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## **ABC COMMUNICATIONS (HOLDINGS) LIMITED**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 30)**

### **MAJOR TRANSACTION AND RESUMPTION OF TRADING**

#### **THE ACQUISITION**

On 7 November 2011 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Vendor, pursuant to which the Company, as the purchaser, has conditionally agreed to acquire, and the Vendor has conditionally agreed to dispose of, the Sale Shares and the Sale Loans at the Consideration of HK\$200,000,000. The Consideration will be satisfied partly by cash and partly by the issue of the Promissory Notes and the Convertible Notes.

The Sale Shares represent 55% of the issued share capital of the Target Company. As at the date of this announcement, the Target Company beneficially owns the entire equity interest in China Etao, which owns 90% of the equity interest in Etao Network. Etao Network in turn owns 78% of the equity interest in the Project Company. Etao Network is principally engaged in the leasing of financial equipments and the provision of relevant settlement system and ancillary services for the POS Terminals. The Project Company is principally engaged in the leasing of POS Terminals in the PRC.

## IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios (as defined under the Listing Rules) of the Acquisition exceed 25% but are less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The SGM will be held for the Shareholders to consider and, if thought fit, approve the ordinary resolution(s) in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder. As no Shareholder has an interest in the Sale and Purchase Agreement that is materially different from other Shareholders, no Shareholder is required to abstain from voting at the SGM in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.

## GENERAL

A circular containing, among other things, (i) further details of the Acquisition; (ii) financial information of the Group and the accountants' report of the Target Group; (iii) the valuation report of the Target Company; and (iv) a notice of the SGM, is expected to be despatched to the Shareholders on or before 31 December 2011 in order to have more time to finalize the information to be contained in the Circular.

**As completion of the Acquisition is subject to the fulfillment of the conditions precedent to the Acquisition, the Acquisition may or may not be completed. Shareholders and potential investors should exercise caution when dealing in the Shares.**

## RESUMPTION OF TRADING

At the request of the Company, trading in the Shares of the Company on the Stock Exchange was suspended from 9:00 a.m. on 8 November 2011, pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 9 November 2011.

## INTRODUCTION

Reference is made to the announcement of the Company dated 14 September 2011 in relation to the entering into of the non-legally binding memorandum of understanding by the Company.

On 7 November 2011 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Vendor, pursuant to which the Company, as the purchaser, has conditionally agreed to acquire, and the Vendor has conditionally agreed to dispose of, the Sale Shares and the Sale Loans at the Consideration of HK\$200,000,000. The Consideration will be satisfied partly by cash and partly by the issue of the Promissory Notes and the Convertible Notes.

The Sale Shares represent 55% of the issued share capital of the Target Company. As at the date of this announcement, the Target Company beneficially owns the entire equity interest in China Etao, which owns 90% of the equity interest in Etao Network. Etao Network in turn owns 78% of the equity interest in the Project Company. Etao Network is principally engaged in the leasing of financial equipments and the provision of relevant settlement system and ancillary services for the POS Terminals in the PRC. The Project Company is principally engaged in the leasing of POS Terminals in the PRC.

## **THE SALE AND PURCHASE AGREEMENT**

Set out below are the principal terms of the Sale and Purchase Agreement:

### **Date**

7 November 2011

### **Parties involved**

- (i) the Company, as the purchaser
- (ii) the Vendor, as the vendor
- (iii) the Guarantor, as the guarantor

The principal activity of the Vendor is investment holding. To the best of the Directors' knowledge, information and belief and having made all reasonable enquires, (i) the Vendor and the Guarantor are Independent Third Parties; (ii) the Vendor, the Guarantor and their respective associates do not hold any Shares or other convertible securities in the Company as at the date of this announcement; and (iii) there were no previous transactions or business relationship between the Company and the Vendor, the Guarantor and their respective associates which would result in aggregation under Rule 14.22 of the Listing Rules.

### **Assets to be acquired**

- (i) The Sale Shares, representing 55% of the issued share capital of the Target Company. As at the date of this announcement, the Target Company beneficially owns the entire equity interest in China Etao, which owns 90% of the equity interest in Etao Network. Etao Network in turn owns 78% of the equity interest in the Project Company.
- (ii) The Sale Loans as at the Completion Date. As at 31 August 2011, the Sale Loans amounted to approximately HK\$20,437,598.

The Sale Shares and the Sale Loans will be acquired by, and assigned to, the Company free of any options, charge, liens, encumbrances, preemptive rights and other third party rights and together with all rights (save for any dividend declared before the Completion Date which shall be payable to the Vendor) attaching thereto as at the date of signing of the Sale and Purchase Agreement or thereafter.

Upon Completion, (i) the Company will, through the Target Company, be effectively interested in 38.61% of the equity interest in the Project Company on a look-through basis; and (ii) the Target Company, China Etao, Etao Network and the Project Company will become non wholly-owned subsidiaries of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Company.

