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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)**

### **CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE (1) 2017 DISTRIBUTION AGREEMENT AND (2) RENEWAL OF TENANCY AGREEMENT**

#### **THE 2017 DISTRIBUTION AGREEMENT**

Reference is made to the announcement of the Company dated 8 August 2014 and the circular of the Company dated 5 September 2014 in relation to the 2014 Distribution Agreement. The 2014 Distribution Agreement will expire on 31 March 2017. The Group and Guizhou Yaxi decided to distribute the Products through its newly launched the Wine Kingdom B2B Platform and to continue with the marketing strategy for the distribution of the baijiu products of Guizhou Yaxi following the expiry of the 2014 Distribution Agreement. On 14 February 2017, Silver Base Shenzhen, an indirect wholly-owned subsidiary of the Company, entered into the 2017 Distribution Agreement with Guizhou Yaxi in this regard.

#### **LISTING RULES IMPLICATION**

Guizhou Yaxi 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, a Director, the chief executive officer and a substantial shareholder of the Company, who is interested in 998,263,750 Shares, representing approximately 43.92% of the entire issued share capital of the Company as at the date of this announcement, Guizhou Yaxi is a connected person of the Company and the transaction under the 2017 Distribution Agreement therefore constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios for the supply of Products by Guizhou Yaxi to the Company pursuant to the 2017 Distribution Agreement calculated on an annual basis by reference to the estimated Annual Caps I payable to Guizhou Yaxi under the 2017 Distribution Agreement are more than 5% and the annual consideration exceeds HK\$10,000,000, the 2017 Distribution Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene the EGM to seek approval of the Independent Shareholders for the 2017 Distribution Agreement and the transactions contemplated thereunder, including the Annual Caps I. Mr. Liang and his associates are required to abstain from voting on the resolution for approving the 2017 Distribution Agreement (including the Annual Caps I) at the EGM.

A circular containing, among other things, (i) further details of the 2017 Distribution Agreement (including the Annual Caps I); (ii) the advice from the Independent Board Committee; (iii) the advice to the Independent Board Committee and the Independent Shareholders of the Company from Gram Capital; together with (iv) the notice convening the EGM, will be dispatched by the Company to the Shareholders on or before 1 March 2017.

#### **THE TENANCY AGREEMENT**

On 14 February 2017, Silver Base Development, an indirect wholly-owned subsidiary of the Company, entered into the Tenancy Agreement with SBH in relation to the lease of the Property from SBH. The lease is for a period of three years commencing from 1 April 2017 at a monthly rental of HK\$700,000, HK\$750,000 and HK\$800,000 for the first, second and third twelve months of the lease period respectively.

#### **LISTING RULES IMPLICATION**

As at the date of this announcement, Mr. Liang is interested in 998,263,750 Shares, representing approximately 43.92% of the entire issued share capital of the Company. Since Mr. Liang is a Director, the chief executive officer and a substantial shareholder of the Company and SBH is wholly and beneficially owned by Mr. Liang, each of Mr. Liang and SBH is a connected person of the Company. Accordingly, the Tenancy Agreement constitutes a continuing connected transaction on the part of the Company under Chapter 14A of the Listing Rules.

The Annual Caps II for the Tenancy Agreement for the financial years ending 31 March 2018, 2019 and 2020 are determined to be HK\$8,400,000, HK\$9,000,000 and HK\$9,600,000 respectively. Since the applicable percentage ratios for the Annual Caps II are more than 0.1% and less than 5%, the transaction as contemplated under the Tenancy Agreement is subject to the reporting, annual review and announcement requirements but is exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules.

## **BACKGROUND**

Reference is made to the announcement of the Company dated 8 August 2014 and the circular of the Company dated 5 September 2014 in relation to the 2014 Distribution Agreement. The 2014 Distribution Agreement will expire on 31 March 2017. The Group and Guizhou Yaxi decided to distribute the Products through the Wine Kingdom B2B Platform and to continue with the marketing strategy for the distribution of the baijiu products of Guizhou Yaxi following the expiry of the 2014 Distribution Agreement. On 14 February 2017, Silver Base Shenzhen, an indirect wholly-owned subsidiary of the Company, entered into the 2017 Distribution Agreement with Guizhou Yaxi to in this regard.

