RISECOMM
瑞斯康

# RISECOMM GROUP HOLDINGS LIMITED
# 瑞斯康集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 1679)**

## THIRD SUPPLEMENTAL ANNOUNCEMENT

## DISCLOSEABLE TRANSACTION

## ACQUISITION OF THE TARGET GROUP

### INTRODUCTION

Reference is made to the announcement dated 28 December 2017 (the "**Announcement**"), the supplemental announcement dated 3 January 2018 (the "**First Supplemental Announcement**") and the supplemental announcement dated 10 January 2018 (the "**Second Supplemental Announcement**"), respectively, of Risecomm Group Holdings Limited (瑞斯康集團控股有限公司) (the "**Company**") regarding a sale and purchase agreement dated 28 December 2017 and entered into between the Company and the Vendor (as defined in the Announcement), in relation to the proposed acquisition by the Company of the entire issued share capital of the Target Company (as defined in the Announcement). Unless the context otherwise requires, terms used herein shall have the same meanings as defined in the Announcement, the First Supplemental Announcement and the Second Supplemental Announcement, respectively.

### INVESTIGATION AND DUE DILIGENCE ON THE ACQUISITION

The Board would like to provide further information in relation to the Acquisition to the Shareholders and potential investors, in particular, in respect of the investigation and due diligence conducted by the Board on the Acquisition.

The Board's decision to proceed with the Acquisition on the terms (including those relating to the Consideration and payment structure) as negotiated and finally agreed in the Sale and Purchase Agreement was based upon its independent assessment, evaluation and due diligence on the financial and business prospects of the Target Group including, without limitation:

**(A) Nature of business and core technology of the Target Group**

The Company had conducted several rounds of discussions with the senior management of the Target Group to understand the nature of the business and the core technology of the Target Group. During such process, the Company had requested and carefully considered the information provided in assessing the merits of the Acquisition, and formed the view that the business, core technology and customer base of the Target Group can bring about benefits and synergies to the Group, the details of which were duly disclosed in the section headed "General Information of the Group and Reasons for and Benefits of the Acquisition" of the Announcement.

**(B) Legal due diligence on the Target Group**

The Company had engaged a reputable PRC law firm, which is familiar with Hong Kong's listed company compliance environment, to conduct a legal due diligence on the PRC entities of the Target Group.

In particular, the Target Group owns a number of intellectual properties, including but not limited to, patent and computer software copyright, in relation to, among other matters, equipment management system and internet of things. The Directors therefore considered the Acquisition would enable the Group a direct and complete access to the core technologies of the Target Group, which would significantly increase the comprehensiveness of the Group's overall research and development capability.

**(C) Financial due diligence on the Target Group**

The Company had engaged a reputable Hong Kong firm of auditors, which is known to be experienced with Hong Kong's listed company financial reporting requirements, to conduct an overall financial and tax due diligence on the Target Group.

**(D) Business and financial prospects of the Target Group**

*Industry and market outlook*

The Directors noted several underlying background of the industrial automation market of China. The slogan of "China Manufacture 2025" and "Industry 4.0" proposed by the government, coupled with China's regional development planning, indicates a national commitment to realise industrial upgrading. Growing social awareness on environmental protection, supported by government policies, is creating demand for green manufacture. In order to achieve a favourable stance in competition, companies are seeking more efficiency and sophistication in manufacturing and management. The Directors believed that the growth of China's industrial automation market would continue to be healthy given its relatively lower penetration rate and the rising cost of labour.

As petrochemical enterprises are the pioneer of the manufacturing sector, major market participants are building smart oil fields, smart pipelines and smart factories. According to the National Bureau of Statistics of China, China's petrochemical industry has invested a total of RMB216 billion during January to November 2017, where information system is an important component of such investments. The investment scale of the petrochemical industry in information system was approximately RMB22.66 billion in 2013 and it is estimated that it will reach RMB36.19 billion by 2018, representing a compound annual growth rate of approximately 10%. Along with the policy "《信息化和工業化深度融合專項行動計劃(2013–2018年)》" issued by the Ministry of Industry and Information Technology, it is expected that the PRC government will support the petrochemical industry to further develop its information system in order to reform the energy sector. Therefore, the Target Group is expected to capitalize the new business opportunities created therefrom.