### **Consideration**

Pursuant to the Sale and Purchase Agreement, the Consideration of HK\$200,000,000 payable to the Vendor will be satisfied partly by cash and partly by issue of the Promissory Notes and the Convertible Notes in the following manner:

- (i) HK\$30,000,000 as refundable cash deposit, has been paid by the Company to the Vendor upon the signing of the Sale and Purchase Agreement;
- (ii) HK\$70,000,000 by means of cash, payable by the Company to the Vendor upon Completion;
- (iii) HK\$50,000,000 by means of the Promissory Notes, to be issued by the Company to the Vendor upon Completion; and
- (iv) HK\$50,000,000 by means of Convertible Notes, to be issued by the Company to the Vendor upon Completion.

The cash portion of the Consideration will be funded partly by the internal resources of the Group and partly by future fund raising activity(ies), details of which have been disclosed in the section headed “Reasons for and benefits of the Acquisition” in this announcement.

### **Basis of determination of the Consideration**

The Consideration was arrived at after arm’s length negotiations between the Company and the Vendor after taking into account the following factors:

- (i) the preliminary valuation of the entire issued share capital of the Target Company of approximately HK\$410,000,000 as at 30 September 2011 as appraised by an independent valuer, Roma Appraisals Limited (the “**Valuer**”) engaged by the Company;
- (ii) the historical financial information of the Target Group for the two years ended 31 December 2010 and the eight months ended 31 August 2011; and
- (iii) the future prospects of the e-payment industry in the PRC.

Based on the draft valuation report prepared by the Valuer regarding the preliminary valuation of the entire issued share capital of the Target Company as at 30 September 2011 (the “**Valuation Report**”), the preliminary valuation of the entire issued share capital of the Target Company was HK\$410,000,000 as at 30 September 2011 (the “**Valuation**”), which is subject to the finalisation of the formal Valuation Report by the Valuer. Based on the aforesaid, the Consideration represents a discount of approximately 11.31% to the preliminary Valuation

attributable to the Sale Shares and the Sale Loans. The Valuer has applied the discounted cash flow method under income approach, which was prepared with reference to the cash flow forecast provided by the management of the Target Group for the purpose of valuation. However, the preliminary Valuation is subject to further in-depth due diligence to be conducted by the Valuer and therefore the preliminary Valuation may or may not be the same as the final amount of the Valuation. The finalized Valuation Report, including details of the assumptions, basis and methodology of the Valuation, shall be included in the circular to be issued by the Company in relation to the Acquisition.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Valuer, and its ultimate beneficial owner(s) and associate(s) are Independent Third Parties.

Having considered that (i) the Acquisition is in line with the business strategy of the Group to diversify its existing business; (ii) the favourable prospects of the e-payment industry, details of which have been set forth in the section headed "Reasons for and benefits of the Acquisition" in this announcement; and (iii) the Consideration represents a discount of approximately 11.31% to the preliminary Valuation attributable to the Sale Shares and the Sale Loans, the Board considers that the Consideration, which was arrived at after arm's length negotiations, is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

### **Conditions precedent**

Completion of the Sale and Purchase Agreement is conditional upon all of the following conditions being fulfilled or waived in writing:

- (i) the Company being reasonably satisfied with the results of the due diligence review of the affairs, business, assets, performance, legal and financial structure of the Target Group;
- (ii) the Company having obtained a PRC legal opinion (in such a form and substance satisfactory to the Company in its absolute discretion) from a PRC practising lawyer engaged by the Company, confirming, among other things:
  - (a) the due incorporation and legal and continuing existence of Etao Network and the Project Company, including their respective shareholder structure under the PRC laws, the associate of articles and the registered capital;
  - (b) each of Etao Network and the Project Company having obtained all reasonably relevant approvals, permits, licenses and/or consents in respect of its operations, including but not limited to those issued by the State Administration of Foreign Exchange, the Administration for Industry and Commerce and the Ministry of Commerce in the PRC;
  - (c) the legality, effectiveness and enforceability of all the required licenses, consents and permits in respect of the operations of Etao Network and the Project Company;

- (d) China Etao legally and beneficially owns 90% of the equity interest in Etao Network and Etao Network legally and beneficially owns 78% of the equity interest in the Project Company;
  - (e) the Sale Shares and the Sale Loans and the revenue, earnings and assets of each member company of the Target Group are free and clear of any encumbrance;
  - (f) no approvals or consents are required from any third party or supervisory authority in respect of the transfer of any equity interest in any member company(ies) of the Target Group; and
  - (g) any other things as the Company may require;
- (iii) the Vendor having obtained all necessary and appropriate permits from the directors and shareholders of the member company(ies) of the Target Group in relation to the entering into and execution of the Sale and Purchase Agreement, and all confirmations to be made to the relevant government or supervisory authorities or third parties according to the legal opinion from a PRC practising lawyer engaged by the Company; all the waiting periods under the laws of any relevant jurisdictions having expired or been terminated; all the applicable legal obligations having been complied with;
  - (iv) from the date of the Sale and Purchase Agreement to the Completion Date, there being no event or consequence which constitutes a material adverse change, or which may result in material adverse change in the financial, business or assets, operation performance or prospect of the Target Group;
  - (v) all the warranties and undertakings under the Sale and Purchase Agreement upon Completion, and as if repeated in the period from the date of the Sale and Purchase Agreement to the Completion Date, being true, correct and not misleading;
  - (vi) the Company having obtained a valuation report (in such a form and substance satisfactory to the Company in its absolute discretion) prepared by a valuer engaged by the Company, specifying that the current value of the Sale Shares and the Sale Loans is not less than HK\$200,000,000 on an open market value basis;
  - (vii) the Company having sufficient working capital to pay the cash portion of the Consideration upon Completion;
  - (viii) (if applicable) all the required approvals, confirmations, waivers or consents in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder from all third parties or supervisory authorities having been obtained; and
  - (ix) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares.

