

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS RELATING TO THE ENTRY OF THE VIE AGREEMENTS

THE VIE AGREEMENTS

The Board are pleased to announce that on 17 January 2018 (after trading hours), the WFOE, the OPCO and the PRC Equity Owners entered into the VIE Agreements to provide the profitable internet information service to the third-party vendors in the PRC on the Platform. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO.

Upon the entry of the VIE Agreements, the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group and the OPCO will be a wholly-owned subsidiary of the Company.

LISTING RULES IMPLICATIONS

Each of the PRC Equity Owners and the OPCO is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the VIE Agreements constitute the connected transactions and continuing connected transactions of the Company.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the transactions contemplated under the VIE Agreements is more than 5%, the transactions contemplated under the VIE Agreements are subject to the announcement, shareholders' approval, reporting and annual review requirements under Chapter 14A of the Listing Rules.

The Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the VIE Agreements for a period of not exceeding three years pursuant to Rule 14A.52 of the Listing Rules, and (ii) setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to the WFOE and the amount of loans to be made available by the WFOE to the OPCO and the PRC Equity Owners under the relevant VIE Agreements, subject to the conditions as set out more particularly in this announcement.

An Independent Board Committee will be established to advise the Independent Shareholders in relation to the terms of the VIE Agreements. An independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the VIE Agreements. In accordance with Rule 14A.52 of the Listing Rules, the independent financial adviser will also explain why the duration of the VIE Agreements, which exceeds three years, constitutes a special circumstance under Rule 14A.52 of the Listing Rules and is required for the nature of the transactions, and whether it is normal business practice for contracts of this type to be of such duration.

A circular containing, among other things, (i) details about the VIE Structure, (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and (iv) the notice convening the EGM will be despatched to the Shareholders on or before 7 February 2018.

INTRODUCTION

On 17 January 2018 (after trading hours), the WFOE entered into the VIE Agreements with the OPCO and the PRC Equity Owners. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO.

VIE AGREEMENTS

A summary of the terms of the VIE Agreements is set out below:

(1) The Exclusive Consultancy Services Agreement

- Parties: (a) the WFOE
(b) the OPCO
- Term: Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated (i) by the WFOE at any time with thirty (30) days advance written notice to the OPCO; or (ii) upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO to the WFOE or such individuals/entities as designated by the WFOE pursuant to the Exclusive Purchase Right Agreement. The OPCO shall have no right to terminate this agreement.
- Subject: The OPCO shall engage the WFOE on an exclusive basis to provide the following consulting services:
- (i) Management and business strategy of the OPCO;
 - (ii) Setting good financial and business standards and practices for the OPCO;
 - (iii) Market research and marketing strategies;
 - (iv) Maintenance of hardware and software of computer systems, databases and servers;
 - (v) Technical support for online platform operation;
 - (vi) Backup maintenance and upgrade of software;
 - (vii) Research and development of software and system maintenance;
 - (viii) Leasing office equipment and other operation equipment;
 - (ix) Brand promotion and marketing;
 - (x) Technical training and support for employees of the OPCO;
 - (xi) Public relations service;
 - (xii) Human resources management;
 - (xiii) Technological development, transfer and advice;

- (xiv) Granting the OPCO the right to use the intellectual property of the WFOE;
- (xv) Providing manpower support upon the OPCO's request; and
- (xvi) Other related consulting services as agreed by the WFOE and the OPCO.

Fee: For the services provided by the WFOE under the Exclusive Consultancy Services Agreement, the OPCO shall pay, on a quarterly basis, to the WFOE a service fee that is equal to 100% of the total before-income-tax profits of the OPCO after deducting the necessary costs, expenses, taxes and other statutory contribution and retention as required by the PRC Laws.

The WFOE has the right to adjust the service fee in accordance with the actual services provided by the OPCO as well as the operating condition and development needs of the OPCO.

(2) The Business Operation Agreement

Parties: (i) the WFOE
(ii) the PRC Equity Owners
(iii) the OPCO

Term: Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated (i) by the WFOE at any time with thirty (30) days advance written notice to the OPCO; or (ii) upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO to the WFOE or such individuals/entities as designated by the WFOE pursuant to the Exclusive Purchase Right Agreement. The OPCO and the PRC Equity Owners shall have no right to terminate this agreement.

Subject: The PRC Equity Owners and the OPCO jointly and severally agree and undertake that, without the prior written consent from the WFOE, the OPCO would not (and the PRC Equity Owners would not procure the OPCO to) enter into any transaction that may affect the OPCO's assets, obligations, business or operations, including but not limited to the following:

- (i) Conducting business beyond the usual and normal scope or inconsistent with past practice of the OPCO;
- (ii) Conducting merger, consolidation, acquisition or restructuring of the OPCO's main business or assets, or otherwise any kind of acquisition or investment;
- (iii) Providing loan to any third party or incurring any liability from any third party which is not within the usual and normal scope of business of the OPCO;
- (iv) Appointing, re-designating or dismissing any director, general manager, chief financial officer or any other senior management of the OPCO;
- (v) Selling, acquiring, mortgaging, licensing or otherwise disposing of any tangible or intangible assets of the OPCO outside its usual and normal scope of business;
- (vi) Incurring, inheriting, assuming or providing guarantee for any liability that is not within the OPCO's usual and normal scope of business, and providing any form of guarantee in favour of any third party with its assets or creating any other encumbrance on any of its assets;
- (vii) Supplementing or modifying the articles of association of the OPCO, increasing or decreasing the OPCO's registered capital or otherwise changing the OPCO's registered capital structure;
- (viii) Adjusting the OPCO's business model, marketing strategy, operation guidelines or customer relationship;
- (ix) Changing the OPCO's normal operating procedure or modifying its internal rules or guidance;
- (x) Distributing dividends or equity entitlements unless with written request from WFOE. After such distribution, the PRC Equity Owners shall within three business days inform the WFOE of such distribution and transfer all such dividends or equity entitlements to the WFOE at nil consideration;
- (xi) Entering into any material agreements (it is at the WFOE's discretion to determine what constitute "material agreements" and any agreements involving an amount of RMB100,000 or above will be deemed as material agreements);

- (xii) Selling, transferring, securing or otherwise disposing of the OPCO's business or income;
- (xiii) Dissolving or liquidating the OPCO and distributing its remaining assets; or
- (xiv) Procuring any OPCO's subsidiary or associated company to enter into any above-mentioned transaction or agreement, or executing other document that may result in the above-mentioned transaction

In addition, the OPCO agrees and covenants to the WFOE that it shall, and the PRC Equity Owners shall procure the OPCO to:

- (i) Unconditionally accept proposals raised by the WFOE, including but not limited to the engagement and replacement of employees, daily operations, dividend distribution and financial management systems of the OPCO and the OPCO shall strictly abide by and perform accordingly;
- (ii) Unconditionally transfer the business licence, company's seal and other important documents of the OPCO to the directors designated by the WFOE;
- (iii) Maintain the OPCO's corporate existence in accordance with good financial and business standards and usual practices by prudently and effectively operating its business and handling its affairs;
- (iv) Conducting the OPCO's business in the ordinary course of business to maintain the asset value of the OPCO and refraining from any act or omission that may adversely affect the OPCO's operation and asset value;
- (v) WFOE is entitled to inspect the OPCO's accounts regularly and at any time, and at the WFOE's request, providing the WFOE with relevant information, providing information regarding the OPCO's operation, business, customers, finance, staffing, etc for the WFOE, its auditors and/or other professionals for any audit and due diligence exercise, and allowing the WFOE and its shareholders to disclose such information in accordance with relevant securities regulations;

- (vi) If requested by the WFOE, purchase and maintain insurance in respect of the OPCO's assets and business from an insurer acceptable to the WFOE, at an amount and type of coverage which are typical for companies that operate similar business;
- (vii) If requested by the WFOE in writing, pledge all receivables and all other assets as security for performing its obligations to pay the services fees under the Exclusive Consultancy Services Agreement;
- (viii) Immediately notify the WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the OPCO's assets, business or revenue;
- (ix) Immediately notify the WFOE of the occurrence or possible occurrence of any circumstances which may have a material adverse effect on the OPCO's business and operations, and try its best to avoid such circumstances and/or mitigate the loss arising thereof; and
- (x) Executing all necessary or appropriate documents, taking all necessary or appropriate actions, and filing all necessary or appropriate complaints or raising necessary and appropriate defences against all claims so as to maintain OPCO's ownership of all its assets.