*Business and financial prospects*

Notwithstanding the aforesaid, in discharging their fiduciary duties as directors of a listed company, the Directors also instructed the Company's finance team to independently conduct due diligence on the business and financial prospects of the Target Group in facilitation of their negotiations on the terms of the Consideration and in assessing its fairness and reasonableness, which were summarized as follows:

(i) the finance team requested and obtained from the senior management of the Target Group a list of projects/contracts pipeline expected to be secured during the year of 2018 and the corresponding revenue amount expected to be recognised spanning from the year of 2018 to the year of 2020 depending on the anticipated duration and stages of contract performance;

(ii) the finance team then conducted multiple rounds of discussions with the senior management of the Target Group and, where practicable, requested relevant documents to assess the progress and likelihood of those forecast projects/contracts;

(iii) based on the foregoing, the finance team adopted a more conservative approach to arrive at an internal assessment on the level of revenue reasonably likely to be achieved by the Target Group in the year of 2018. Consequently, only (1) revenue expected to be arising from outstanding performance of existing contracts/orders/successful biddings carried forward from the year of 2017; and (2) revenue expected to be generated from projects/contracts which had been under advanced and exclusive negotiation (no other competitors/bidders) in the 4th quarter of the year of 2017 and considered likely to be secured in the 1st quarter of the year of 2018 were included, while all projects/contracts forecasted by the Target Group to be secured in the 2nd, 3rd and 4th quarters of the year of 2018 were excluded for possible 2018 revenue contribution. On such basis, the finance team arrived at a 2018 revenue level which it considered to be probable of being achieved by the Target Group based on the conservative assessment approach adopted;

(iv) the finance team also enquired with the senior management of the Target Group on their expected gross profit margin and net profit margin of the Target Group, respectively, in respect of the forecast projects/contracts of the Target Group for the year of 2018;

(v) in assessing the reasonableness of such estimated profit margins of the Target Group provided by its senior management, the finance team had (1) analysed the historical profit margins reported by the Target Group to assess the range of gross and net profit margins historically achieved by the Target Group; (2) referenced to the Group's own achieved gross profit margin for its manufacture and sale of smart energy management related control stations/consoles, which was considered to be relatively similar in terms of product nature and cost structure in general; and (3) benchmarked to the reported profit margins of those Comparable Companies identified by the Group to have similar/related businesses engaging in industrial automation and energy management system; and

(vi) based on the analyses and assessments conducted above, the finance team concluded that a gross profit margin of around 40% to 50% and a net profit margin of around 15% to 20% were relatively reasonable in assessing the profitability of the Target Group. As an additional assessment, the finance team also analysed the spread of the above assessed gross and net profit margins of the Target Group, and compared again to the Group's own margins spread and those of the Comparable Companies. Consequently, the finance team independently assessed the likely level of profitability of the Target Group for the year of 2018 by reference to the internally assessed 2018 revenue level and the above independently assessed gross and net profit margins of the Target Group.

**(E) Basis and Fairness of Consideration**

While commercial judgment calls were admittedly applied in evaluating the business prospects of the Target Group and the synergies that can be generated with the Group, the Board had duly taken the above independently conducted assessments and evaluation as its objective benchmarks in negotiating with the Vendor and its ultimate beneficial owners on the terms of the Acquisition (including those relating to the Consideration and payment structure), which also formed a crucial basis on determining the fairness and reasonableness of the Consideration and payment structure as finally agreed in the Sale and Purchase Agreement.

The Consideration and payment structure, including (i) the "floor" and "ceiling" amount of HK$100 million and HK$500 million, respectively; (ii) the downward adjustment mechanism making reference to a figure of HK$50 million and an implied P/E ratio of 10 times; and (iii) the two-tranche payment structure with deferred payment mechanism on the balance consideration of HK$200 million, were a result of numerous rounds of negotiations between the parties.

In negotiating for the terms relating to the Consideration and payment structure, the Directors had their full regard to the interests and benefits of the Company and its Shareholders as a whole, and used its best efforts to strive for terms that were justifiably fair and reasonable and offered sufficient protection for the Company, having regard to the potential benefits and synergies the Target Group can bring to the Group should the Acquisition be materialized. The Directors reported that the process and considerations given leading to the final Consideration and payment structure as agreed by the parties involved, inter alias:

(i) upon gaining an understanding of the business and core technology of the Target Group, it was considered internally that a base case of HK$100 million consideration was undoubtedly justified on the basis of the Target Group's business nature, its core technology, its established business relationship with particular customer(s) in the PRC petroleum industry, and the potential synergies and benefits that can be brought to the Group. In validating such view, the Directors cross-referenced to the net profit of the Target Group for the year of 2016 and its implied historical P/E ratio and compared such historical P/E ratio to the average and median historical P/E ratio of the Comparable Companies (of approximately 48 times and 38 times, respectively), and concluded that the base case of HK$100 million consideration was justifiable;