The Company shall have the right to waive the conditions as mentioned above in its absolute discretion, save as and except for conditions (viii) and (ix). Save as aforesaid, if any of the conditions as set out in the Sale and Purchase Agreement have not been fulfilled (or, where applicable, waived by the Company) on or before 31 January 2012 or any other date as agreed by the Company and the Vendor, then the Sale and Purchase Agreement shall terminate, the Vendor shall refund the cash deposit without interest to the Company and the Company and the Vendor shall have no further obligations under the Sale and Purchase Agreement (save in respect of any antecedent breach).

### **Completion**

Completion shall then take place at 4:00 p.m. on the third Business Days (or any other date as agreed by the Company and the Vendor) from the date when all the conditions precedent to the Sale and Purchase Agreement set out above have been satisfied or waived (where applicable).

### **The Promissory Notes**

Pursuant to the Sale and Purchase Agreement, the Company will issue to the Vendor the Promissory Notes upon Completion to settle part of the Consideration.

Set out below are the principal terms of the Promissory Notes:

Principal amount:	HK\$50,000,000
Interest:	6% per annum
Maturity:	24 months from the date of issue of the Promissory Notes
Repayment:	the outstanding Promissory Notes will be repaid in one lump sum together with all accrued interests on the maturity day
Early redemption:	(i) the holder(s) of the Promissory Notes cannot demand early repayment of the Promissory Notes  (ii) provided that the Company has given the holder(s) of the Promissory Notes not less than seven Business Days' notice in writing, specifying the redemption amount (in the integral multiple of HK\$1,000,000) and the date that the redemption is made, the Company can redeem the whole or a part of the principal amount as specified in the redemption notice (plus 6%) at any time after the issue of the Promissory Notes
Transferability:	the holder(s) of the Promissory Notes can freely transfer or assign the whole or a part of the outstanding Promissory Notes



## The Convertible Notes

Pursuant to the Sale and Purchase Agreement, the Company will issue to the Vendor the Convertible Notes upon Completion to settle part of the Consideration.

Set out below are the principal terms of the Convertible Notes:

Issuer:	the Company
Notesholder(s):	the Vendor (or its nominee(s))
Principal amount:	HK\$50,000,000
Interest:	4% per annum
Maturity:	24 months from the date of issue of the Convertible Notes
Repayment:	the outstanding Convertible Notes will be repaid in one lump sum together with all accrued interests on the maturity day
Early redemption:	<ul style="list-style-type: none"><li>(i) the holder(s) of the Convertible Notes cannot demand early repayment of the Convertible Notes</li><li>(ii) provided that the Company has given the holder(s) of the Convertible Notes not less than seven Business Days' notice in writing, specifying the redemption amount (in the integral multiple of HK\$1,000,000) and the date that the redemption is made, the Company can redeem the whole or a part of the principal amount as specified in the redemption notice (plus 4%) at any time after the issue of the Convertible Notes</li></ul>
Conversion Price:	HK\$0.32 per Conversion Share (subject to adjustments upon the occurrence of, among other thing, subdivision or consolidation of Shares, capitalization issues, capital distribution, rights issues, open offer or other dilutive events and in any event that the Conversion Price cannot be less than the par value of the Conversion Shares)

The initial Conversion Price of HK\$0.32 represents:

- (i) a discount of approximately 15.79% based on the closing price of HK\$0.380 per Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement; and



- (ii) a discount of approximately 8.05% based on the average closing price of HK\$0.348 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the date of the Sale and Purchase Agreement.

The Conversion Price is arrived at after arm's length negotiation between the Company and the Vendor with reference to the market price of the Shares under the prevailing market conditions.

Conversion right:

Provided that the exercise of the conversion rights attached to the Convertible Notes (i) by the holder thereof and the parties acting with it in concert does not trigger a mandatory offer under Rule 26 of the Takeovers Code on the part of the holder thereof and its concert parties; and (ii) by the holder thereof and its associates will not render the Shares held in public hands being less than the minimum public float of the Shares required under the Listing Rules (i.e. 25% of the issued share capital of the Company), holder(s) of the Convertible Notes shall have the right to convert, at any time during the period commencing from the issue date of the Convertible Notes until 4:00 p.m. on the maturity date of the Convertible Notes, the whole or part in an integral multiple of HK\$1,000,000 of the outstanding principal amount of the Convertible Notes (save for the case where the outstanding principal amount is less than HK\$1,000,000).

Transferability:

The Convertible Notes are freely transferable. Save as and except that the Convertible Notes are transferred to a wholly-owned subsidiary or a controlling company of the holder(s) of the Convertible Notes, the Convertible Notes may not be transferred to any connected person of the Company (as defined under the Listing Rules) without prior written consent of the Company.

Voting rights:

The holder(s) of the Convertible Notes will not be entitled to receive notice of, attend or vote at, any meeting of the Company by reason only of it/they being the holder(s) of the Convertible Notes.