## **THE 2017 DISTRIBUTION AGREEMENT**

The principal terms of the 2017 Distribution Agreement are set out below:

### **Date**

14 February 2017

### **Parties**

- (i) Silver Base Shenzhen (as the purchaser); and
- (ii) Guizhou Yaxi (as the supplier).

Guizhou Yaxi 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, a Director, the chief executive officer and a substantial shareholder of the Company, who is interested in 998,263,750 Shares, representing approximately 43.92% of the entire issued share capital of the Company as at the date of this announcement, Guizhou Yaxi is a connected person of the Company.

Guizhou Yaxi is principally engaged in the sale of Yaxi (鴨溪) series baijiu (白酒).

## **Subject Matter**

Pursuant to the 2017 Distribution Agreement, Silver Base Shenzhen was appointed as a distributor of the Products of Guizhou Yaxi for a term of three years commencing from 1 April 2017 to 31 March 2020.

Pursuant to the 2017 Distribution Agreement, Silver Base Shenzhen shall place purchase orders for the Products with Guizhou Yaxi for a minimum of RMB10,000,000 each year during the term of the 2017 Distribution Agreement.

Guizhou Yaxi has guaranteed that the annual supply volume of the Products to Silver Base Shenzhen in aggregate would be no less than 1,000 tons and would satisfy the annual purchase quantity as ordered by Silver Base Shenzhen from time to time.

Guizhou Yaxi has agreed with Silver Base Shenzhen that the purchase price of the Products offered to Silver Base Shenzhen would be not less favourable than the terms available to other independent third parties. The initial prices at which Guizhou Yaxi will supply the Products to Silver Base Shenzhen have been fixed and may be adjusted by further agreement between the parties, subject to the aforesaid pricing principle.

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

Silver Base Shenzhen shall provide regular updates on the estimated demand of the Products for the coming six months to Guizhou Yaxi, which estimate shall be for reference only and subject to placement of purchase orders by Silver Base Shenzhen. Silver Base Shenzhen shall settle the purchase price by way of bank remittance within 10 working days after the issuance of the concerned purchase order.

## **Condition Precedent**

The 2017 Distribution Agreement is conditional upon the passing of the resolution by the Independent Shareholders at the EGM approving the 2017 Distribution Agreement and the transactions contemplated thereunder, including the Annual Caps I.

If the condition precedent is not fulfilled by the date of the EGM or its adjournment, the 2017 Distribution Agreement shall lapse and be terminated and, save for any antecedent breach, Silver Base Shenzhen and Guizhou Yaxi shall be released from the 2017 Distribution Agreement and neither party to the 2017 Distribution Agreement shall have any claim against the other party.

## Annual Caps I

The Board proposes that the Annual Caps I for the financial years of the Group ending 31 March 2018, 2019, and 2020 are as follows:

### Historical transaction amounts (excluding VAT)

For the financial year ending 31 March 2015 (RMB)	For the financial year ending 31 March 2016 (RMB)	For the period commencing from 1 April 2016 to 30 September 2016 (RMB)	For the period commencing from 1 October 2016 to 31 January 2017 (RMB)
8,344,536	2,850,598	957,246	1,404,000

### Proposed Annual Caps I amounts (excluding VAT)

For the financial year ending 31 March 2018 (RMB'000)	For the financial year ending 31 March 2019 (RMB'000)	For the financial year ending 31 March 2020 (RMB'000)
170,000	205,000	250,000

The Annual Caps I are determined with reference to: (i) the current market situation of low-end baijiu market in the PRC; (ii) the projected sales of the Products; (iii) the future development plan of the Group; (iv) the existing extensive distribution channels and network of the Group for baijiu products in the PRC; and (v) the history and recognition of the Yaxi brand in the PRC.