(3) The Loan Agreement

Parties:

- (i) the WFOE (as lender)
- (ii) the PRC Equity Owners (each as one of the borrowers)
- (iii) the OPCO (as one of the borrowers)

Principal:

The WFOE shall provide interest-free revolving loans to the OPCO or the PRC Equity Owners for the purpose of the operation of the OPCO or its subsidiaries. Such loans may be injected as the registered capital or the start-up capital of the new subsidiaries.

Term: Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated by the WFOE in advance. Each loan to be granted under the Loan Agreement is for an infinite term until termination at the sole discretion of the WFOE. The loan will become due and payable upon the WFOE's demand under any of the following circumstances:

- (i) the winding-up or liquidation of the OPCO;
- (ii) the dissolution of the OPCO
- (iii) the OPCO or the PRC Equity Owners becoming insolvent or incurring any other significant personal debt which may affect the ability of the OPCO to repay the loan under the Loan Agreement, or
- (iv) the WFOE exercising its right to purchase all shares in the OPCO to the extent permitted by PRC Laws.

(4) The Exclusive Purchase Right Agreement

Parties: (i) the WFOE
(ii) the PRC Equity Owners
(iii) the OPCO

Term: Effective upon execution and shall remain in effect as long as the OPCO exists unless terminated (i) by the WFOE at any time with thirty (30) days advance written notice to the OPCO; or (ii) upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO to the WFOE or such individuals/entities as designated by the WFOE pursuant to this agreement. The OPCO and the PRC Equity Owners shall have no right to terminate this agreement.

Subject: The PRC Equity Owners irrevocably grant the WFOE an exclusive right, at any time and from time to time, to purchase or nominate any individuals/entities to purchase all or part of their equity interests in the OPCO at the lowest price permissible (the "**Permissible Minimum**") under the PRC Laws.

The OPCO irrevocably grant the WFOE an exclusive right to purchase or nominate any individuals/entities to purchase all or part of its assets at the lowest price permissible under the PRC Laws. If the Permissible Minimum is higher than the net book value of the assets to be purchased, the purchase price shall be the lower of (i) the net book value of such assets sold, and (ii) the Permissible Minimum under the then applicable PRC Laws.

The PRC Equity Owners shall be prohibited from selling, offering to sell, transferring, donating, pledging or otherwise disposing of all or part of their equity interests in the OPCO, or granting others a right to purchase such equity interests, without the prior written consent from the WFOE.

The OPCO shall be prohibited from selling, offering to sell, transferring, donating, pledging or otherwise disposing of all or part of its assets, or granting others a right to purchase such assets, without the prior written consent from the WFOE.

Where the purchase price is required by the relevant PRC Laws to be an amount other than a nil consideration, the PRC Equity Owners shall return the amount of purchase price they have received to the WFOE or its designated third party.

The WFOE have the sole discretion to decide when to exercise the purchase right, and whether to exercise the purchase right in part or in full. The key factor for WFOE to decide whether to exercise the purchase right is whether the current regulatory restrictions on foreign investment in the profitable internet information service business are removed in the future.

(5) The Equity Pledge Agreement

- Parties: (i) the WFOE (as pledgee)
(ii) the PRC Equity Owners (as pledgors)
- Term: Effective upon execution and shall remain binding until the earlier of (i) termination of each Prime Agreement, and (ii) the PRC Equity Owners discharge all their obligations under the VIE Agreements in full.
- Subject: The PRC Equity Owners agree to pledge all of their shares in the OPCO to the WFOE to secure the performance of all their obligations and the obligations of the OPCO under the VIE Agreements.

If the OPCO or the PRC Equity Owners make(s) incorrect or untrue warranty or representation in the VIE Agreements or materially breach(es) their obligations under the VIE Agreements, or such obligations are held to be illegal or invalid, the WFOE shall be entitled to certain rights and remedies, including priority in receiving the proceeds from the auction or disposal of the pledged equity interests in the OPCO.

The PRC Equity Owners shall not instruct the OPCO to distribute any dividend, bonus or other forms of profits during the term of the pledge. Any economic benefit (other than the above) generated by the pledged equity interests during the term of the pledge shall be returned to the WFOE.

(6) The Authorisation Agreement

- Parties: (i) the WFOE
(ii) the OPCO
(iii) the PRC Equity Owners
- Term: Effective upon execution and shall remain in effect until the WFOE terminates the Authorisation Agreement in writing, or all the equity interests in the OPCO held by the PRC Equity Owners or all the assets of the OPCO have been legally transferred to the WFOE or such individuals/entities as designated by the WFOE.

Subject:

Each of the PRC Equity Owners unconditionally and irrevocably authorises the WFOE or its successor (who may further delegate such rights to other individuals) to exercise all of their rights as shareholders of the OPCO under PRC Laws, including but not limited to:

- (i) Convening, attending and participating shareholders' meetings of the OPCO, receiving relevant notice or document relating to the shareholders' meetings;
- (ii) Discussing and voting in shareholders' meetings of the OPCO;
- (iii) Signing and delivering any written resolutions and minutes of shareholders' meetings of the OPCO and any other documents required to be signed by the shareholders of the OPCO, and submitting documents with relevant companies registry for filing purpose;
- (iv) Selling, transferring, securing or disposing of the shares in the OPCO;
- (v) Approving the register of new shareholders or the withdrawal of existing shareholders of the OPCO;
- (vi) Directing directors and the legal representative of the OPCO to perform as requested;
- (vii) Supervising the economic performance of the OPCO;
- (viii) Exercising full usage right of the OPCO's financial information;
- (ix) Instituting any legal proceedings or taking any legal action against the OPCO's directors or shareholders who act against the interest of the OPCO and its shareholders;
- (x) Approving annual budget;
- (xi) Managing or disposing of the assets of the OPCO;
- (xii) Exercising full rights to control and manage the finance, accounting and daily operation of the OPCO;
- (xiii) Approving any documents that have to be submitted to the relevant government departments or supervising authorities for filing purpose; and
- (xiv) Exercising all other shareholders' rights under laws and regulations and articles of association of the OPCO.

(7) The Commitment Letters

Parties: the PRC Equity Owners (each of the PRC Equity Owners executed a Commitment Letter separately)

Subject: The PRC Equity Owners irrevocably undertake that:

- (i) As and when the WFOE is granted the ICP Licence (as defined below) under the applicable PRC Laws, they shall, upon the request of the WFOE, transfer all their shares in the OPCO to the WFOE or its designee(s) and all the VIE Agreements shall be terminated.
- (ii) Subject to the applicable PRC Laws, upon termination of the VIE Agreements, when they receive the consideration for the transfer of their shares in the OPCO paid by the WFOE or its designee(s), they shall return the said consideration to the WFOE or its designee(s) after deducting the capital injected with their personal savings (if any) to the OPCO;
- (iii) Unless with written consent from the WFOE, they will neither, directly or indirectly, participate or engage in any business which is or may be in competition with the business of the OPCO or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any conflict of interests between themselves and the WFOE;
- (iv) None of their actions or omissions will give rise to conflict of interests between themselves and the WFOE (including the shareholders of the WFOE); and
- (v) In the event of any conflict of interests between them and the WFOE, which shall be decided at the sole discretion of the WFOE, they will take any actions as instructed by the WFOE to eliminate such conflict provided that such action is compliant with PRC Laws.

