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Silver Base Group Holdings Limited

銀基集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 886)

(1) TERMINATION OF EXISTING CONTINUING CONNECTED TRANSACTION; AND (2) ENTERING INTO OF NEW CONTINUING CONNECTED TRANSACTION

TERMINATION OF EXISTING CONTINUING CONNECTED TRANSACTION

On 1 April 2011, Silver Base Shenzhen and Guizhou Yaxi have entered into the Termination Agreement pursuant to which the parties have agreed to terminate the Existing Distribution Agreement by mutual consent upon the taking effect of the New Distribution Agreement.

The Directors confirm that neither Silver Base Shenzhen nor Guizhou Yaxi has to pay the other party any compensation as a result of the termination of the Existing Distribution Agreement.

The Directors also confirm that the termination of the Existing Distribution Agreement was occasioned by the change in the distribution strategy in relation to the Products of Guizhou Yaxi and that the termination of the Existing Distribution Agreement will not cause any material adverse impact to the Group due to the entering into of the New Distribution Agreement.

ENTERING INTO OF NEW CONTINUING CONNECTED TRANSACTION

On 1 April 2011, Silver Base Shenzhen has entered into the New Distribution Agreement with the Distribution Company, pursuant to which Silver Base Shenzhen has been appointed as a distributor of the Products manufactured by Guizhou Yaxi for a term commencing from the Effective Date to 30 September 2013. Pursuant to the New Distribution Agreement, Silver Base Shenzhen shall place purchase orders for the Products with the Distribution Company for a minimum of RMB10,000,000 each year during the term of the New Distribution Agreement.

The Distribution Company is appointed by Guizhou Yaxi as the global distributor of the Products with the authority to further appoint sub-distributors. The Distribution Company is a company owned as to 20% by Mr. Liang Guofeng and 80% by Mr. Liang Guomin. Since Mr. Liang Guofeng and Mr. Liang Guomin are cousins of Mr. Liang Guoxing, an executive Director, who is interested in 785,068,000 Shares, representing approximately 65.97% of the entire issued share capital of the Company as at the date of this announcement, the Distribution Company is therefore a connected person of the Company and the transactions under the New Distribution Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Given that the applicable percentage ratios in respect of the Annual Caps exceeds 5% and the annual consideration exceeds HK\$10,000,000, the New Distribution Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

A circular containing, among other things, details of the New Distribution Agreement, a letter from the independent financial adviser containing its advice to the Independent Board Committee on the New Distribution Agreement and the transactions contemplated thereunder, the recommendation of the Independent Board Committee regarding the New Distribution Agreement and the transactions contemplated thereunder to the Independent Shareholders and the notice of the EGM is expected to be dispatched to the Shareholders on or before 27 April 2011 in accordance with the Listing Rules. Mr. Liang Guoxing and his associates will have to abstain from voting on the resolution for approving the New Distribution Agreement at the EGM.

TERMINATION OF EXISTING CONTINUING CONNECTED TRANSACTION

On 1 April 2011, Silver Base Shenzhen and Guizhou Yaxi have entered into the Termination Agreement pursuant to which the parties have agreed to terminate the Existing Distribution Agreement by mutual consent upon the taking effect of the New Distribution Agreement. Further details of the Existing Distribution Agreement and the transactions contemplated thereunder could be found in the circular of the Company dated 5 October 2010.

Prior to the taking effect of the Termination Agreement, Silver Base Shenzhen and Guizhou Yaxi will continue to perform their respective obligations under the Existing Distribution Agreement. In the event that the New Distribution Agreement does not become effective for whatever reasons, the Existing Distribution Agreement will remain in full force and binding on both Silver Base Shenzhen and Guizhou Yaxi.

The Directors confirm that neither Silver Base Shenzhen nor Guizhou Yaxi has to pay the other party any compensation as a result of the termination of the Existing Distribution Agreement.

The Directors also confirm that the termination of the Existing Distribution Agreement was occasioned by the change in the distribution strategy in relation to the Products of Guizhou Yaxi and that the termination of the Existing Distribution Agreement will not cause any material adverse impact to the Group due to the entering into of the New Distribution Agreement.

ENTERING INTO OF NEW CONTINUING CONNECTED TRANSACTION THE NEW DISTRIBUTION AGREEMENT

Date

1 April 2011

Parties

- (i) Silver Base Shenzhen (as the purchaser); and
- (ii) The Distribution Company (as the supplier).

The Distribution Company is appointed by Guizhou Yaxi as the global distributor of the Products with the authority to further appoint sub-distributors. The Distribution Company is a company owned as to 20% by Mr. Liang Guofeng and 80% by Mr. Liang Guomin. Since Mr. Liang Guofeng and Mr. Liang Guomin are cousins of Mr. Liang Guoxing, an executive Director, who is interested in 785,068,000 Shares, representing approximately 65.97% of the entire issued share capital of the Company as at the date of this announcement, the Distribution Company is therefore a connected person of the Company and the transactions under the New Distribution Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The Distribution Company is principally engaged in the sales and distribution of the Products.