## REASONS FOR AND BENEFITS OF THE 2017 DISTRIBUTION AGREEMENT

On 14 February 2017, the Group entered into the 2017 Distribution Agreement with Guizhou Yaxi, pursuant to which the Products were supplied by Guizhou Yaxi to the Group for a term from 1 April 2017 expiring on 31 March 2020. The Group has well established distribution channels and networks in the PRC. The entering into of the 2017 Distribution Agreement allows the distribution of the Products through the Wine Kingdom B2B Platform and the existing extensive distribution channels and networks thereby enriching the variety of products available for sales on the Wine Kingdom B2B Platform and enhancing the efficiency and sales capabilities of existing extensive distribution channels and networks.

The Directors consider that a long term and steady relationship with Guizhou Yaxi is of importance to the Company as it enables a timely and reliable supply of suitable products to the Company which in turn reduces the operational risks and guarantees a smooth distribution of the Company's products.

The Products are mainly for the low-end market. The Directors believe that the 2017 Distribution Agreement will strengthen the Group's low-end product portfolio and enhance the Company's strategy to expand on low-end product lines in response to the changes in PRC baijiu consumer market.

As the Group intends to continue its existing business relationship with Guizhou Yaxi beyond expiration of the 2014 Distribution Agreement, Silver Base Shenzhen entered into the 2017 Distribution Agreement with Guizhou Yaxi for a term of three years expiring on 31 March 2020.

The 2017 Distribution Agreement was entered into in the ordinary and usual course of business of the Group. The Directors (excluding the independent non-executive Directors) consider that the terms of the 2017 Distribution Agreement and the transaction contemplated thereunder, including the Annual Caps I, are fair and reasonable and are in the interest of the Company and Shareholders as a whole.

### **LISTING RULES IMPLICATIONS**

Guizhou Yaxi 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, a Director, the chief executive officer and a substantial shareholder of the Company, who is interested in 998,263,750 Shares, representing approximately 43.92% of the entire issued share capital of the Company as at the date of this announcement, Guizhou Yaxi is a connected person of the Company and the transaction under the 2017 Distribution Agreement therefore constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. Mr. Liang, a Director, the chief executive officer and a substantial shareholder of the Company who has a material interest in the 2017 Distribution Agreement, has abstained from voting on the resolution approving the 2017 Distribution Agreement (including the Annual Caps I) at a meeting of the Board.

Given that the relevant applicable percentage ratios for the supply of Products by Guizhou Yaxi to the Company pursuant to the 2017 Distribution Agreement calculated on an annual basis by reference to the estimated Annual Caps I payable to Guizhou Yaxi under the 2017 Distribution Agreement are more than 5% and the annual consideration payable under the 2017 Distribution Agreement by the Group exceeds HK\$10,000,000, the 2017 Distribution Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will convene the EGM to seek approval of the Independent Shareholders for the 2017 Distribution Agreement and the transactions contemplated thereunder, including the Annual Caps I. Mr. Liang and his associates are required to abstain from voting on the resolution for approving the 2017 Distribution Agreement (including Annual Caps I) at the EGM.

An Independent Board Committee has been formed by the Company to consider the terms of the 2017 Distribution Agreement (including the Annual Caps I) to be imposed pursuant to the requirements under the Listing Rules. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the 2017 Distribution Agreement and the Annual Caps I.

A circular containing, among other things, (i) further details of the 2017 Distribution Agreement (including the Annual Caps I); (ii) the advice from the Independent Board Committee; (iii) the advice to the Independent Board Committee and the Independent Shareholders of the Company from Gram Capital; together with (iv) the notice convening the EGM, will be dispatched by the Company to the Shareholders on or before 7 days before EGM.

## **GENERAL**

The Group is principally engaged in the distribution of Wuliangye (五糧液) liquor series, National Cellar 1573 (國窖1573) baijiu with 43% alcohol content, Kweichow Moutai Chiew (貴州茅台酒) products, Fen Wine (汾酒) with 55% alcohol content liquor series, Red Fen Shijia (紅汾世家) liquor series, Yaxi Classic liquor series and Old Vintage liquor series, wine, foreign liquor series and Chinese cigarettes.