Conversion Shares: The Conversion Shares shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of such Conversion Shares.

Assuming the issue of Convertible Notes is completed and based on the Conversion Price of HK\$0.32 per conversion share, a maximum number of 156,250,000 Conversion Shares will be allotted and issued if the conversion rights attaching to the Convertible Notes are exercised in full, representing approximately 24.39% of the issued share capital of the Company as at the date of this announcement and approximately 19.61% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon the conversion rights attached to the Convertible Notes are exercised in full.

The Conversion Shares shall be allotted and issued under the specific mandate of the Company. The Directors proposed to seek approval from the Shareholders at the SGM to issue the Conversion Shares.

Listing: No application will be made for the listing of, or the permission to deal in, the Convertible Notes on the Stock Exchange or any other stock exchange. An application will be made to the Stock Exchange for the listing of, and the permission to deal in, the Conversion Shares.

### **Guarantee by the Guarantor**

Under the Sale and Purchase Agreement, the Guarantor agreed to guarantee to the Company that the Vendor will comply properly and punctually with its obligations and responsibilities under the Sale and Purchase Agreement. If the Vendor cannot perform, abide or comply with such obligations and responsibilities for whatsoever reason, the Guarantor is required to perform or procure the Vendor to perform, abide by or comply with these obligations and responsibilities within ten Business Days after the Company gives the Guarantor a written notice, and to compensate the Company and the Target Company for such breach.

## **INFORMATION ON THE TARGET GROUP**

Set out below is the information in relation to the Target Group:

### **Target Company**

The Target Company is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the date of the Sale and Purchase Agreement, the Target Company is owned as to 60% by the Vendor and as to 40% by Champion One Group Limited (進宏集團有限公司) and beneficially owns the entire equity interest in China Etao.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Champion One Group Limited (進宏集團有限公司), its ultimate beneficial owner and its associates are (i) Independent Third Parties; and (ii) not a party acting in concert (as defined under the Takeovers Code) with any substantial shareholders (as defined under the Listing Rules) of the Company.

### **China Etao**

China Etao is an investment holding company incorporated in Hong Kong with limited liability. As at the date of the Sale and Purchase Agreement, China Etao is beneficially and wholly-owned by the Target Company and the principal asset of China Etao is 90% of the equity interest in Etao Network.

### **Etao Network**

Etao Network is a Sino-Foreign Equity Joint Stock Company incorporated in the PRC with limited liability. As at the date of the Sale and Purchase Agreement, Etao Network is owned as to 90% by China Etao and as to 10% by Zhong Jia Company Limited\* (中家股份有限公司). Etao Network is principally engaged in the leasing of financial equipments and the provision of relevant settlement system and ancillary services for the POS Terminals.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Zhong Jia Company Limited\* (中家股份有限公司), its ultimate beneficial owner and associates are (i) Independent Third Parties; and (ii) not a party acting in concert (as defined under the Takeovers Code) with any substantial shareholders (as defined under the Listing Rules) of the Company.

## **Project Company**

The Project Company is established in the PRC with limited liability. As at the date of the Sale and Purchase Agreement, the Project Company is owned as to 78% by Etao Network, as to 20% by Ms. Luo Yan Yu and as to 2% by Mr. Zhao Yu Shan. The Project Company is principally engaged in the leasing of POS Terminals in the PRC.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Ms. Luo Yan Yu, Mr. Zhao Yu Shan and their respective associates are (i) Independent Third Parties; and (ii) not a party acting in concert (as defined under the Takeovers Code) with any substantial shareholders (as defined under the Listing Rules) of the Company.

The POS Terminal is a multifunctional electronic terminal through which payment-card holders can make payment without cash. Such POS Terminals are connected via internet to a central processor of Etao Network which processes the payment and settlement automatically and electronically. Besides, the POS Terminal can help the payment-card holders to withdraw cash and check balance.

According to the information provided by the Vendor, the principal business office of Etao Network and the Project Company is in Shenzhen, the PRC. Etao Network and the Project Company also offer tailor-made terminals to satisfy the customers' specific requirements, such as wireless POS Terminals and combinations of telephone and POS Terminal. In return, Etao Network and the Project Company charge a leasing fee for each POS Terminal and a commission fee for each payment transaction conducted through such POS Terminal. Their major customers include retail stores, hotels, restaurants, supermarkets etc..

The POS Terminals are produced by the Project Company's suppliers characterized with high quality and advanced technology. Etao Network and the Project Company will continue to develop the software and strengthen its online platform and business network in order to deliver the ready-to-use POS Terminals to the customers.

Etao Network and the Project Company have their own sales and marketing team, which will (i) directly promote the POS Terminals to the customers in the Guangdong Province, the PRC; (ii) cooperate with sale agents in other provinces in the PRC; and (iii) strategically ally with banks and other financial institutions such as the China UnionPay, the Bank of China, the China Construction Bank, with the view to applying the POS Terminals to the payment through the payment-cards issued by such banks and financial institutions to broaden the POS Terminals' application network.

