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**南海控股有限公司\***

NAN HAI CORPORATION LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 680)**



**SINO-i TECHNOLOGY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 250)**

**JOINT ANNOUNCEMENT  
UPDATE ON BUSINESS OPERATIONS OF BEIJING XINNET  
THROUGH STRUCTURED AGREEMENTS**

Reference is made to the joint announcements dated 15 November 2013 and 6 December 2013 (collectively, the “Announcements”) in relation to a discloseable transaction under which XWHT, an indirect wholly-owned subsidiary of Sino-i, by means of the Structured Agreements, shall be entitled to control over Beijing Xinnet’s management, businesses and operations in substance in addition to recognize and receive all economic benefits of the business of Beijing Xinnet. All capitalized terms used in this announcement shall have the same meanings as those defined in the Announcements unless otherwise stated herein.

The board of directors of Nan Hai and Sino-i hereby jointly provide updated information in relation to the business operations of Beijing Xinnet through the Structured Agreements and the implications thereof as follows:

**PARTICULARS AND MAIN BUSINESSES OF BEIJING XINNET**

Beijing Xinnet is a limited liability company established in the PRC, whose holding company is ZQHT, a limited liability company established in the PRC. Mr. Jiang, a PRC citizen, is a beneficial owner of ZQHT, who is in turn an ultimate beneficial owner of Beijing Xinnet.

Beijing Xinnet’s main businesses are provision of virtual server hosting and maintenance services, provision of email services and registration of domain names in the PRC. All such businesses regarded as a kind of internet content service. Beijing Xinnet has obtained a valid licence for providing internet content services, issued by 北京市通信管理局 (Beijing Communications Administration).

\* For identification purpose only

## **SUMMARY OF MAJOR TERMS OF THE STRUCTURED AGREEMENTS**

### **(a) Loan Agreement**

- (i) XWHT as lender; and Mr. Jiang as borrower;
- (ii) Loan amount — RMB1,500,000 (equivalent to approximately HK\$1,900,000); and
- (iii) It is interest free and has no maturity date for repayment. The borrower shall have no right to effect any early repayment unless having the written consent from the lender.

### **(b) Equity Pledge Agreement**

- (i) XWHT as pledgee and ZQHT as pledgor; and
- (ii) The pledgor shall pledge 80% equity interest of Beijing Xinnet, free from encumbrance, as first fixed charge to pledgee as security.

### **(c) Option Agreement**

- (i) XWHT as grantee; and ZQHT as grantor;
- (ii) The grantor shall grant an exclusive option to grantee at an option price of RMB1; and
- (iii) The total subscription price for 100% equity interest of Beijing Xinnet shall be RMB1,500,000 (equivalent to approximately HK\$1,900,000). The subscription price shall be paid by direct set-off on a dollar-for-dollar basis against the outstanding loan amount under the Loan Agreement.

### **(d) Power of Attorney**

It is an irrevocable power of attorney under which XWHT shall be the sole attorney of ZQHT, and XWHT shall have full power, without having to obtain ZQHT's consent or approval, to exercise such rights in Beijing Xinnet as shareholder's rights and voting rights, nomination and appointment rights in legal representative, chairman of the board (including all directors' rights and power in accordance with the corporate memorandum), general manager and other senior management of Beijing Xinnet.

### **(e) Management and Technology Services Agreement**

- (i) XWHT shall provide various exclusive advisory and technical services to Beijing Xinnet, e.g. advices and technical support on administration, human resources and financial management; sales and marketing; corporate governance and business management; research and development; customer services; and etc.; and
- (ii) In return for the provision of various exclusive advisory and technical services, XWHT shall be entitled to receive a service fee equivalent to the net profit of Beijing Xinnet as per its yearly audited consolidated financial statements.

As at the date of this announcement, (1) Mr. Jiang remains an ultimate beneficial owner of Beijing Xinnet; (2) all main businesses of Beijing Xinnet remain unchanged; (3) the licences issued by authority for providing internet content services remain valid; and (4) all terms under the Structured Agreements comprising (a) Loan Agreement; (b) Equity Pledge Agreement; (c) Option Agreement; (d) Power of Attorney; and (e) Management and Technology Services Agreement remain unchanged and valid.

Given the Structured Agreements, XWHT has a dominant influence on Beijing Xinnet which shall be deemed as a subsidiary of XWHT pursuant to the Companies Ordinance, Chapter 622 of the laws of Hong Kong, despite the beneficial ownership of Beijing Xinnet's equity interest has yet passed to XWHT.