(8) The Spousal Consent Letters

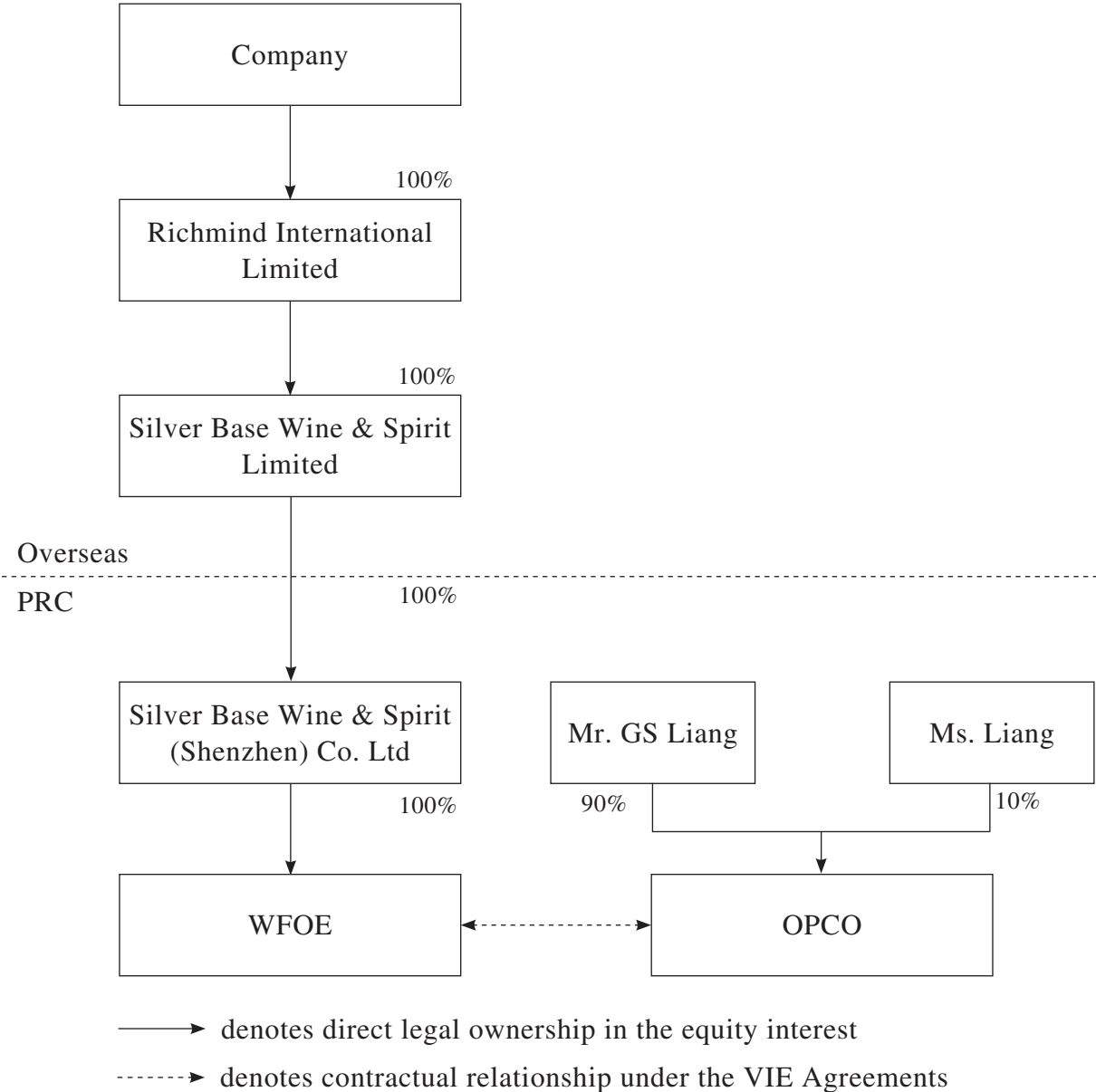
Parties: The spouses of the PRC Equity Owners (the spouse of each of the PRC Equity Owners executed a Spousal Consent Letter separately)

Subject: The spouse of each of the PRC Equity Owners irrevocably agrees that:

- (i) All the equity interests held by the PRC Equity Owners in the OPCO and all the benefits generated from these equity interests do not form part of their matrimonial property;
- (ii) He/she unconditionally and irrevocably waives any rights or entitlements to the equity interests of the OPCO;
- (iii) All the benefits generated from the equity interests in the OPCO belong to the PRC Equity Owners and can be dealt with in any way by the PRC Equity Owners without the consent of their spouses;
- (iv) He/she shall be bound by the relevant VIE Agreements in the event that they obtain any equity interest in the OPCO held by the PRC Equity Owners for any reason;
- (v) He/she shall not take any action with the intent to interfere with the contractual arrangements, including making any claim that will give rise to hindrance over the performance by the shareholder spouse's obligations under the VIE Agreements; and
- (vi) He/she, his/her successor, guardian, creditor, spouse or any other person that may be entitled to assume rights in the equity interests of the OPCO held by him/she upon his/her death, incapacity, divorce or any circumstances that may affect his/her ability to exercise his/her shareholder's rights in the OPCO, will not, in any manner and in any circumstances, carry out any act that may affect or hinder the fulfilment of the shareholder spouse's obligations under the VIE Agreements.

DIAGRAM OF THE VIE STRUCTURE

The following diagram sets out the VIE Structure:



Information about the WFOE and the OPCO

The WFOE is a limited liability company established in the PRC on 14 April 2011 and an indirect wholly-owned subsidiary of the Company. It mainly engages in the distribution of baijiu and other liquor products from outside suppliers in the PRC market both online and offline.

The OPCO is a limited liability company established in the PRC on 29 May 2014. The Group does not directly own any equity interest in the OPCO, which is currently held by Mr. GS Liang and Ms. Liang as to 90% and 10%, respectively. The main business of the OPCO is e-commerce and provision of liquor supply-chain management advisory service.

Currently, the WFOE is the only seller on the Platform (the “**Existing Model**”). Upon the entry of the VIE Agreements and subject to the OPCO obtaining the requisite ICP Licence, both the Group Member Sellers and the third-party vendors can sell liquor products on the Platform (the “**New Model**”). Under the New Model, the OPCO will provide the “profitable internet information services” to the third-party vendors through mobile-based apps (i.e., Wine Kingdom (品匯壹號)), and website (i.e., www.pinhui001.com).

For avoidance of doubt, the Group will continue to sell liquor products in the PRC market both online and offline under the New Model.

The following table sets forth the differences between the Existing Model and the New Model:

	Existing Model	New Model
(a) Operator of the Platform	The Platform is operated by the WFOE.	Upon the entry of the VIE Agreements and subject to the OPCO obtaining the requisite ICP Licence, the Existing Model will cease and the Platform will be operated by the OPCO.
(b) Seller(s) on the Platform	The WFOE sells liquor products via the Platform operated by the WFOE to the purchasers (mainly including the liquor and tobacco specialty stores and other distributors) (“ Registered Members ”).	Both the Group Member Sellers and the third-party vendors directly sell liquor products via the Platform operated by the OPCO to the Registered Members.
(c) Licence requirement (if any)	The WFOE only needs to report to the local telecommunications administration for record* (備案) as per the Notice (as defined below).	The OPCO must obtain the ICP Licence to provide the “provide the profitable internet information service” ^(Note) to the third-party vendors as per the Measures (as defined below).

	Existing Model	New Model
(d) Transaction flow	The purchasers make order on the Platform and pay to the WFOE's bank account. The WFOE purchases liquor goods from the Group Member Sellers and the third-party vendors first before delivering goods to the purchasers accordingly.	The vendors open accounts with the Platform. The purchasers make order on the Platform and pay to the OPCO's account in WeBank (微眾銀行). The vendors then deliver goods to the purchasers accordingly.
(e) Clearing and settlement	The WFOE settles payment for goods manually with the vendors within an agreed timeframe provided in procurement contracts, which is usually seven days.	All clearing will be made automatically by the OPCO with a completely automated trading and clearing system which is a computer software system developed by the WFOE in accordance with the agreed payment terms with the vendors.
(f) Nature of revenue	The selling price of liquor products.	The annual platform usage fee, commission, advertising fee and other incomes.
(g) Inventory risk and after-sale matters	Inventory is owned by the WFOE so the WFOE bears the inventory risk.	The third-party vendors bear the inventory risk and handle the after-sale matters by themselves and the Group Member Sellers only bears the inventory risks to their own inventories.

Note:

The Platform will serve as a bridge between the upstream suppliers (vendors, such as the famous brands of liquor manufacturers and the big distributors) and downstream distributors (the Registered Members) in the liquor industry. For example, the upstream supplier can post messages for engaging regional distributor or sub-distributor on the Platform subject to the Platform's review of its products quality certificates and the brand authorisation proof. The downstream distributor can also post messages expressing its willingness to be an authorised distributor in one or more regions of the PRC for the particular brand(s) subject to the Platform's approval of its operating licences. Accordingly, the Platform can match the supply of the upstream suppliers and the demand of the downstream distributors in an efficient and open manner.