## Financial information of the Target Group

Set out below is a summary of the unaudited financial information of the Target Company for the period from the date of its incorporation on 18 August 2011 to 31 August 2011:

	<b>For the period from the date of its incorporation on 18 August 2011 to 31 August 2011</b> <i>HK\$</i>
Revenue	—
Net loss before taxation	(9,000)
Net loss after taxation	(9,000)
	<b>As at 31 August 2011</b> <i>HK\$</i>
Net liabilities	(8,220)

Set out below is a summary of the unaudited financial information of China Etao for the period from the date of its incorporation on 15 December 2009 to 31 December 2010 and the eight months ended 31 August 2011:

	<b>For the period from the date of its incorporation on 15 December 2009 to 31 December 2010</b> <i>HK\$</i>	<b>For the eight months ended 31 August 2011</b> <i>HK\$</i>
Revenue	—	—
Net loss before taxation	(4,000)	(450)
Net loss after taxation	(4,000)	(450)
	<b>As at 31 August 2011</b> <i>HK\$</i>	
Net assets		5,550

Set out below is a summary of the unaudited consolidated financial information of Etao Network and the Project Company for the two years ended 31 December 2010 and the eight months ended 31 August 2011:

	<b>For year ended 31 December 2009</b> <i>RMB' million</i>	<b>For year ended 31 December 2010</b> <i>RMB' million</i>	<b>For the eight months ended 31 August 2011</b> <i>RMB' million</i>
Revenue	3.65	11.11	15.69
Net profit/(loss) before taxation	(11.69)	(7.55)	9.94
Net profit/(loss) after taxation	(11.69)	(7.89)	9.87

**As at 31 August 2011**  
*RMB' million*

Net assets 39.18

## **RISK FACTORS IN RELATION TO THE ACQUISITION**

### **Economic environment**

The market of the POS Terminals in the PRC may be significantly affected by the economy development, especially the growth of the household consumption expenditure. Although it is expected that the PRC economy will keep the upward trend, there is no assurance that (i) the expected economic growth will be realized; or (ii) the future economic growth will be favourable to the Target Group; or (iii) the Target Group will seize opportunities and create return in the favourable economic environment.

### **Market acceptance of the services and products**

The industry of the POS Terminals is characterized by numerous technology developments, frequent introductions and enhancements of services and products, continually evolving industry and government standards and rapidly changing customers' requirements. Therefore, Etao Network and the Project Company's future success will depend on the ability to: (i) enhance the existing services and products, including but not limited to alliance with banks and other financial institutions to broaden the business network; (ii) offer new services and products that meet the customers' requirements; and (iii) respond to new technology, industry and government standards and practices on a timely and cost-effective basis.

### **Development and maintenance of strategic relationships with other outside parties**

Etao Network and the Project Company's growth rely on the alliance with suppliers, sale agents and banks and other financial institutions. In the event that Etao Network and the Project Company fail to build and maintain a good working relationship with these outside parties or if they breach or terminate the business relationship, the attractiveness of the POS

Terminals provided by Etao Network or the Project Company would be damaged and further market penetration in Guangdong Province and other province in the PRC would be adversely affected. In such an event, the business, operation results and financial conditions may also be adversely affected.

### **Network security**

As an operator of an online system and platform for processing payment transactions and for storing relevant information, Etao Network and the Project Company may represent a fragile target for hackers' attacks. Should hackers infiltrate the online systems and platform which support the operation of the POS Terminals, or obtain sensitive data and information, or create bugs or virus which sabotages the functionality of the POS Terminals, Etao Network and the Project Company may receive negative publicity or incur liability to its customers. Etao Network and the Project Company have set up an online security system to prevent such attacks, but there is no assurance of a timely and effective respond. Any failure to do so could materially and adversely affect the business, operating results and financial conditions of the Target Group.

### **Potential liability for defects or errors in the data and information, hardware and software**

Etao Network and the Project Company have responsibilities that the data and information, hardware and software in relation to the POS Terminals will be accurate or function properly. As the expansion of the business and involvement of other parties in the business, there is no assurance that the data and information, hardware and software developed or delivered by Etao Network and the Project Company are entirely free from defects, errors and bugs. In the event that such defects, errors and bugs occur, there may be certain claims raised and the business, operating results and financial conditions of the Target Group may be adversely affected.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The principal activities of Group is currently engaged in (i) financial quotation services and securities trading system licensing provided by QuotePower International Limited ("**QuotePower**"); and (ii) wireless applications development provided by ABC QuickSilver Limited. According to the announcement of the Company dated 28 March 2011, the Group has acquired 60% of the issued share capital of Jun Qiao Limited ("**Jun Qiao**"), which is principally engaged in gold mines business in Henan Province and Xinjian Uygur Autonomous Region, the PRC. The acquisition of Jun Qiao was completed on 9 May 2011.

As disclosed in the annual report of the Company for the year ended 31 March 2011, the Group has recorded net losses for the two years ended 31 March 2011 due to intense competitions and the launch of free real-time stock data on designated websites by the Stock Exchange. The Group relied solely on the financial quotation service provided by QuotePower, which is highly volatile upon the performance of local stock market. The Board considers that it is beneficial for the Group to seek suitable investment opportunities from time to time to broaden its income base and the Board believes that it is in the best interests of the Company and the Shareholders to diversify the business of the Group.