### **SIGNIFICANCE OF BUSINESSES OF BEIJING XINNET TO SINO-I GROUP**

By means of the Structured Agreements, Sino-i Group may engage in the business of virtual server hosting and maintenance in the PRC and such business may widen the spectrum of services provided for the customers of Sino-i Group. It is expected that such additional business will lead Sino-i Group to having not only a stronger foothold against its competitors in the PRC but also an achievement of efficient and cost-effective manner in provision of virtual server hosting and maintenance services to the customers of Sino-i Group.

### **FINANCIAL IMPACT ON SINO-I GROUP**

Upon execution of the Structured Agreements in November 2013, Sino-i may consolidate the business performance of Beijing Xinnet. Sino-i has consolidated (a) 1 month's business performance of Beijing Xinnet into its consolidated financial statements for the year ended 31 December 2013; and (b) 12 months' business performance of Beijing Xinnet into its consolidated financial statements for the year ended 31 December 2014.

Consolidation of 1 month's business performance of Beijing Xinnet in 2013 did not have any significant impact on Sino-i's consolidated income statement, but Sino-i consolidated Beijing Xinnet's total assets amounted to approximately HK\$99,257,000. For the financial year of 2014, Sino-i consolidated, among other things, Beijing Xinnet's financial results as follows:

- (a) revenue/turnover amounted to approximately HK\$120,742,000;
- (b) loss before tax amounted to approximately HK\$52,340,000; and
- (c) total assets amounted to approximately HK\$119,210,000.

As explained in 2014 annual report of Sino-i, the recorded loss from Beijing Xinnet was mainly due to (a) expenses in the reform of Beijing Xinnet's operating system, for the purpose of standardization and normalization of operation management, reduction of labour cost and improvement of operating quality in the long run; and (b) increment in research and development expenses in new and upgraded products.

## **REASONS FOR USING THE STRUCTURED AGREEMENTS**

Beijing Xinnet's main businesses are classified as value-added telecommunication services which is a kind of business restricted to foreign investors in the PRC. By virtue of 外商投資電信企業管理規定 (Provisions on the Administration of Foreign Investment Telecommunication Enterprises), foreign investors shall not have more than 50% in the equity interest of a PRC enterprise providing value-added telecommunication services.

The main businesses of Beijing Xinnet are considered as value-added businesses which widen the spectrum of services of Sino-i Group for its customers and in turn enhance Sino-i Group's competitiveness in the PRC market. As Nan Hai Group (including Sino-i Group) is facing to the aforesaid restriction in equity interest of a PRC company, the Structured Agreements shall be regarded as a strategic arrangement by which Sino-i Group may fully and effectively control Beijing Xinnet, which in turn enables Sino-i Group to achieve the aforesaid purposes. In addition, the Structured Agreements offer flexibility to Sino-i Group in control of Beijing Xinnet — (a) control of its management, businesses and operations; and (b) owning of its 100% equity interest by exercising the call option under the Option Agreement when the restriction in having more than 50% equity interest of a PRC enterprise by foreign investors is removed or repealed.

## **EFFECTIVENESS OF THE STRUCTURED AGREEMENTS AND POTENTIAL RISKS**

In addition to the foreign ownership restriction under the prevailing applicable laws and regulations, the Structured Agreements do not violate any PRC laws, rules and regulations, and the execution of the Structured Agreements by the parties thereto does not violate any article of the contracting parties; and such prevailing provision and notice issued by the PRC authority as (i) 《外商投資電信企業管理規定》(Provisions on the Administration of Foreign Investment Telecommunication Enterprises) (amended in 2008) and 《外商投資產業指導目錄》(Catalogue for Guidance of Foreign Investment Industries) (amended in 2015) issued by the State Council of the PRC, under which foreign investor shall not have more than 50% in a corporation providing value-added telecommunication services; and (ii) 《關於加強外商投資經營增值電信業務管理的通知》(Notice of Strengthened Administration of Foreign Investment in and Operation of Value-Added Telecommunication Business) issued by the Ministry of Industry and Information Technology of the PRC in July 2006 under which a local PRC company holding an internet content provider licence shall not lease, transfer or sell the licence to foreign investors in any form, or provide any assistance to foreign investors to provide internet content services in the PRC, are not governing or restricting the control of a PRC company through contractual arrangements.