BACKGROUND AND REASONS FOR USE OF THE VIE STRUCTURE

Background

The Group is principally engaged in the distribution of China's high-end liquor series (e.g., Wuliangye (五糧液) and Kweichow Moutai Chiew (貴州茅台酒)), wine and foreign liquor series in the PRC and Hong Kong. With the booming of e-commerce market, the Group grasped the opportunities and became the pioneer entering into the liquor e-commerce industry through launching the B2B "Wine Kingdom • Cloud Partnership" Platform in May 2016. As at the date of this announcement, the Group has launched the B2B model in over 260 cities, with approximately 130,000 registered members of liquor and tobacco specialty stores in the Platform.

Under the Existing Model, only the WFOE sells liquor products on the Platform. To extend the Platform through introducing the third-party vendors on the Platform, the Group will provide the "profitable internet information services" to the third-party vendors via the Platform under the New Model .

However, as outlined below, since the relevant business is classified as restricted foreign investment under the applicable PRC Laws and there is no clear guidance on or interpretation of any applicable Qualification Requirements (as defined below), the Group cannot hold any direct interest in the OPCO, which currently holds and will hold certain licences and permits required for the provision of the "profitable internet information services".

Laws and regulations relating to the profitable internet information services in the PRC

The following is a summary of the principal laws and regulations that govern the profitable internet information services in the PRC.

Pursuant to the Notice of the General Office of the Ministry of Commerce on the Relevant Issues concerning the Examination, Approval and Administration of Projects of Foreign Investment in Internet and Vending Machine Sales (商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知) (the "**Notice**") issued by the MOFCOM in August 2010, foreign-invested enterprises directly engaging in the sales of its own products with its online platform have to report to the relevant authorities for record, while foreign-invested enterprises providing online services for other parties with its online platform have to apply for the ICP Licence from the relevant authorities.

The Administrative Measures on Internet Information Services* (互聯網信息服務管理辦法) (the "**Measures**") issued by PRC State Council on 25 September 2000 and amended on 8 January 2011 regulates the provision of internet information services. Under the Measures, profitable internet information service providers must obtain the internet content provider licence* (互聯網信息服務增值電信業務經營許可證) ("**ICP Licence**") from the relevant authorities before engaging in the provision of profitable internet information services in the PRC.

According to the Catalogue of Telecommunications Business (2015)* (電信業務分類目錄(2015年版)), the information service business* (信息服務業務) falls under the category of “value-added telecommunications business”* (增值電信業務) and is regarded as a “restricted” business according to the Guiding Catalogue of Industries for Foreign Investment (2017 Amended)* (外商投資產業指導目錄(2017年修訂)) in which it provides that value-added telecommunications business (other than the e-commerce) is restricted for foreign investors. The foreign ownership in such business cannot exceed 50%. Accordingly, the WFOE is not eligible to apply for the ICP Licence for the value-added telecommunications business (other than the e-commerce).

According to the Regulations on the Administration of Foreign-invested Telecommunication Enterprises (2016 Amended)* (外商投資電信企業管理規定(2016年修訂)), which were promulgated by the PRC State Council on 11 December 2001 and amended on 10 September 2008 and on 6 February 2016 respectively, (i) the ratio of investment by a foreign investor in a company providing value-added telecommunications services shall not exceed 50%, and (ii) a foreign investor who invests in a value-added telecommunications services company shall have a good track record and experience in providing value-added telecommunications business (the “**Qualification Requirement**”) in the PRC. Currently, no clear guidance as to the interpretation of the Qualification Requirement has been issued.

The Circular regarding Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business*(信息產業部關於加強外商投資經營增值電信業務管理的通知) (the “**Circular**”) issued by the PRC Ministry of Information Industry*(中華人民共和國信息產業部) on 13 July 2006 reiterates the regulations on foreign investment in telecommunications business. Under the Circular, a foreign investor who wishes to conduct any value-added telecommunications business in the PRC must first set up a foreign-invested enterprise and obtain an ICP Licence. The Circular further provides that a domestic company holding an ICP Licence is prohibited from leasing, transferring or selling the licence to foreign investors in any form, and providing any assistance to foreign investors for illegal operation of telecommunications business in the PRC.

Reasons for adopting the VIE Structure

First, the primary purpose for the Group to adopt the VIE Structure is to enable the Group to provide the profitable internet information service* (經營性互聯網信息服務) indirectly through the OPCO, thereby extending the Group’s online Platform to the third-party vendors in the PRC. However, due to the foreign ownership restrictions under the PRC Laws as outlined above, the Group was not able to engage in the profitable internet information service directly without first adopting the VIE Structure.

In order to comply with the PRC Laws, the VIE Agreements were entered into among the WFOE, the OPCO and the PRC Equity Owners. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership.

The Company has discussed with its auditor and confirms that the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group under the prevailing accounting principles upon entering into the VIE Agreements.

On the basis of the aforesaid confirmation and pursuant to Rule 1.01 of the Listing Rules, the Company further confirms that the OPCO will be a wholly owned subsidiary of the Company.

Secondly, in view of the need to meet the fast-growing demand for the online sales business and to obtain the ICP Licence for the operation of the online Platform by the OPCO, the Company is of the view that it would be the most viable and commercial sensible approach to have effective control over the OPCO through the VIE Structure as well due to various reasons as explained below:

- (a) It would be most feasible for the OPCO to operate the online Platform taking into account that (i) the OPCO currently owns the domain name for the operation of the online sales business; (ii) the OPCO has obtained the online data processing and transaction processing business licence* (在線數據處理與交易處理許可證) issued by Guangdong Communications Administration* (廣東省通信管理局); and (iii) alongside the establishment of the VIE Structure, the OPCO is already in the process of applying for the requisite ICP Licence, which is expected to be approved by the relevant PRC authorities in March 2018.
- (b) Due to the lack of clear guidance or interpretation on the aforesaid Qualification Requirement, it would be difficult and uncertain for the Group to obtain the ICP Licence through holding equity interests (whether directly or indirectly) in a foreign-invested enterprise in the PRC, and hence there will be a prolonged process of application with unknown results, which would cause extra costs for the Group. Therefore, there exists great difficulty and uncertainty for a foreign-invested enterprise to obtain the ICP Licence from the relevant authority in the PRC. Adopting the VIE Structure can reduce the time and costs for obtaining the ICP Licence and allow the Group to accumulate the relevant experience to meet the Qualification Requirement, and therefore is in the interests of the Company and the Shareholders as a whole. Taking into account of the above, in order not to interrupt the daily operations of the Platform, the Group has to adopt the VIE Structure to control the entire equity interests of the OPCO.

COMPLIANCE OF VIE AGREEMENTS WITH PRC LAWS, RULES AND REGULATIONS

As advised by the PRC Legal Adviser, the VIE Agreements do not violate any PRC Laws, rules and regulations applicable to the business of the OPCO and would not be deemed as “concealing illegal intentions with a lawful form” and void under the PRC Contract Law* (中華人民共和國合同法). The VIE Agreements entered into by the WFOE, the OPCO and the PRC Equity Owners are legally binding on and enforceable against each party in accordance with their terms and provisions under the PRC Laws except certain terms of the VIE Agreements as set out in the paragraph headed “Risk factors in relation to the VIE Agreements – Certain terms of the VIE Agreements may not be enforceable under PRC Laws” below.

DISPUTES RESOLUTIONS, SUCCESSION AND LIQUIDATION UNDER THE VIE AGREEMENTS

Dispute Resolutions

The VIE Agreements are governed by and will be constructed in accordance with the PRC Laws. Any dispute arising from the VIE Agreements between the parties should first be resolved through negotiation. In case the dispute cannot be resolved within 30 days, any party may submit the said dispute to South China International Economic and Trade Arbitration Commission* (華南國際經濟貿易仲裁委員會) in accordance with its arbitration rules. The arbitrators may award remedies over the equity interest or assets of the OPCO, injunctive relief (e.g. mandatory transfer of assets) and/or winding up of the OPCO. The results of the arbitration shall be final and binding. In addition, the VIE Agreements contain provisions to the effect that parties may seek interim remedies from any courts of competent jurisdiction. When the arbitral award is granted, any party can apply for its enforcement in any courts of competent jurisdiction such as courts in Hong Kong, Cayman Islands, the PRC and locations where the principal assets of the Company or the OPCO are located.