During the past years, the e-payment has developed into one of the most important segments in the non-cash payment system in the PRC. The services and products of the e-payment, especially the POS Terminals, have been widely used in many other industries including but not limited to travel, education, public utility, finance and retail. According to the China Payment System Development Report\* (中國支付體系發展報告) by the People's Bank of China (the "PBOC") in May 2011, the number of the POS Terminals installed in the PRC has grown from approximately 270,000 in 2002 to approximately 3,334,000 in 2010 with an annual growth rate of 37%. By the end of the second quarter of 2011, the number of the POS Terminals installed in the PRC further increased to approximately 3,977,000 according to the Overall Operation of the Payment System in the Second Quarter of 2011\* (2011年第二季度支付體系運行總體情況) issued by the PBOC in August 2011.

Due to the outstanding management and the favourable business environment, Etao Network and the Project Company have enjoyed a significant improvement of the operation performance and have recorded profits for the eight months ended 31 August 2011. The Company has identified the Acquisition as having abundant potential and the Board considers that the business overview for the e-payment industry, especially the POS Terminals, will be favourable under the prevailing policy in the PRC. As announced in the 12th Five-Year Plan for National Economic and Social Development\* (國民經濟和社會發展第十二個五年規劃綱要), the PRC government will develop e-business actively, improve e-business services oriented to small and medium-sized enterprises, and promote the construction of society-oriented credit services, online payment and logistic distribution systems.

The Consideration represents a discount of approximately 11.31% to the preliminary Valuation attributable to the Sale Shares and the Sale Loans. The Board believes that the Acquisition will allow the Group to enter the e-payment industry and enjoy an immediate positive cash flow. The Company considers the Acquisition as an opportunity for the Group to participate in the promising e-payment industry and to diversify its existing business, with the aim of broadening the income base of the Group. The Board believes that the Acquisition is in the interests of the Company and the Shareholders as a whole.

As the Acquisition of the business of the e-payment industry can alleviate the Group's reliance on QuotePower and also can apply the existing management's experience in the software system and wireless/network applications development, the Acquisition is in line with the Group's strategy of diversification. The Board believes it is in the interests of the Company and its Shareholders as a whole to reallocate the existing management and the Group's financial resources to a prospective business. Although the Acquisition will involve a diversification into a similar/semi-new business to the Group, the Company proposes to retain the current management team of the Project Companies for their future management. The Company has no present intention to change the composition of the Board upon Completion. Under the Sale and Purchase Agreement, the Vendor will not be conferred any right to nominate any Director to the Board. Hence, it is not expected that, upon Completion of the Acquisition, any of the ultimate beneficial owner or any other nominees of the Vendor will have any management involvement in the Company or be appointed as Directors.

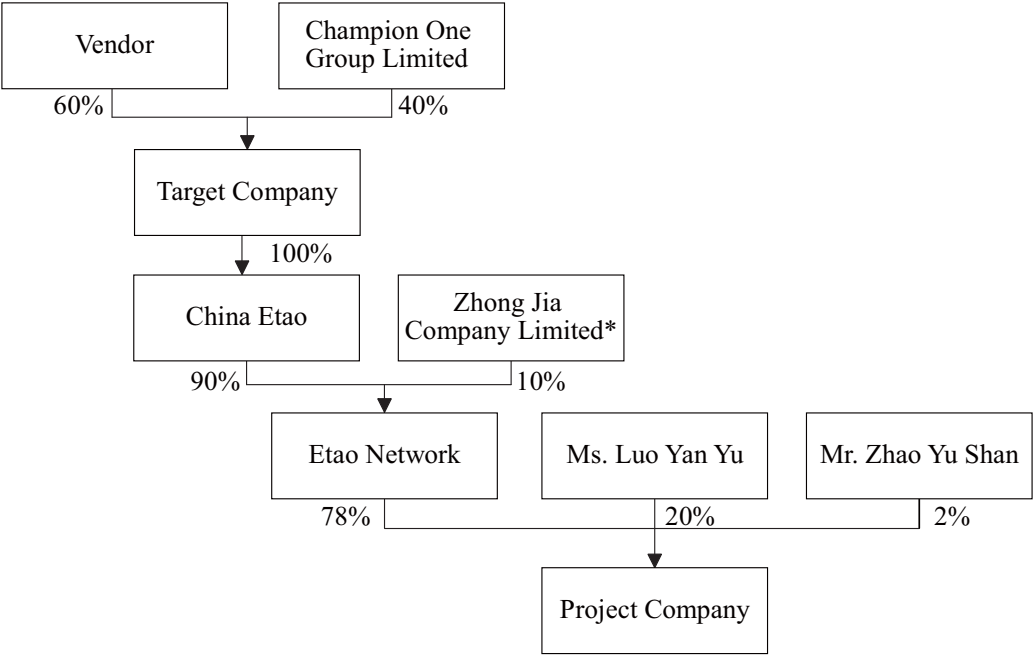
To finance the Acquisition, the Company will, from time to time, consider using appropriate equity and/or debt financing method(s) to satisfy the Consideration in the future. As at the date of this announcement, the Company has commenced preliminary negotiation with financial institutions regarding and possible fund raising opportunity but no concrete plan nor formal agreement has been reached. The Company will take a prudent approach to raise sufficient cash for the settlement of the Consideration (including the repayment of the Promissory Notes and the Convertible Notes) and future development of the Group as well as to improve the financial position of the Enlarged Group in the event that any suitable fund raising opportunities arise. The Directors are aware that the Enlarged Group's liquidity position would depend largely on the prospect of the Target Group and the fund raising activities to be conducted in the future. The proceeds from any fund raising will be applied for (i) the general working capital of the Enlarged Group; (ii) financing the remaining portion of the Consideration, including but not limited to the repayment of the Promissory Notes; and (iii) funding other acquisition opportunities that may be identified by the Company as the Company has from time to time been approached by investors for potential investment projects. The Company will make further announcement in accordance with the Listing Rules as and when appropriate.