Subject Matter

Pursuant to the New Distribution Agreement, Silver Base Shenzhen has been appointed as a distributor of the Products manufactured by Guizhou Yaxi for a term commencing from the Effective Date to 30 September 2013.

Pursuant to the New Distribution Agreement, Silver Base Shenzhen shall place purchase orders for the Products with the Distribution Company for a minimum of RMB10,000,000 each year during the term of the New Distribution Agreement.

The Distribution Company has guaranteed that the annual supply volume of the Products to Silver Base Shenzhen in aggregate will be at least 1,000 tons and will satisfy the annual purchase quantity as ordered by Silver Base Shenzhen from time to time. The Distribution Company has agreed with Silver Base Shenzhen that the price of the Products offered to Silver Base Shenzhen will be on terms not less favourable than the terms available to other independent third parties for purchase of the Products of comparable quantity. The price of the Products are determined with reference to costs of the Products, which have covered the tax rates chargeable to the Distribution Company in relation to the sales of the Products and a profit margin of the Distribution Company.

Silver Base Shenzhen is entitled to fix the retail price of the Products to the consumers or its distributors.

Silver Base Shenzhen shall give prior notice of 40-working day prior to the delivery of the Products and settle the purchase price by way of bank remittance within 10 working days thereafter.

Condition Precedent

The New Distribution Agreement is conditional upon the passing of the resolution by the Independent Shareholders at the EGM approving the New Distribution Agreement, including the Annual Caps.

If the condition precedent is not fulfilled by 31 August 2011, the New Distribution Agreement shall lapse and be terminated and, save any antecedent breach, Silver Base Shenzhen and the Distribution Company shall be released from the New Distribution Agreement and neither party to the New Distribution Agreement shall have any claim against the other party.

Annual Caps

Silver Base Shenzhen shall place purchase orders for the Products with the Distribution Company for a minimum of RMB10,000,000 each year.

The Board proposes the Annual Caps for the period commencing from the Effective Date and ending 31 March 2012, the financial year of the Group ending 31 March 2013, and the six months ending 30 September 2013 are as follows:

	For the period commencing from the Effective Date and ending 31 March 2012 (RMB'000)	For the financial year ending 31 March 2013 (RMB'000)	For the six months ending 30 September 2013 (RMB'000)
Annual Caps	125,000	187,500	137,500

The Annual Caps are determined with reference to (i) the targeted sales of the Products; (ii) the expected annual growth rates of the mid-end baijiu (白酒) market in the PRC; (iii) the existing extensive distribution channels and network of the Group for baijiu (白酒) products in the PRC; and (iv) the history and recognition of the Yaxi brand in the PRC. The Board made the aforesaid assumptions based on (a) market research by a securities firm on the PRC baijiu (白酒) market which suggested the baijiu (白酒) market in the PRC had expanded by approximately 29.4% for the first six months in 2010; and (b) the annual GDP growth of the PRC would maintain at a rate of approximately 8% to 9% on a year-on-year basis.

The Annual Caps for the New Distribution Agreement are the same as those for the Existing Distribution Agreement.

The Group first introduced the Products in 2010 on a trial basis and the Group entered into the Existing Distribution Agreement on 10 September 2010 to secure the procurement of the Products. The purchase amounts of the Group in respect of the Products for the eleventh months period ended 28 February 2011 was approximately RMB14,000,000.

REASONS FOR ENTERING INTO OF THE NEW DISTRIBUTION AGREEMENT

The entering into of the New Distribution Agreement was occasioned by the change in the distribution strategy of Guizhou Yaxi in relation to the Products whereby Guizhou Yaxi has engaged the Distribution Company as the global distributor of the Products with the authority to further appoint sub-distributors. Such change in the business strategy has resulted in the entering into of the Termination Agreement as well as the New Distribution Agreement.

The Group has well established distribution channels and networks in the PRC. The entering into of the New Distribution Agreement will allow the distribution of the Products continuously through the existing extensive distribution channels and networks thereby enhancing the efficiency and sales capabilities of existing extensive distribution channels and networks. The brand of Yaxi in the baijiu (白酒) market has a very long history of more than 200 years and cultural background and is widely recognized. The Products are mid-end Chinese baijiu (白酒) of “strong flavor type (濃香型)”. The introduction of the Products by the Group will on one hand expand the business of mid-end baijiu (白酒) of the Group in the PRC and will on the other hand diversify the Group’s products portfolio and increase income source.

The management believes that the distribution of the Products will not result in substitutive competition with the existing baijiu (白酒) which the Group is now distributing, including the Wuliangye (五糧液), a high-end Chinese baijiu (白酒) and baijiu (白酒) of 43% Guojiao (國窖) 1573 but instead will complement each other. The Board believes that the entering into of the New Distribution Agreement represents a trust and recognition of the capability of the Group’s distribution channels and networks

by the Distribution Company, which will not only attract more high quality distributors joining the distribution team of the Group but also assist the Group in attracting other renowned liquor brands for the grant to the Group distribution rights.