Succession

The provisions set out in the VIE Agreements are also binding on the successors of the PRC Equity Owners, as if the successor were a signing party to the VIE Agreements. Although the VIE Agreements do not specify the identity of successors to such PRC Equity Owners, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the VIE Agreements.

In addition, each spouse of each of the PRC Equity Owners has made certain consents, confirmations and the undertakings, details of which are set out in the paragraph headed “VIE Agreements – (8) The Spousal Consent Letters” in this announcement.

Liquidation

Pursuant to the Business Operation Agreement, when the WFOE exercises its right to dissolve and liquidate the OPCO, if the PRC Equity Owners receive any residual assets and proceeds upon dissolution or liquidation, they shall return such residual assets and proceeds to the WFOE at nil consideration.

Conflict of interests

The Company confirms that appropriate arrangements have been made to address the potential conflict of interests between the PRC Equity Owners and the Group. Each of the PRC Equity Owners has made certain consents, confirmations and the undertakings, details of which are set out in the paragraph headed “VIE Agreements – (7) The Commitment Letters” in this announcement.

In addition, the Authorisation Agreement provides that (i) the PRC Equity Owners will not act in collusion with the persons authorised by the WFOE, against the interest of the WFOE; and (ii) the authorizations will only be granted to the Directors or officers of the Company who are unrelated to the PRC Equity Owners and Mr. GX Liang to avoid any conflict of interests.

POSSIBLE IMPACT OF THE DRAFT LAW (AS DEFINED BELOW) ON THE VIE AGREEMENTS AND THE BUSINESS OF THE OPCO GROUP

On 19 January 2015, the MOFCOM published the draft PRC Foreign Investment Law* (中華人民共和國外國投資法(草案徵求意見稿)) and the Explanation on the draft PRC Foreign Investment Law* (關於〈中華人民共和國外國投資法(草案徵求意見稿)〉的說明) (collectively the “**Draft Law**”), which contain changes to the PRC foreign investment legal regime and the treatment of the VIE arrangement. The Draft Law clearly defines the VIE arrangement as a form of foreign investment. When the Draft Law is adopted, the PRC Foreign Investment Law* (中華人民共和國外國投資法) shall apply to investments using the VIE arrangements.

There is no concrete guidance on how the existing and new VIE arrangements should be treated in the Draft Law. For investments using the VIE arrangements which exist before the Draft Law is adopted and becomes law, if the underlying businesses are still being categorised as prohibited or restricted foreign investment businesses after the Draft Law is adopted and becomes law, there are three suggested available alternatives in dealing with such VIE arrangements pursuant to the Draft Law:

- (a) the foreign investment enterprise under the VIE arrangement shall declare to the foreign investment authority under the State Council of the PRC that it is effectively controlled by PRC investors. After such declaration, the VIE arrangement can be retained and the relevant parties can continue the operation;

- (b) the foreign investment enterprise under the VIE arrangement shall file an application with the foreign investment authority under the State Council of the PRC for being recognised as a party under the effective control of PRC investors. If the foreign investment authority recognises it as being effectively controlled by PRC investors, the VIE arrangement can be retained and the relevant parties can continue the operation; or
- (c) the foreign investment enterprise under the VIE arrangement shall apply for entry permit from the foreign investment authority under the State Council of the PRC, and the foreign investment authority and relevant authorities will consider factors including the actual controller of the foreign investment enterprise and make a decision on how the relevant VIE arrangement should be handled.

For the purpose of the Draft Law, “control” refers to the circumstances that any of the following conditions is met with respect to an enterprise: (i) holding, directly or indirectly, not less than 50% of shares, equities, share of properties, voting rights or other similar rights of the enterprise; (ii) holding, directly or indirectly, less than 50% of shares, equities, share of properties, voting rights or other similar rights of the enterprise, but falling under any of the following circumstances: (a) having the right to directly or indirectly appoint not less than half of the members of the board of directors or other similar decision-making body of the enterprise; (b) having the ability to ensure that its nominees occupy not less than half of the seats on the board of directors or other similar decision-making body of the enterprise; or (c) holding voting rights sufficient to impose significant impacts on any resolution of the meetings of shareholders, at the general meeting of shareholders, or of the board of directors or other decision-making body of the enterprise; or (iii) imposing decisive impacts on the operation, finance, personnel or technology of the enterprise by contract, trust, or other means. For the purpose of the Draft Law, “actual controllers” refer to natural persons or enterprises that directly or indirectly control any foreign investor or foreign-invested enterprise.

As defined in the Draft Law, “PRC investors” refer to the following subjects: (i) natural persons with PRC nationality; (ii) the PRC government and the departments or agencies there under; or (iii) domestic enterprises under the control of the subjects as mentioned in the preceding two categories. Meanwhile, “foreign investors” refer to the following subjects making investments within the territory of the PRC: (i) natural persons without the PRC nationality; (ii) enterprises incorporated under the laws of countries or regions other than the PRC; (iii) the governments of countries or regions other than the PRC and the departments or agencies thereunder; or (iv) international organisations. Domestic enterprises under the control of foreign investors as mentioned in the preceding sentence are deemed as foreign investors.

The OPCO and its subsidiaries (if any) would become the subsidiaries of the Company. As at the date of this announcement, the Company is not controlled by the PRC investors. Accordingly, the OPCO may not be considered as being controlled by PRC investors as currently defined under the Draft Law. As a result, assuming the business of

value-added telecommunications is still considered as a restricted and prohibited business and the Draft Law is finally adopted and becomes law, there remains uncertainty that whether the WFOE can engage in such businesses through the VIE Agreements given that the WFOE may not be considered as being controlled by PRC investors as currently defined under the Draft Law. However, the Draft Law is published for consultation purpose and has not yet been legally binding. As there are uncertainties on the final content and interpretations of the Draft Law if and when it is adopted and becomes law, there is no assurance that the VIE Agreements and the business of the OPCO Group will not be materially affected in the future. In order to continuously monitor the development of the Draft Law to assess the possible impact on the VIE Agreements and the business of the OPCO Group, the Board will monitor the updates of the Draft Law and discuss with the Company's PRC legal adviser. In case there would be material impact on the Group or the business of the OPCO Group, the Company will timely publish announcements in relation to material developments of and arising from the Draft Law.

INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP

The VIE Agreements contained certain provisions in order to exercise effective control over and to safeguard the assets of the OPCO.

In addition to the internal control measures as provided in the VIE Agreements, it is the intention of the Company, through the WFOE to adopt additional internal control measures against the OPCO as appropriate, having regard to the internal control measures to be adopted by the Group from time to time, which may include but not limited to:

Management controls

- (a) the Group will appoint an executive Director or senior management (the "**Representative**") to the board of the OPCO mainly responsible for exercising all management controls of the OPCO. The Representative is required to conduct monthly reviews on the operations of the OPCO and shall submit the monthly reviews to the Board. The Representative is also required to check the authenticity of the monthly management accounts of the OPCO;
- (b) the Representative shall station at the OPCO and shall be actively involved in various aspects of the daily managerial and operational activities of the OPCO;
- (c) the Representative shall report any major events of the OPCO to the chief financial officer of the Company (the "**CFO**"), who must in turn report to the Board through the secretary of the Company (the "**Company Secretary**");
- (d) the CFO shall conduct regular site visits to the OPCO and conduct personnel interviews quarterly and submit reports to the Board; and

- (e) all seals, chops, incorporation documents and all other legal documents, to the extent permitted by the PRC law, of the OPCO must be kept at the office of the WFOE.