The terms and conditions of the Sale and Purchase Agreement were arrived at after arm's length negotiations between the Company and the Vendor. Nevertheless, the Board considers that the Enlarged Group may be posed with certain inevitable risks due to the Acquisition. Having balanced the risks associated with the Acquisition and the outlook of the e-payment industry of Etao Network and the Project Company, the Board is of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

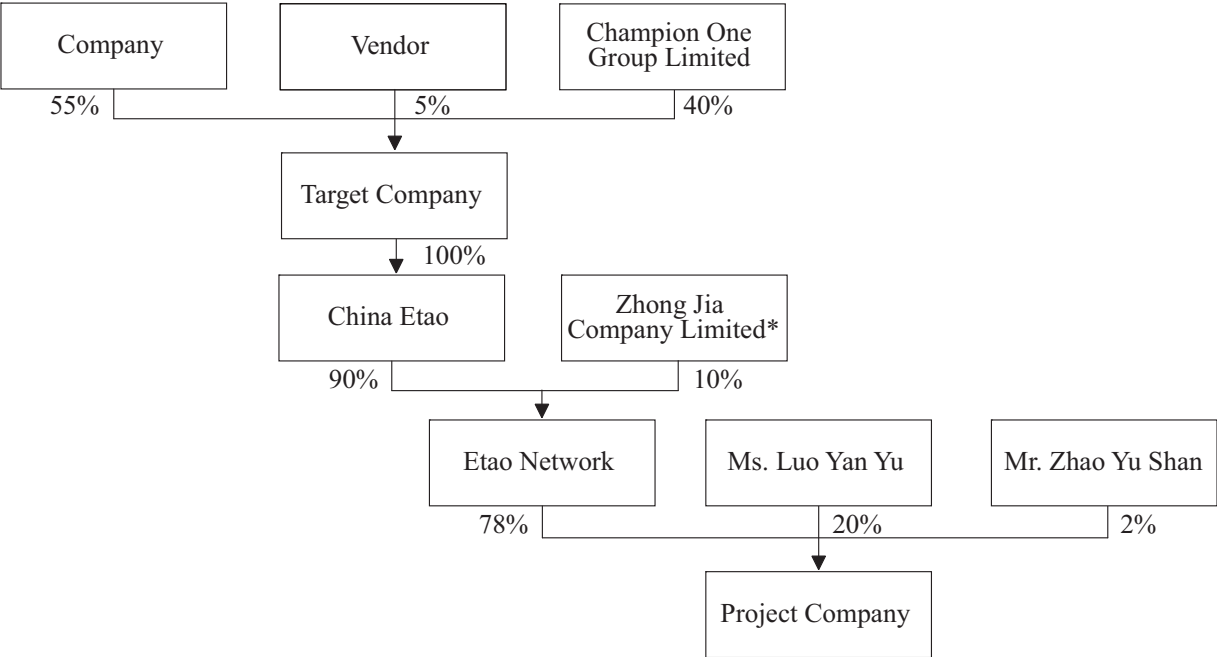
**SHAREHOLDING STRUCTURE OF THE TARGET GROUP**

The following charts show the simplified shareholding structure of the Target Group (i) as at the date of the Sale and Purchase Agreement; and (ii) immediately after the Completion.

(i) Simplified shareholding structure as at the date of the Sale and Purchase Agreement:



(ii) Simplified shareholding structure immediately after the Completion:



## CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

For illustrative purpose only, set out below is a summary of the shareholdings in the Company (i) as at the date of this announcement; and (ii) after allotment of the maximum number of the Conversion Shares upon full conversion of the Convertible Notes at the initial Conversion Price:

Shareholding table	(i) As at the date of this announcement		(ii) after allotment of the maximum number of the Conversion Shares upon full conversion of the Convertible Notes at the initial Conversion Price	
	Number of shares	%	Number of shares	%
Vendor	0	0.00	156,250,000	19.61
Asian Gold Dragon Limited (note 1)	215,054,500	33.57	215,054,500	26.99
Rising Step Holdings Limited (note 2)	71,376,000	11.14	71,376,000	8.95
Public shareholders	354,212,700	55.29	354,212,700	44.45
<b>Total</b>	<b>640,643,200</b>	<b>100</b>	<b>796,893,200</b>	<b>100</b>

Notes:

1. These Shares are held by Asian Gold Dragon Limited. Mr. Sze Chun Ning, Vincent holds 85% of the issued share capital of Asian Gold Dragon Limited.
2. These Shares are held by Rising Step Holdings Limited. Mr. Zhou Shui Jia holds the entire issued share capital of Rising Step Holdings Limited.

