible Cryptocurrencies is trading on over a number of cryptocurrency exchanges worldwide with a considerable amount of daily trading volume, the Board considers that each of the Eligible Cryptocurrencies is liquid asset which could be easily converted into fiat currencies when needed.

Security risk

Pursuant to the Amended Disposal Agreement, if Mr. Pan chooses to settle the Consideration by way of Eligible Cryptocurrency, Mr. Pan is required to transfer and deliver such amount of Eligible Cryptocurrency to the Group’s designated cold wallet (one of the safest options for storage cryptocurrencies) whereby the Group has put in place standard security measures and policies in safeguarding its digital assets, including but not limited to: the Group’s cold wallet is stored in a safe box inside the Company’s office where comprehensive security systems such as three sets of CCTV cameras and door lock, etc. are installed. In addition, in order to buy, sell, transfer or withdraw cryptocurrencies from the cold wallet, a password consisting of eight numbers is required and such password is kept by two independent persons.

Internal control measures over the management of cryptocurrencies

In addition to the standard security measures and policies adopted by the Group to safeguard its digital assets as mentioned above, the Group has also set up a cryptocurrency investment committee (the “CIC”) with written terms of reference in November 2021 to monitor and manage the Group’s cryptocurrency holding and investment. As such, any Eligible Cryptocurrency received by the Group as part of the Consideration will also be closely monitored and managed by the CIC.

Currently, the CIC comprises two executive Directors (i.e. Mr. Song Bo (“**Mr. Song**”) and Mr. Zhang Jie), one independent non-executive Director (i.e. Mr. Leung Siu Kee) and the chief financial officer of the Company. The CIC is mainly responsible for setting up cryptocurrency investment and management policies, reviewing the performance of the Group’s cryptocurrency investment and providing recommendations to the Board for any necessary improvements over investment policies and decisions. The Company has also designated a specialized team (the “**Specialized Team**”) to handle its cryptocurrency investment via buy-sell (1) through manual judgments for profit and mitigation of associated risks; and (2) through automatic quantitative trading programs for 7x24 trading. The CIC is headed by Mr. Song, an executive Director of the Company. Mr. Song has extensive practical experience in the field of finance and investment, especially over blockchain development and cryptocurrency investments. The Company believes that the CIC and the Specialized Team have the necessary experience and expertise to monitor and manage the Group’s cryptocurrency investment as well as to maximize investment return for the Company and its Shareholders within an acceptable level of risk.

Expected loss arising from the Proposed Disposal

The Company is expected to record a loss from the Proposed Disposal of approximately RMB13,493,000 which is calculated as follows:

	<i>RMB</i>
Consideration	39,315,000 ^(Note 1)
Less:	
– Net asset value	18,391,000
– The Loan	52,925,000
Add: Purchase price allocation adjustment arising from the Previous Transaction <i>(Note 2)</i>	<u>18,508,000</u>
Expected loss on disposal	<u><u>13,493,000</u></u>

Notes:

- (1) The Consideration being HK\$43,000,000 is equivalent to approximately RMB39,315,000.
- (2) According to Hong Kong Financial Reporting Standard, the Previous Transaction is classified as an asset acquisition where the purchase consideration in the Previous Transaction (i.e. HK\$42,000,000 or equivalent to approximately RMB34,889,000) was equal to the net identified assets and liabilities of Leading Fortune Global Group measured at fair value and acquired by CFTL at the date of completion of the Previous Transaction. The net assets value of Leading Fortune Global Group as at the date of completion of the Previous Transaction was approximately RMB53,397,000. As a result, a purchase price allocation adjustment in the tangible assets of Leading Fortune Global Group arose as finance lease receivables was its substantial tangible asset and accordingly a purchase price allocation adjustment of approximately RMB18,508,000 was recognised in finance lease receivables when the Previous Transaction was completed.

Shareholders and potential investors should note that the actual loss on the Proposed Disposal to be recorded is subject to audit and may be different from the estimated amount as it will depend on, amongst other factors, (i) the actual amounts of the assets and liabilities of the Leading Fortune Global Group as at the date of Completion; and (ii) the actual transaction costs incurred.

Reasons for and benefits of the Proposed Disposal and basis for determining the Consideration

CFTL acquired the Sale Shares and the Loan from Mr. Pan in 2021 (the “**Previous Transaction**”) at a consideration of HK\$166,000,000, of which (a) HK\$42,000,000 has been paid by CFTL to Mr. Pan in cash on 26 August 2021; and (b) HK\$124,000,000 has been settled by CFTL by the issuance of the Promissory Note to Mr. Pan, whereby CFTL is only required to repay the principal amount of the Promissory Note if the net profit after tax of Leading Fortune Global Group meets HK\$160,000,000 in the 12-month period commencing on 1 September 2021 (the “**Profit Guarantee**”).

Leading Fortune Global Group commences its business in June 2021 and its business comprises (a) the provision of finance leases over high performance data processing computer units which are specialised in distributed ledger technology, blockchain and cryptocurrencies; and (b) the provision of technology consulting services.

Shortly after the completion of the Previous Transaction, in 2021, new rules and regulations in relation to cryptocurrencies were announced and imposed by the PRC authorities and the People’s Bank of China, including the banning of (a) cryptocurrencies mining activities in the PRC; and (b) the provision of financial services to cryptocurrencies exchange/conversion and entities engaging in cryptocurrencies mining activities in the PRC (the “**New Regulations**”).