## **THE TENANCY AGREEMENT**

The Board is pleased to announce that on 14 February 2017, Silver Base Development, an indirect wholly-owned subsidiary of the Company, entered into the Tenancy Agreement with SBH in relation to the leasing of the Property from SBH for a term of three years commencing from 1 April 2017.

The principal terms of the Tenancy Agreement are as follows:

### **Date**

14 February 2017

### **Parties**

- (i) Silver Base Development (as the tenant); and
- (ii) SBH (as the landlord)

### **Premises**

House No. 8, No. 33 Island Road, Hong Kong

### **Term**

Three years, commencing from 1 April 2017 and expiring on 31 March 2020 (both days inclusive)

## **Monthly Rent**

Monthly rent (exclusive of management fee, rates, and all other outgoings) is payable in advance on the first day of each calendar month in cash as follows:

The first twelve months of the lease period of the Tenancy Agreement: HK\$700,000; the second twelve months of the lease period of the Tenancy Agreement: HK\$750,000; and the third twelve months of the lease period of the Tenancy Agreement: HK\$800,000.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Mr. Liang is interested in 998,263,750 Shares, representing approximately 43.92% of the entire issued share capital of the Company. Since Mr. Liang is a Director, the chief executive officer and a substantial shareholder of the Company and SBH is wholly and beneficially owned by Mr. Liang, each of Mr. Liang and SBH is a connected person of the Company. Accordingly, the Tenancy Agreement constitutes a continuing connected transaction on the part of the Company under Chapter 14A of the Listing Rules.

The Annual Caps II for the Tenancy Agreement for the financial years ending 31 March 2018, 2019 and 2020 are determined to be HK\$8,400,000, HK\$9,000,000 and HK\$9,600,000 respectively. Since the applicable percentage ratios for the Annual Caps II are more than 0.1% and less than 5%, the transaction as contemplated under the Tenancy Agreement is subject to the reporting, annual review and announcement requirements but is exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules.

## **REASON FOR THE ENTERING INTO OF THE TENANCY AGREEMENT**

The Group is principally engaged in the distribution of Wuliangye (五糧液) liquor series, National Cellar 1573 (國窖1573) baijiu with 43% alcohol content, Kweichow Moutai Chiew (貴州茅台酒) products, Fen Wine (汾酒) with 55% alcohol content liquor series, Red Fen Shijia (紅汾世家) liquor series, Yaxi Classic liquor series and Old Vintage liquor series, wine, foreign liquor series and Chinese cigarettes.

The principal business activity of SBH is investment holding.

The Group has been leasing the Property from SBH as the residence for Mr. Liang in Hong Kong since 1 April 2007. The Tenancy Agreement is in fact the renewal of the current tenancy agreement in respect of the Property which will expire on 31 March 2017. Details of such current tenancy agreement have been disclosed in the announcement of the Company dated 29 January 2016.

The terms of the Tenancy Agreement have been determined after arm's length negotiations between the parties with reference to the prevailing market rates for comparable properties in Hong Kong as revealed in an appraisal report prepared by an independent valuer. The aggregate annual rent paid by the Group in respect of the Property for the two years ended 31 March 2015 and 31 March 2016 amounted to HK\$6,393,600 and HK\$6,393,600, respectively. The aggregate rent paid by the Group in respect of the Property for the six months ended 30 September 2016 amounted to HK\$3,600,000.

Based on the historical rentals paid by the Group for leasing the Property and also the appraisal report by an independent valuer on rental payable in respect of comparable properties in Hong Kong, the Directors, including the independent non-executive Directors but excluding Mr. Liang, are of the view that the Tenancy Agreement is entered into on normal commercial terms in the ordinary and usual course of business of the Group and that the terms of the Tenancy Agreement and the Annual Caps II are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As SBH is wholly and beneficially owned by Mr. Liang, Mr. Liang, who is a Director, the chief executive officer and a substantial shareholder of the Company, has material interest in the transactions under the Tenancy Agreement. Accordingly, Mr. Liang has abstained from voting on the relevant Board resolutions approving the Tenancy Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the Directors has a material interest in the transaction contemplated under the Tenancy Agreement and was required to abstain from voting on the relevant Board resolutions approving the Tenancy Agreement and the transaction contemplated thereunder.