## **IMPLICATIONS UNDER THE LISTING RULES**

As the applicable percentage ratios (as defined under the Listing Rules) of the Acquisition exceed 25% but are less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The SGM will be held for the Shareholders to consider and, if thought fit, approve the ordinary resolution(s) in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder. As no Shareholder has an interest in the Sale and Purchase Agreement that is materially different from other Shareholders, no Shareholder is required to abstain from voting at the SGM in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.

## **GENERAL**

A circular containing, among other things, (i) further details of the Acquisition; (ii) financial information of the Group and the accountants' report of the Target Group; (iii) the valuation report of the Target Company; and (iv) a notice of the SGM, is expected to be despatched to the Shareholders on or before 31 December 2011 in order to have more time to finalize the information to be contained in the Circular.

**As completion of the Acquisition is subject to the fulfillment of the conditions precedent to the Acquisition, the Acquisition may or may not be completed. Shareholders and potential investors should exercise caution when dealing in the Shares.**

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares of the Company on the Stock Exchange was suspended from 9:00 a.m. on 8 November 2011, pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 9 November 2011.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Acquisition”	the proposed acquisition of the Sale Shares and the Sale Loans by the Company pursuant to the Sale and Purchase Agreement
“associate(s)”	shall have the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors

“Business Day(s)”	a day (excluding Saturday, Sunday and public holiday) on which banks are generally open for business for more than five hours in Hong Kong
“China Etao”	China Etao Commercial Union Holding Limited (中國易淘商聯集團有限公司), a company incorporated in Hong Kong with limited liability
“Company”	ABC Communications (Holdings) Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“Completion”	the completion of the Acquisition pursuant to the Sale and Purchase Agreement
“Completion Date”	the date on which Completion takes place in accordance with the Sale and Purchase Agreement
“connected person(s)”	shall have the meaning ascribed to it under the Listing Rules
“Consideration”	HK\$200,000,000, being the total consideration payable to the Vendor for the Acquisition
“Conversion Price”	HK\$0.32 per Conversion Share, subject to adjustments in accordance with the terms and conditions of the Sale and Purchase Agreement and the terms of the Convertible Notes
“Conversion Shares”	Shares to be issued by the Company upon exercise of the conversion rights attaching to the Convertible Notes
“Convertible Notes”	the convertible notes in the principal amount of HK\$50,000,000 to be issued by the Company in part payment of the Consideration pursuant to the Sale and Purchase Agreement
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group and the Target Group immediately after the Completion
“Etao Network”	Etao Network Technology Company Limited* (易淘網絡技術股份有限公司), a Sino-Foreign Equity Joint Stock Company incorporated in the PRC with limited liability
“Group”	the Company and its subsidiaries



“Guarantor”	Mr. Zong Xiao Hua, who owns the entire issued share capital of the Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of, and not connected with, the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“POS Terminal(s)”	the terminals of the point of sales, including the point of sales machine together with the provision of the relevant settlement system and ancillary services for such terminals.
“PRC”	the People’s Republic of China
“Project Company”	Etao Commercial-Union Electronic Device Leasing Co., Ltd.* (深圳市易淘商聯電子設備租憑有限公司), a company incorporated in the PRC with limited liability
“Promissory Notes”	the promissory notes to be issued by the Company to the Vendor in part payment of the Consideration pursuant to the Sale and Purchase Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the conditional sale and purchase agreement in relation to the Acquisition entered into between the Company and the Vendor on 7 November 2011
“Sale Loans”	55% of all liabilities owing by the Target Group to the Vendor at Completion
“Sale Shares”	55% of the entire issued share capital of the Target Company as at the date of the Sale and Purchase Agreement
“SGM”	the special general meeting of the Company to be held for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company

“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers of Hong Kong
“Target Company”	Billion Light Holdings Limited (億隆控股有限公司), a company incorporated in the British Virgin Islands with limited liability
“Target Group”	the Target Company and its subsidiaries
“Vendor”	Magic Luck International Limited, a company incorporated in the British Virgin Islands with limited liability
“%”	per cent.

*For the purpose of this announcement, all amounts denominated in RMB have been translated (for illustrative purpose only) into HK\$ using the exchange rate of RMB1.00:HK\$1.22. No representation is made that any amounts in RMB or HK\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.*

By order of the Board of  
**ABC Communications (Holdings) Limited**  
**Chen Jiasong**  
*Chairman*

Hong Kong, 8 November 2011

*As at the date of this announcement, the Board of the Company comprises:*

*Executive Directors:*

*Mr. Chen Jiasong (Chairman)*

*Mr. Cheung Wai Shing*

*Mr. Choy Kai Chung, Andy*

*Mr. Lau Kevin*

*Mr. Song Gaofeng*

*Ms. Ma Sai*

*Non-executive Director:*

*Mr. Qiu Hai Jian*

*Independent Non-executive Directors:*

*Mr. Lee Kwong Yiu*

*Mr. Lee Ho Yiu, Thomas*

*Mr. Zhang Guang Hui*

*\* For identification purpose only*