Financial controls

- (a) the CFO shall collect monthly management accounts, bank statements and cash balances and major operational data of the OPCO within 15 days after each month end for review. The financial team of the Company will seek explanations from the senior management of the OPCO on any material fluctuations of the aforesaid collected items. Upon discovery of any suspicious matters, the CFO must report to the Board through the Company Secretary;
- (b) if the payment of the services fees by the OPCO to WFOE is delayed, the CFO must meet with the PRC Equity Owners of the OPCO to investigate, and should report any suspicious matters to the Board through the Company Secretary. In extreme cases, the PRC Equity Owners of the OPCO will be removed and replaced.
- (c) the OPCO must submit copies of latest bank statements for every bank accounts of the OPCO within 15 days after the end of each month; and
- (d) the OPCO must assist and facilitate the Company to conduct all on-site internal audits if required by the Company.

Legal review

- (a) the Representative will consult the Company's PRC legal adviser from time to time to check if there are any legal developments in the PRC affecting the arrangement contemplated under the VIE Agreements, and should immediately report to the Board so as to allow the Board to determine if any modification or amendment are required to be made;
- (b) as part of the internal control measures, major issues arising from implementation and performance of the VIE Agreements will be reviewed by the Board on a regular basis which will be no less frequent than on a quarterly basis. The Board will determine, as part of its periodic review process, whether legal advisors and/or other professionals will need to be retained to assist the Group to deal with specific issues arising from the VIE Agreements;
- (c) matters relating to compliance and regulatory enquiries from governmental authorities, if any, will be discussed by the Board on a regular basis which will be no less frequent than on a quarterly basis;
- (d) the relevant business units and operation divisions of the Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of the Company on the compliance and performance conditions under the VIE Agreements and other related matters; and

- (e) the Company shall comply with the conditions prescribed under the waiver granted by the Stock Exchange in connection with the continuing connected transactions contemplated under the VIE Agreements.

THE BOARD'S VIEW ON THE VIE AGREEMENTS

Based on the above, the Board is of the view that the VIE Agreements are narrowly tailored to achieve the OPCO's business purpose and to minimize the potential conflicts with and are enforceable under the relevant PRC Laws. The VIE Agreements enable the WFOE to gain control over the OPCO and to be entitled to the economic interests and benefits of the OPCO. Pursuant to the relevant provisions of the VIE Agreements, the WFOE has the right to unwind the VIE Agreements as soon as the relevant PRC Laws allow the WFOE to register itself as the shareholder of the OPCO. The Directors further believe that save as disclosed, the VIE Agreements are enforceable under the relevant PRC Laws, and that the VIE Agreements will provide a mechanism that enables the WFOE to exercise effective control over the OPCO. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the date of the announcement, the OPCO has not encountered any interference or encumbrance from any governing bodies in operating its business.

APPLICATION FOR AND CONDITIONS OF WAIVER

The Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the VIE Agreements for a period of not exceeding three years pursuant to Rule 14A.52 of the Listing Rules, and (ii) setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to the WFOE and the amount of loans to be made available by the WFOE to the OPCO and the PRC Equity Owners under the relevant VIE Agreements, subject to the following conditions:

- (a) *No Change without Independent non-executive Directors' Approval:* No changes to the terms of any of the VIE Agreements will be made without the approval of the independent non-executive Directors.
- (b) *No Change without Independent Shareholders' Approval:* Save as described in paragraph (d) below, no changes to the terms of any of the VIE Agreements will be made without the approval of the Independent Shareholders. Once Independent Shareholders' approval of any change has been obtained, no further announcement, circular or approval of the Independent Shareholders, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the VIE Agreements in the annual reports of the Company (as set out in paragraph (e) below) will however continue to be applicable.

- (c) *Economic Benefits Flexibility:* The VIE Agreements shall continue to enable the Group to receive the economic benefits derived by the OPCO Group through (i) the Group's potential right (if and when so allowed under the applicable PRC Laws) to acquire the entire equity interest in the OPCO Group at the Permissible Minimum under the then applicable PRC Laws, (ii) the business structure under which the total before-income-tax profits generated by the OPCO Group (after deducting the necessary costs, expenses, taxes and other statutory contribution and retention as required by the PRC Laws) is substantially retained by the Group (such that no annual caps shall be set on the amount of the services fees payable to the WFOE under the relevant VIE Agreements), and (iii) the Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the OPCO Group.
- (d) *Renewal and reproduction:* On the basis that the VIE Agreements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has *equity* interest, on the one hand, and the OPCO Group, on the other hand, such framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business in the PRC as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Independent Shareholders, on substantially the same terms and conditions as the existing VIE Agreements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business that the Company may establish upon renewal and/or reproduction of the VIE Agreements will be treated as the connected persons of the Company and transactions between these connected persons and the Company other than those under similar VIE Agreements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC Laws and approvals from the relevant PRC authorities.
- (e) *Ongoing Reporting and Approvals:* the Group will disclose details relating to the VIE Agreements on an ongoing basis as follows:
- (i) The VIE Agreements in place during each financial period will be disclosed in the Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
 - (ii) The independent non-executive Directors will review the VIE Agreements annually and confirm in the Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the VIE Agreements, have been operated so that the revenue generated by the OPCO

Group has been substantially retained by the WFOE; (ii) no dividends or other distributions have been made by the OPCO to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the OPCO Group during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole.

- (iii) The Company's auditors will carry out procedures annually on the transactions carried out pursuant to the VIE Agreements and will provide a letter to the Directors with a copy to the Stock Exchange, at least ten business days before the Company bulk prints its annual report, confirming that the transactions carried out pursuant to the VIE Agreements have received the approval of the Directors, have been entered into in accordance with the relevant VIE Agreements and that no dividends or other distributions have been made by the OPCO Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.
- (iv) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the OPCO and its subsidiaries (if any) will be treated as the Company's subsidiaries, and the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the OPCO and its subsidiaries (if any) and their respective associates will be treated as the Company's "connected persons" (excluding for this purpose, the OPCO Group). As such, the transactions between these connected persons and the Group (including for this purpose, the OPCO Group), other than those under the VIE Agreements, shall comply with Chapter 14A of the Listing Rules.
- (v) The OPCO also undertakes that, during the term of the relevant VIE Agreements, it will provide the Group's management and the Company's auditors with full access to its relevant records for the purpose of the Company's auditors' review on the continuing connected transactions.

RISK FACTORS IN RELATION TO THE VIE AGREEMENTS

There is no assurance that the VIE Agreements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the VIE Agreements do not comply with applicable regulations

Despite there is currently no indication that the VIE Agreements will be interfered or objected by any PRC regulatory authorities, the PRC Legal Adviser has advised that there is a possibility that the relevant PRC regulatory authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the VIE Agreements comply with the current PRC Laws or those that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the VIE Agreements.

On 19 January 2015, the MOFCOM published the Draft Law pursuant to which foreign companies gaining control over domestic companies via contractual arrangement such as the VIE Agreements will be regarded as foreign investments and will be governed by the Draft Law when it is adopted and becomes law. According to the PRC Legal Adviser, the Draft Law is currently in consultation stage and has not yet been effective or legally binding. As there are uncertainties on the final content and interpretations of the Draft Law, there is no assurance that the VIE Agreements will comply with the Draft Law when it is adopted and becomes law. If the PRC regulatory authorities deny the validity, effectiveness and enforceability of the VIE Agreements, the Group would lose control of the OPCO, and would be unable to consolidate the financial results of the OPCO Group, or properly safeguard, awarded or control the assets of the OPCO Group, which would, in turn, result in a material adverse effect on the Group's business, financial condition and results of operations.

In order to continuously monitor the development of the Draft Law to assess the possible impact on the VIE Agreements and the business of the OPCO Group, the Board will monitor the updates of the Draft Law and discuss with the PRC legal adviser on a regular basis. In case there would be material impact on the Group or the business of the OPCO Group, the Company will timely publish announcements in relation to material developments of and arising from the Draft Law.

The VIE Agreements may not be as effective as direct ownership in providing control over the OPCO

The Group relies on the contractual arrangement under the VIE Agreements to operate the business of the OPCO. Such contractual arrangement may not be as effective in providing the WFOE with control over the OPCO as direct ownership. If the WFOE has direct ownership of the OPCO, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of the OPCO, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the VIE Agreements, the Group relies on the performance by the PRC Equity Owners of their obligations under the VIE Agreements to exercise control over the OPCO. Therefore, the VIE Agreements with the PRC Equity Owners may not be as effective in ensuring the WFOE's control over the OPCO as direct ownership would be.