Given the foregoing, the Structured Agreements shall be regarded as valid documents binding all parties thereto as at the date of this announcement. However, if any new applicable law or regulation were enacted in the future in the PRC, the validity and enforceability of the Structured Agreements might have been affected, and as a result, the contractual arrangement of controlling Beijing Xinnet would have been disruptive which in turn would have affected the business of Sino-i Group.

The Ministry of Commerce of the PRC has issued some kind of consultation paper (草案徵求意見稿) in respect of a bill namely 《中華人民共和國外國投資法》(Foreign Investment Law of the PRC) (the “Bill”) in January 2015, which is to be enacted into an act or statute. As per sections 15 and 18 thereof, foreign investment means foreign investors directly or indirectly conduct certain investment activities, e.g. through contractual arrangement or trust arrangement to control a PRC company or holding equity interest of a PRC company. Any foreign investment in any business under the catalogue of restricted investment shall apply for an access permit from foreign investment authority under the State Council of the PRC as per section 27 thereof. There is no indication in the Bill that contracts under the contractual arrangement would be void.

Application for an access permit cited in the Bill could be viewed as a kind of administrative procedure rather than a prohibitive threshold, therefore, failure in obtaining the permit by fulfilling certain administrative procedures would not be very high.

Mr. Jiang is not a connected person of Sino-i Group, the risk of direct conflict of interest with Sino-i Group will be very low. It is unlikely for Mr. Jiang setting up another entity conducting business having a direct competition with Beijing Xinnet’s, otherwise, Mr. Jiang would not execute and procure the execution of the Structured Agreements by which Mr. Jiang has given up the businesses of Beijing Xinnet. As at the date of this announcement, Nan Hai Group has not found that Mr. Jiang has carried out or involved in any business having a direct competition with the businesses of Nan Hai Group. If Mr. Jiang or ZQHT breaches any obligations or undertakings under any Structured Agreements, the operations of Beijing Xinnet would not be affected as the position of Sino-i in controlling Beijing Xinnet has been fully secured by (a) full control of the board of directors of Beijing Xinnet; and (b) obtaining a charge of 100% equity interest in Beijing Xinnet (as per the provision of the Loan Agreement, the pledgor has further charged the remaining 20% equity interest in Beijing Xinnet as first fixed charge in favour of the pledgee in October 2014).

Since the Bill has yet been enacted into an act or statute, the sections or provisions thereof might be further modified and amended after the consultation period, it is uncertain any additional conditions imposing on foreign investors.

## **MATERIAL CHANGE IN THE STRUCTURED AGREEMENTS AND ITS IMPACT**

No Structured Agreement has been supplemented or modified as at the date of this announcement, and no dispute between the parties thereof has arisen since the execution of the Structured Agreements.

## **UNWINDING OF THE STRUCTURED AGREEMENTS**

No Structured Agreement has been unwound as at the date of this announcement. None of the Structured Agreement is to be unwound until and unless the restriction on ownership by foreign investors is removed or not in force. In the event of no such restriction in foreign investment, XHWT will exercise its option under the Option Agreement to acquire the entire equity interest in Beijing Xinnet and the option price will be set off against the loan amount under the Loan Agreement.

If there is any updated material information relating to any of the above matters, both Nan Hai and Sino-i will make a further announcement when appropriate in accordance with the Listing Rules.

By Order of the Board of  
**Nan Hai Corporation Limited**  
**Yu Pun Hoi**  
*Director*

By Order of the Board of  
**Sino-i Technology Limited**  
**Chen Dan**  
*Director*

Hong Kong, 31 July 2015

*As at the date of this announcement, the directors of Nan Hai are:*

<i>Executive directors:</i>	<i>Non-executive directors:</i>	<i>Independent non-executive directors:</i>
Mr. Yu Pun Hoi	Mr. Wang Gang	Prof. Jiang Ping
Ms. Chen Dan	Mr. Lam Bing Kwan	Mr. Hu Bin
Ms. Liu Rong		Mr. Lau Yip Leung

*As at the date of this announcement, the directors of Sino-i are:*

<i>Executive directors:</i>	<i>Non-executive directors:</i>	<i>Independent non-executive directors:</i>
Mr. Yu Pun Hoi	Mr. Wang Gang	Prof. Jiang Ping
Ms. Chen Dan	Mr. Lam Bing Kwan	Mr. Hu Bin
Ms. Liu Rong		Mr. Fung Wing Lap