## DEFINITIONS

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

“2014 Distribution Agreement”	the conditional distribution agreement dated 8 August 2014 entered into between Silver Base Shenzhen and Guizhou Yaxi in relation to the purchase and supply of the Products for a term of three years commencing retrospectively from 1 April 2014 to 31 March 2017
“2017 Distribution Agreement”	the conditional distribution agreement dated 14 February 2017 entered into between Silver Base Shenzhen and Guizhou Yaxi in relation to the purchase and supply of the Products for a term of three years commencing from 1 April 2017 to 31 March 2020
“Annual Caps I”	the maximum aggregate annual value (excluding VAT) payable to Guizhou Yaxi for the distribution of the Products pursuant to the 2017 Distribution Agreement
“Annual Caps II”	the annual aggregate maximum amount of the rent payable by the Group under the Tenancy 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 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
“EGM”	an extraordinary general meeting of the Company to be held to approve the 2017 Distribution Agreement and the transactions contemplated thereunder including the Annual Caps I

“Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the 2017 Distribution Agreement and the Annual Caps I
“Group”	the Company and its subsidiaries
“Guizhou Yaxi”	貴州鴨溪窖酒銷售有限公司 (Guizhou Yaxi Cellar Liquors Distribution Co., Ltd.*), 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 to advise the Independent Shareholders in respect of the 2017 Distribution Agreement and the transactions contemplated thereunder including the Annual Caps I
“Independent Shareholders”	Shareholders other than Mr. Liang and his associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Liang”	Mr. Liang Guoxing, a Director, the chief executive officer and a substantial Shareholder of the Company
“PRC”	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Products”	baijiu (白酒) Yaxi (鴨溪) series with 52 degree alcohol content
“Property”	House No. 8, No. 33 Island Road, Hong Kong
“RMB”	Renmenbi, the lawful currency of the PRC
“SBH”	Silver Base (Holdings) Limited, a company incorporated in Hong Kong with limited liability on 13 March 2000 and is wholly and beneficially owned by Mr. Liang

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

“Share(s)”	the ordinary share(s) of HK\$0.1 each in the capital of the Company
“Shareholder(s)”	holder(s) of the issued Shares
“Silver Base Development”	Silver Base International Development Co. Limited, a company incorporated in Hong Kong with limited liability on 21 February 1997 and an indirect wholly-owned subsidiary of the Company
“Silver Base Shenzhen”	銀基貿易發展(深圳)有限公司 (Silver Base Trading and Development (Shenzhen) Co. Limited), a company incorporated in the PRC on 21 December 2005 with limited liability and an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenancy Agreement”	the tenancy agreement dated 14 February 2017 entered into between Silver Base Development and SBH in relation to the leasing of the Property for a term of three years commencing from 1 April 2017 at a monthly rent of HK\$700,000, HK\$750,000 and HK\$800,000 for the first, second and third twelve months of the lease period respectively
“VAT”	value added tax
Wine Kingdom B2B Platform	the internet business-to-business trading platform developed by the Company and was officially launched on 29 May 2016. Through which, the Company realizes direct contact with retail operators in doing wholesaling business and thus eliminated some layers of distribution in between
“%”	per cent.

By Order of the Board  
**Silver Base Group Holdings Limited**  
**Liang Guoxing**  
*Chairman*

Hong Kong, 14 February 2017

*As at the date of this announcement, the Board comprises Mr. Liang Guoxing (Chairman), Mr. Wang Jindong 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. Lee Kwok Keung Edward as independent non-executive Directors.*

*This announcement is prepared in both English and Chinese. In the event of inconsistency, the English text of this announcement shall prevail over the Chinese text.*