(ii) nevertheless, during rounds of negotiations with the ultimate beneficial owners of the Target Group (the "**Sellers**"), the Sellers had insisted on a consideration of no less than HK$500 million (which, to the understanding of the Directors, was mainly founded on the confidence of the Target Group in securing those projects/contracts as forecasted by the Target Group, which far exceeded the aggregate contract sum and revenue sum taken by the finance team of the Company in arriving at its own assessment on the Target Group's 2018 profitability). Given the apparent disagreement between the parties on the consideration amount and in order to protect the interests of the Company and the Shareholders, the Directors formed the view that for a potential consideration of HK$500 million to be considered fair and reasonable, a downward adjustment mechanism on the Consideration must be insisted, to be accompanied by a stage-settlement arrangement;

(iii) on the basis of the foregoing, the parties consequently agreed on a "floor" and "ceiling" consideration of HK$100 million and HK$500 million, with an initial consideration of HK$500 million and a "downward only" adjustment mechanism to the Consideration;

(iv) in arriving at the specific mechanism for downward adjusting the Consideration, the Directors made reference to other market transactions and considered the use of net profit to be a reasonable and relatively common benchmark reference. In that respect, the Directors made further reference to the range of the 2016 historical P/E ratio and the implied P/E ratio based on its internally assessed profitability of the Target Group for year of 2018, and determined that a reference P/E ratio of 10 times to be appropriate and reasonable to apply to the initial consideration of HK$500 million, and ultimately arrived at a reference figure of HK$50 million net profit for the year of 2018 for the sole purpose of facilitating the downward adjustment mechanism for the Consideration, which was agreed with the Sellers;

(v) on the other hand, in arriving at the payment structure of the Consideration, the Directors again made reference to the internal, independently assessed level of profitability considered to be probable of being achieved by the Target Group for the year of 2018. Adopting the same reference P/E ratio of 10 times applied in the downward adjustment mechanism for the Consideration and the lower end of the internally assessed profitability of the Target Group for the year of 2018, with a reasonable buffer in mind, the Directors ultimately agreed for an up-front payment of HK$300 million upon Completion, and deferred the balance consideration of HK$200 million initially to a date on or before 30 June 2018, with the option effectively allowing the Group to further defer the balance payment to more than two years after completion (30 June 2020) by way of issuance of a promissory note to the Vendor, giving the Group sufficient time to observe the actual performance of the Target Group during the year of 2018; and

(vi) in further validating an initial consideration of HK$500 million, the Directors also calculated the implied P/E ratio of such maximum consideration based on the internally assessed profitability level of the Target Group for the year of 2018. Taking into consideration the mean and median P/E ratio of the Comparable Companies which remained significantly higher than such implied P/E ratio range, and having regard to the fact that the initial, maximum consideration is to be subject to downward adjustment based on the Target Group's actual 2018 net profit, the Directors remained the view that the Consideration and payment structure, when taken as a whole, including (1) the "floor" and "ceiling" amount (of HK$100 million and HK$500 million, respectively); (2) the reference figure of HK$50 million; (3) the downward-only adjustment mechanism on the Consideration (including the adoption of an implied P/E ratio of 10 times); and (4) the two-tranche payment terms, to be fair and reasonable.

As laid out in the foregoing paragraphs, in assessing and determining the merits of the Acquisition, the Board had taken due consideration of the business and financial prospects of the Target Group, and had duly conducted its independent assessment, evaluation and due diligence to support and validate its views and decision. While commercial judgment calls were admittedly applied in evaluating the business prospects of the Target Group and the synergies that can be generated with the Group, the Directors had derived their view on the fairness and reasonableness of the Consideration (and the payment structure) based on independently conducted due diligence and assessments on the Target Group, and applied quantitative benchmarks to their assessments and findings.

## SUPPLEMENTAL AGREEMENT

On 12 February 2018, the Company and the Vendor entered into a supplemental agreement (the "**Supplemental Agreement**"), pursuant to which, the payment structure of the Consideration was amended and certain terms in the Sale and Purchase Agreement were clarified and elaborated.

### Date

12 February 2018

### Parties

(i) the Company; and

(ii) the Vendor (Sailen International IOT Limited, formerly known as Tiger Resort, Leisure and Entertainment, Inc.).