The New Distribution Agreement was entered into during the ordinary and usual course of business of the Group. The Directors (excluding the independent non-executive Directors, who will form their view after considering the advice from an independent financial adviser to be appointed) consider that the terms of the New Distribution Agreement, including the Annual Caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The Distribution Company is a company owned as to 20% by Mr. Liang Guofeng and 80% by Mr. Liang Guomin. Since Mr. Liang Guofeng and Mr. Liang Guomin are cousin of Mr. Liang Guoxing, an executive Director, who is interested in 785,068,000 Shares, representing approximately 65.97% of the entire issued share capital of the Company as at the date of this announcement, the Distribution Company is therefore a connected person of the Company and the transactions under the New Distribution Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Mr. Liang Guoxing, an executive Director who has a material interest in the New Distribution Agreement, has abstained from voting on the resolution approving the New Distribution Agreement at a meeting of the Board.

Given that the applicable percentage ratios in respect of the Annual Caps exceeds 5% and the annual consideration exceeds HK\$10,000,000, the New Distribution Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

A circular containing, among other things, details of the New Distribution Agreement, a letter from the independent financial adviser containing its advice to the Independent Board Committee on the New Distribution Agreement, the recommendation of the Independent Board Committee regarding the New Distribution Agreement to the Independent Shareholders and the notice of the EGM is expected to be dispatched to the Shareholders on or before 27 April 2011 in accordance with the Listing Rules. Mr. Liang Guoxing and his associates will have to abstain from voting on the resolution approving the New Distribution Agreement at the EGM.

GENERAL

The Group is principally engaged in the distribution of the Wuliangye (五糧液) Liquor Series (a popular and traditional high-end Chinese baijiu (白酒) liquor) for the PRC and international markets.

DEFINITIONS

Unless the context requires otherwise, the following words and phrases used in this announcement have the following meanings:

“Annual Caps”	the annual aggregate maximum amount of purchase for the Products payable by the Group to the Distribution Company under the New Distribution Agreement
“associate(s)”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Company”	Silver Base Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Directors”	directors of the Company
“Distribution Company”	Guizhou Yaxi Cellar Liquors Distribution Co., Ltd.* (貴州鴨溪窖酒銷售有限公司), a company formed under the laws of the PRC with limited liability
“Effective Date”	being the date on which the Independent Shareholders approve the New Distribution Agreement and the transactions contemplated thereunder, including the Annual Caps at the EGM by way of ordinary resolution
“EGM”	an extraordinary general meeting of the Company to be held to approve the New Distribution Agreement and the transactions contemplated thereunder including the Annual Caps
“Existing Distribution Agreement”	the distribution agreement dated 10 September 2010 entered into between Silver Base Shenzhen and Guizhou Yaxi in relation to the purchase and supply of the Products
“Group”	the Company and its subsidiaries

“Guizhou Yaxi”	Guizhou Yaxi Liquors Co., Ltd.* (貴州鴨溪酒業有限公司), a company formed under the laws of the PRC with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors appointed to advise the Independent Shareholders in respect of the New Distribution Agreement and the transactions contemplated thereunder including the Annual Caps
“Independent Shareholders”	Shareholders of the Company other than Mr. Liang Guoxing and his associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Distribution Agreement”	the distribution agreement dated 1 April 2011 entered into between Silver Base Shenzhen and the Distribution Company in relation to the purchase and supply of the Products
“PRC”	the People’s Republic of China
“Products”	baijiu (白酒) Yaxi (鴨溪) series of 38 degree and 52 degree
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the ordinary share(s) of HK\$0.1 each in the capital of the Company
“Shareholders”	holders of the Shares
“Silver Base Shenzhen”	銀基貿易發展(深圳)有限公司 Silver Base Trading and Development (Shenzhen) Co., Ltd., a company incorporated in the PRC with limited liability on 21 December 2005 and an indirect wholly-owned subsidiary of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Termination Agreement”	the termination agreement dated 1 April 2011 entered into between Silver Base Shenzhen and Guizhou Yaxi in relation to the termination of the Existing Distribution Agreement
“%”	per cent

By Order of the Board
Liang Guoxing
Chairman

Hong Kong, 1 April 2011

As at the date of this announcement, the Board comprises Mr. Liang Guoxing (Chairman), Mr. Guan Huanfei, Mr. Wang Jindong, Mr. Joseph Marian Laurence Ozorio and Ms. Cheung Mei Sze as executive Directors; Mr. Wu Jie Si and Mr. Chen Sing Hung Johnny as non-executive Directors; and Mr. Hung Sui Kwan, Mr. Ma Lishan and Mr. Zhang Min as independent non-executive Directors.

For the purpose of this announcement, the exchange rate of RMB1=HK\$1.189 is adopted.

* *denotes a translation of a Chinese name and/or English name only*