While the business of Leading Fortune Global Group is not directly affected by the New Regulations as the New Regulations only forbid the provision of financial services to cryptocurrencies exchange/conversion and entities engaging in cryptocurrencies mining activities in the PRC but do not extend to cover finance leases provided for acquisition of high performance data processing computer units, nonetheless, since the introduction of the New Regulations:–

- (a) Leading Fortune Global Group has reached a mutual consent with its customers to suspend the provision of information and computer technology and consulting services over the leased assets. Accordingly, Leading Fortune Global Group has not generated any income from the provision of technology consulting services since the Previous Transaction;
- (b) Leading Fortune Global Group has experienced difficulties in attracting new customers, expanding its clientele and to further develop its business; and
- (c) it has come to the attention of the Group’s management that some of the customers under the finance leases have delayed their monthly repayments to Leading Fortune Global Group.

As a result of the New Regulations, Leading Fortune Global Group has faced difficulties in securing new finance lease contracts with new customers. Leading Fortune Global Group has only secured three new finance lease contracts since the completion of the Previous Transaction, of which two were entered into with an existing customer and one was entered into with a new customer.

Accordingly, Leading Fortune Global Group only recorded net profit after tax of approximately RMB8,664,000 for the six months ended 30 June 2022. Although Leading Fortune Global Group secured three new finance lease contracts since the completion of the Previous Transaction which led to an increase in its average revenue and net profit before tax from approximately RMB1,186,000/month and RMB1,083,000/month, respectively, in 2021 to approximately RMB1,818,000/month and RMB1,730,000/month, respectively, for the six months ended 30 June 2022, in view of the increasing challenges faced by Leading Fortune Global Group in sourcing new customers and/or contracts, the Board has concerns over the sustainability of revenue drivers and business prospects of Leading Fortune Global Group.

In light of the challenging business environment, the Group has not injected any new capital into Leading Fortune Global Group after completion of the Previous Transaction and any cash received by Leading Fortune Global Group from its operations is used as working capital to finance its daily operations. As at 31 July 2022, Leading Fortune Global Group only has cash balances of RMB2,300,000, which is only barely enough for meeting its working capital requirements and there is no surplus cash for dividend distribution.

Having considered (a) the introduction of the New Regulations has limited the growth and prospects of Leading Fortune Global Group which is contrary to the Company's expectation when the Previous Transaction was conducted; and (b) the delay in monthly repayments by Leading Fortune Global Group's customers provides an alarming signal to the Group that Leading Fortune Global Group faces an increased level of business and regulatory risks, the Company considers that it is not in the interests of the Company and its Shareholders as a whole to continue to invest in Leading Fortune Global Group, which is principally engaged in conducting finance lease business, in particular finance leases which are directly or indirectly related to cryptocurrencies mining industry in the PRC.

After taking into account the current cash balances of Leading Fortune Global Group and the increasing likelihood of default payments by its customers, the Company considers that in the near future, it is unlikely Leading Fortune Global Group would have surplus cash for dividend distribution and to repay the Loan while maintaining sufficient cash for its continuous business operations. Accordingly, the Company is of the view that the Proposed Disposal would be more beneficial to the Group from a cashflow perspective as it would allow the Group to realize its investment in Leading Fortune Global Group earlier and apply the proceeds from the Proposed Disposal for general working capital and future business opportunities of the Group.

The Consideration of HK\$43,000,000 is arrived at after arm's length negotiations between CFTL and Mr. Pan and equals to the sum of original cash consideration paid by CFTL (which represents 100% equity interests in Leading Fortune Global and the Loan and is not linked to the Profit Guarantee) in the Previous Transaction and related transaction costs incurred by the Group.

Despite the Company is expected to record a loss from the Proposed Disposal, in view of the increased business and regulatory risks in conducting finance lease business and the low probability of Leading Fortune Global distributing cash dividends to the Company, the Company still considers the terms of the Proposed Disposal (including the Consideration) are fair and reasonable and the Proposed Disposal is the most beneficial option currently available to the Company to manage its investment in Leading Fortune Global Group.

Listing Rules Implications

The receipt of any Eligible Cryptocurrency by CFTL from Mr. Pan would be regarded as an acquisition of financial asset by the Group (the “**Possible Acquisition**”) and therefore constitutes a transaction of the Company under Chapters 14 and 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined in the Listing Rules), calculated with reference to the maximum value of Eligible Cryptocurrency to be received by CFTL (i.e. HK\$43,000,000), exceed 5% but are less than 25%, the Possible Acquisition constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of the Amended Disposal Agreement, Mr. Pan is a director of Leading Fortune Global and Hong Kong Company, both are wholly-owned subsidiary of the Company. Hence, Mr. Pan is a connected person of the Company at the subsidiary level and accordingly, the Possible Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, since (1) Mr. Pan is a connected person at the subsidiary level; (2) the Board has approved the Proposed Disposal (including the settlement of Consideration by way of Eligible Cryptocurrencies); and (3) the independent non-executive Directors have confirmed that the terms of the Proposed Disposal (including the settlement of Consideration by way of Eligible Cryptocurrencies) are fair and reasonable and the Proposed Disposal (including the settlement of Consideration by way of Eligible Cryptocurrencies) is on normal commercial terms or better and in the interest of the Company and its Shareholders as a whole, the Possible Acquisition is subject to the reporting and announcement requirements, but is exempt from the circular, independent financial advice and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Save as disclosed above, all other information and content set out in the Announcements remain unchanged and shall continue to be valid for all purposes. This supplemental announcement is supplemental to and should be read in conjunction with the Announcements.

By order of the Board
Chuanglian Holdings Limited
Gao Yongzhi
Chief Executive Officer and executive Director

Hong Kong, 23 December 2022

As at the date of this announcement, the Board comprises Mr. Lu Xing (Chairman), Mr. Gao Yongzhi, Mr. Li Jia, Mr. Xu Dayong, Mr. Zhang Jie and Mr. Song Bo as executive Directors and Mr. Leung Siu Kee, Mr. Wu Yalin and Ms. Wang Shuping as independent non-executive Directors.