### Subject Matter

Under the Supplemental Agreement, the parties to the Sale and Purchase Agreement agreed to amend and supplement certain terms of the Sale and Purchase Agreement set out below.

### Consideration and Payment Structure

The Consideration of HK$500,000,000 shall be settled by the Company in the following manner:

(i) HK$300,000,000 being payable upon Completion on or before 31 March 2018, out of which:

  (a) HK$100,000,000 will be settled by way of cash; and

  (b) HK$200,000,000 will be settled by way of a promissory note (the "**First Promissory Note**") with a coupon rate of 8% per annum with a term of 1 year;

(ii) the remaining balance of HK$200,000,000 will be settled on or before 30 June 2018 by way of a promissory note (the "**Second Promissory Note**") with a coupon rate of 8% per annum payable on an annual basis with a term of 2 years; and

(iii) subject to the prior written consent of the Company, none of the First Promissory Note or the Second Promissory Note is transferable by the Vendor to any third party.

Regarding the redemption of the First Promissory Note by the Company:

(i) when the Target Group achieves a net profit after taxation (excluding extraordinary items) in an amount of not less than HK$20,000,000 as shown on the unaudited consolidated management accounts of the Target Group prepared under the Hong Kong Financial Reporting Standards and in accordance with the accounting policies adopted by the Group, within three months after the recognition by the Board of the achievement of such milestone, the Company will redeem from the Vendor the principal amount of HK$100,000,000 of the First Promissory Note (together with the interest accrued thereon from the date of issue of the First Promissory Note and up to the date of redemption) by way of cash;

(ii) when the Target Group achieves a net profit after taxation (excluding extraordinary items) in an amount of not less than HK$30,000,000 as shown on the unaudited consolidated management accounts of the Target Group prepared under the Hong Kong Financial Reporting Standards and in accordance with the accounting policies adopted by the Group, within three months after the recognition by the Board of the achievement of such milestone, the Company will redeem from the Vendor the remaining principal amount of HK$100,000,000 of the First Promissory Note (together with the interest accrued thereon from the date of issue of the First Promissory Note and up to the date of redemption) by way of cash;

(iii) no interest will be accrued on the principal amount of the First Promissory Note in the event that the first milestone and/or the second milestone above is not achieved by the Target Group; and

(iv) the Company will not redeem any principal amount of the Second Promissory Note before the redemption in full of the First Promissory Note.

**Adjustment Mechanism**

The outstanding principal amount of the First Promissory Note and the Second Promissory Note will be used to offset the amount payable by the Vendor and its ultimate beneficial owners to the Company under the Adjustment Mechanism. No interest will be accrued on the principal amount of the First Promissory Note and/or the Second Promissory Note being used to set off any amount payable by the Vendor or its ultimate beneficial owners to the Company under the Adjustment Mechanism.

For the avoidance of doubt, any extraordinary items will be excluded from the 2018 Audited Profit for the purpose of calculating the Adjustment Mechanism and the definition of "extraordinary items" as referred to in "《公開發行證券的公司信息披露解釋性公告第1號—非經常性損益(2008)》" issued by the China Securities Regulatory Commission shall be adopted.

## RECENT DEVELOPMENT OF THE TARGET GROUP

**Financial Information**

The following table sets out the financial information of the Target Group as extracted from its pro forma unaudited consolidated management accounts for the year ended 31 December 2017.

| | **Year ended 31 December 2017** *approximately RMB* |
|---|---|
| Net profits before taxation | 19,600,000 |
| Net profits after taxation | 14,700,000 |

The pro forma unaudited consolidated net asset value of the Target Group as at 31 December 2017 as extracted from its pro forma unaudited consolidated management accounts for the year ended 31 December 2017 was approximately RMB65,600,000.

**Business Update**

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Target Group has been under advanced negotiation with a sizable petrochemical enterprise on certain contracts which are likely to be secured in the 1st quarter of the year of 2018.

By order of the Board
**Risecomm Group Holdings Limited**
**Yue Jingxing**
*Executive Director and Chief Executive Officer*

Hong Kong, 12 February 2018

*As at the date of this announcement, the executive Directors are Mr. Yue Jingxing, Mr. Wang Shiguang and Mr. Zhang Youyun, the non-executive directors are Mr. Ng Benjamin Jin-ping and Mr. Lau Wai Leung, Alfred and the independent non-executive Directors are Mr. Pan Song, Mr. Chen Yong and Mr. Ong King Keung.*