The PRC Equity Owners may potentially have a conflict of interests with the Group

The Group's control over the OPCO is based on the contractual arrangement under the VIE Agreements. Therefore, conflict of interests of the PRC Equity Owners will adversely affect the interests of the Company. Pursuant to the Business Operation Agreement, the PRC Equity Owners will irrevocably appoint any PRC nationals as designated by the WFOE as their representative to exercise the voting rights of the shareholders of the OPCO. Therefore, it is unlikely that there will be potential conflict of interests between the Company and the PRC Equity Owners. However, in the unlikely event that conflict of interests arises and cannot be resolved, the Company will consider removing and replacing the PRC Equity Owners.

The contractual arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed

The Group could face material adverse tax consequences if the PRC tax authorities determine that the arrangements under the VIE Agreements were not entered into based on arm's length negotiations. If the PRC tax authorities determine that these agreements were not entered into on an arm's length basis, they may adjust income and expenses of the WFOE and/or the OPCO for PRC tax purposes, which could result in higher tax liabilities on the WFOE and/or the OPCO.

The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of the OPCO or those of the WFOE increase significantly or if they are required to pay interest on late payments and other penalties.

Certain terms of the VIE Agreements may not be enforceable under PRC Laws

The VIE Agreements provide that the arbitration tribunal of the PRC may award remedies over the equity interests or assets of the OPCO or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the OPCO. The VIE Agreements also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, Cayman Islands, the PRC and the location where the principal assets of the Company or the OPCO are located.

However, the PRC Legal Adviser is of the view that pursuant to the PRC Laws, the arbitration tribunal may have no power to grant the aforementioned remedies or injunctive relief or to order the winding up of the OPCO. In addition, even though the VIE Agreements provide that overseas courts (e.g. courts in Hong Kong and Cayman Islands) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC Laws. As a result, in the event that the OPCO or any of the PRC Equity Owners breaches the terms of the VIE Agreements, the Company may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the OPCO could be materially and adversely affected.

Furthermore, notwithstanding the relevant contractual provisions contained in the VIE Agreements, courts of competent jurisdiction may grant interim remedies only to the extent as permitted under the PRC Laws. Therefore, such interim remedies may not be available under the PRC Laws.

A substantial amount of costs and time may be involved in transferring the ownership of the OPCO to the Group under the Exclusive Purchase Right Agreement

In case the WFOE exercises its option to acquire all or part of the equity interests in the OPCO under the Exclusive Purchase Right Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC Laws and will be subject to necessary approvals and relevant procedures under the applicable PRC Laws. In addition, the abovementioned acquisitions may be subject to a minimum price limitation (such as an appraised value for the equity interests in the OPCO) or other limitations as imposed by the applicable PRC Laws. Further, a substantial amount of taxes, other necessary costs (if any), expenses and time may be involved in transferring the ownership of the OPCO, which may have a material adverse impact on the Group's business, prospects and results of operation.

The Group may bear economic risk which may arise from difficulties in the operation of the OPCO

As the primary beneficiary of the OPCO, the Group will bear economic risks which may arise from difficulties in the operation of the OPCO's business. The WFOE will have to provide financial support in the event of financial difficulty of the OPCO. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of the OPCO and the need to provide financial support to the OPCO.

The Company does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the VIE Agreements and the transactions contemplated thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the relevant agreements for the transactions contemplated thereunder and the operation of VIE Agreements, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. The Company will continue evaluating the feasibility, the cost and the benefit of insuring the transactions contemplated under the VIE Agreements.

There is a lack of clear guidance or interpretation on the Qualification Requirement which may cast uncertainty to the Group when the foreign ownership restriction in value-added telecommunications is relaxed

In respect of the Qualification Requirement, there is no clear formal guideline and provision on what constitutes "a good track record" and "operational experience". Despite the lack of clear guidance or interpretation on the Qualification Requirement, the Company intends to acquire the entire equity interests in the OPCO when the PRC Laws allow foreign investors to invest in value-added telecommunications enterprises in

the PRC. The Group plans to take steps to build up its track record of overseas value-added telecommunications business operations in an attempt to comply with the Qualification Requirement, so as to be qualified to acquire the entire equity interests in the OPCO when the restrictions on the percentage of foreign ownership in value-added telecommunications services and on foreign ownership in value-added telecommunication enterprises are lifted. The Company, however, cannot assure that such measures are ultimately sufficient to comply with the Qualification Requirement. If the restriction on foreign ownership in companies providing value-added telecommunications services under the current PRC Laws is lifted, the Group may still not be in a position to comply with the Qualification Requirement and not qualified to acquire the entire equity interests in the OPCO.

COMMERCIAL BENEFITS OF THE TRANSACTIONS

As outlined in the section headed “Background and Reasons for Use of the VIE Structure” in this announcement, the Group needs to adopt the VIE Structure (namely, entering into the VIE Agreements) so that it can provide the “profitable internet information service” to the third-party vendors via the Platform (including mobile-based apps (i.e. Wine Kingdom (品匯壹號)), and website (i.e. www.pinhui001.com)).

Apart from the regulatory benefits, adopting the VIE Structure will bring the following commercial benefits to the Group:

1. It allows the Group to have effective control over the finance and operation of the OPCO and to enjoy the entire economic interests and benefits granted by the OPCO. The revenue and profit generated by the OPCO are the platform usage fee, commission, advertising fee and other incomes which are of different nature from those generated by the WFOE. By introducing independent third-party sellers on the Platform, the OPCO will create a new business driver to the Company and generate a long-term return to the Shareholders.
2. It enables the Group to obtain the ICP Licence necessary for conducting the profitable internet information services business, which will facilitate further deployment of the Group in the field of e-commerce in the PRC. Specifically, with the ICP Licence for provision of the profitable internet information service, it would be easier for the Group to entice vendors selling various liquor series and other products through the Platform in the future and to further develop and implement new future businesses, which will enhance the competitiveness and adaptability of the Group in the market.
3. As a result of the synergy and information service shared between the Group and the independent third-party suppliers, the Group Member Sellers will enjoy more profits from the distribution of liquor products via the online sales on the Platform. Meanwhile, with analysing big data collected from the Platform, the Group can better understand the needs of both the upstream suppliers and downstream distributors, and its positioning in marketing and promotion.

4. The New Model operated through the Platform under the VIE Structure will enable the Group to have access to a huge base of potential users. On the one hand, many famous brands of liquor manufacturers and big distributors can open online stores on the Platform. On the other hand, the number of the downstream purchasers will also expect to increase since they can have plenty of choices via the Platform. Accordingly, in the long run, the transaction volume and turnover will significantly increase.
5. The Group will enjoy the benefits brought by the New Model in terms of: (i) highly efficient automated trading and clearing system, which can significantly increase the transaction efficiency and accuracy; (ii) lower inventory risk; and (iii) lower costs in the logistics, manpower and finance.

In light of the above, the Group believes the entry of the VIE Agreements will bring more profits to the Group and create more value for the Shareholders.

The Board (other than the independent non-executive Directors who will give their views after considering the opinion from the independent financial adviser) considers that the terms of the VIE Agreements and the transactions contemplated thereunder were determined after arm's length negotiation between the parties thereto and the Board is of the view that (i) the VIE Agreements are fundamental to the OPCO's legal structure and business operations; and (ii) the terms of the VIE Agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Mr. GS Liang, being the PRC Equity Owner holding 90% equity interest in the OPCO, is a director of three subsidiaries of the Group and a brother of Mr. GX Liang. Ms. Liang, being the PRC Equity Owner holding 10% equity interest in the OPCO, is a director of a subsidiary of the Group and a cousin of Mr. GX Liang. Mr. GX Liang is an executive Director and a controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, both Mr. GS Liang and Ms. Liang are connected persons of the Company.

As the OPCO is legally owned as to 90% by Mr. GS Liang, the OPCO is a connected person of the Company by virtue of being an associate of Mr. GS Liang pursuant to Rule 14A.07(4) of the Listing Rules. Accordingly, the transactions contemplated under the VIE Agreements constitute the connected transactions and continuing connected transactions respectively pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the transactions contemplated under the VIE Agreements is more than 5%, the transactions contemplated under the VIE Agreements are subject to the announcement, shareholders' approval, reporting and annual review requirements under Chapter 14A of the Listing Rules.

The Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the VIE Agreements for a period of not exceeding three years pursuant to Rule 14A.52 of the Listing Rules, and (ii) setting a maximum aggregate annual cap pursuant to Rule 14A.53 of the Listing Rules for the services fees payable by the OPCO to the WFOE and the amount of loans to be made available by the WFOE to the OPCO and the PRC Equity Owners under the relevant VIE Agreements, subject to the conditions as set out more particularly in this announcement.

In addition, it is foreseeable that agreements, other than the VIE Agreements, will be entered into between the OPCO Group and the Group. Reference is made to paragraph (e)(iv) under the “Application for and Conditions of Waiver”, given that the financial results of the OPCO Group will be consolidated into the Group’s financial statements and will be treated as subsidiaries of the Company by virtue of the VIE Agreements and therefore not treated as connected persons of the Company, thus the transactions between the OPCO Group and the Group will not be treated as connected transactions.

GENERAL

An Independent Board Committee will be established to advise the Independent Shareholders in relation to the terms of the VIE Agreements. An independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the VIE Agreements. In accordance with Rule 14A.52 of the Listing Rules, the independent financial adviser will also explain why the duration of the VIE Agreements, which exceeds three years, constitutes a special circumstance under Rule 14A.52 of the Listing Rules and is required for the nature of the transactions, and whether it is normal business practice for contracts of this type to be of such duration.

An EGM will be convened for the Independent Shareholders to approve the VIE Structure (including the transactions contemplated under the VIE Structure). In view of Mr. GX Liang’s and Mr. GS Liang’s equity interests in the Company, Mr. GX Liang, Mr. GS Liang and their respective associates are deemed to have material interests in the entry of VIE Agreements and are required to abstain from voting at the EGM for the ordinary resolutions in respect of the entry of VIE Agreements.

A circular containing, among other things, (i) details about the VIE Structure, (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and (iv) the notice convening the EGM will be despatched to the Shareholders on or before 7 February 2018.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“associate”	has the meaning as ascribed thereto in the Listing Rules;
“Authorisation Agreement”	the authorisation agreement (委託協議及授權委託書) entered into among the WFOE, the OPCO and the PRC Equity Owners, details of which are set out in the section headed “VIE Agreements” in this announcement;
“Board”	the board of Directors;
“Business Operation Agreement”	the business operation agreement (業務經營協議) entered into among the WFOE, the PRC Equity Owners and the OPCO, details of which are set out in the section headed “VIE Agreements” in this announcement;
“B2B”	business-to-business, a type of commerce transaction that is based on the exchange of products and services from one business to another. In contrast with the business-to-consumer model, B2B usually offers products and services from manufacturers to wholesalers or retail operators or from wholesalers to retail operators;
“Commitment Letter(s)”	the commitment letter(s) (確認及承諾函) entered into by each of the PRC Equity Owners, details of which are set out in the section headed “VIE Agreements” in this announcement;
“Company”	Silver Base Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange;
“connected person(s)”	has the meaning as ascribed thereto in the Listing Rules;
“connected transaction(s)”	has the meaning as ascribed thereto in the Listing Rules;
“continuing connected transaction(s)”	has the meaning as ascribed thereto in the Listing Rules;
“controlling shareholder(s)”	has the meaning as ascribed thereto in the Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting to be convened to approve the VIE Structure (including the transactions contemplated under the VIE Structure);

“Equity Pledge Agreement”	the equity pledge agreement (股份質押協議) entered into between the WFOE and the PRC Equity Owners, details of which are set out in the section headed “VIE Agreements” in this announcement;
“Exclusive Consultancy Services Agreement”	the exclusive consultancy services agreement (獨家諮詢和服務協議) entered into between the WFOE and the OPCO, details of which are set out in the section headed “VIE Agreements” in this announcement;
“Exclusive Purchase Right Agreement”	the exclusive purchase right agreement (獨家購買權協議) entered into among the WFOE, the PRC Equity Owners and the OPCO, details of which are set out in the section headed “VIE Agreements” in this announcement;
“Group”	the Company and its subsidiaries;
“Group Member Sellers”	Silver Base Wine & Spirit (Shenzhen) Co. Ltd.*(銀基洋酒(深圳)有限公司), SBTS*(銀基貿易發展(深圳)) and the WFOE, each of which is a subsidiary of the Group and is expected to sell liquor products on the Platform under the New Model;
“Independent Board Committee”	a committee under the Board which is established for the purpose of advising the Independent Shareholders on the entry of the VIE Agreements, including independent non-executive Directors, Mr. Hung Sui Kwan, Mr. Ma Lishan and Dr. Lee Kwok Keung Edward;
“Independent Shareholder(s)”	Shareholder(s) other than Mr. GX Liang, Mr. GS Liang and their respective associates;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Loan Agreement”	the loan agreement (借款協議) entered into among the WFOE, the OPCO and the PRC Equity Owners, details of which are set out in the section headed “VIE Agreements” in this announcement;
“Mr. GS Liang”	Mr. Liang Guosheng (梁國勝), being the PRC Equity Owner holding 90% equity interest in the OPCO, is a director of three subsidiaries of the Group and a brother of Mr. GX Liang;
“Mr. GX Liang”	Mr. Liang Guoxing (梁國興), an executive Director, the chairman of the Board and a controlling shareholder of the Company;

“Ms. Liang”	Ms. Liang Chunyin (梁春銀), being the PRC Equity Owner holding 10% equity interest in the OPCO, is a director of a subsidiary of the Group and a cousin of Mr. GX Liang;
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部);
“OPCO”	Shenzhen Yinshenggu Asset Management Company Limited* (深圳銀盛谷資產管理有限公司), a company incorporated in the PRC with limited liability, which is legally owned as to 90% and 10% by Mr. GS Liang and Ms. Liang respectively;
“OPCO Group”	the OPCO and its subsidiaries (if any) to be controlled by the WFOE through the VIE Agreements;
“Platform”	the B2B “Wine Kingdom • Cloud Partnership” platform operated by the Group;
“PRC”	the People’s Republic of China, which shall, for the purposes of this announcement, exclude Hong Kong, Macau and Taiwan;
“PRC Equity Owners”	the persons with the PRC nationality who hold the entire equity interest of the OPCO, namely Mr. GS Liang and Ms. Liang;
“PRC Laws”	any and all laws, regulations, statutes, rules, orders, decrees, circulars, notices, supreme court’s judicial interpretations and subsidiary legislations currently in force and publicly available in the PRC as of the date hereof;
“PRC Legal Adviser”	Fangda Partners (方達律師事務所), the PRC legal adviser to the Company;
“Prime Agreement(s)”	the Loan Agreement, the Exclusive Consultancy Services Agreement, the Business Operation Agreement and the Exclusive Purchase Right Agreement;
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	share(s) of the Company;
“Shareholder(s)”	holder(s) of the Share(s);

“Spousal Consent Letter(s)”	the spousal consent letter(s) (配偶同意函) entered into by the spouse of each of the PRC Equity Owners, details of which are set out in the section headed “VIE Agreements” in this announcement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“VIE”	variable interest entity, being an entity (the investee) in which the investor holds a controlling interest that is not based on the majority of voting rights;
“VIE Agreements”	collectively, the Exclusive Consultancy Services Agreement, the Business Operation Agreement, the Loan Agreement, the Exclusive Purchase Right Agreement, the Equity Pledge Agreement, the Authorisation Agreement, the Commitment Letters and the Spousal Consent Letters, details of which are set out in the section headed “VIE Agreements” in this announcement;
“VIE Structure”	the structure established through the entering into of the VIE Agreements, which enables the Group to effectively hold and control the OPCO;
“WFOE”	Shenzhen Silver Base Wine Kingdom Sales Management Company Limited* (深圳銀基品匯壹號銷售管理有限公司), a company incorporated in the PRC with limited liability, which is an indirect wholly-owned subsidiary of the Company;
“%”	per cent.

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

Hong Kong, 17 January 2018

As at the date of this announcement, the Board comprises Mr. Liang Guoxing (Chairman), Mr. Yan Jun (Chief Executive Officer) and Ms. Chen Xiaoxu 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.

* *The English translations of the Chinese names and words are for illustrative purpose only.*