
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Silver Base Group Holdings Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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 2020 DISTRIBUTION AGREEMENTS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company



Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders



BAOQIAO PARTNERS CAPITAL LIMITED

A letter from the Board is set out from pages 4 to 13 of this circular. A letter from the Independent Board Committee is set out on page 14 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 30 of this circular.

A notice convening the EGM to be held at The Hong Kong Management Association (HKMA) – Wan Chai, 3/F, Pico Tower, 66 Gloucester Road, Wan Chai, Hong Kong on Friday, 29 May 2020 at 2:30 p.m. or any adjournment is set out from pages 38 to 40 of this circular. A form of proxy for use at the EGM is enclosed.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish and in such event, the form of proxy shall be deemed to be revoked.

IMPORTANT NOTES

In view of the ongoing Novel Coronavirus (COVID-19) pandemic, the Company will implement the following precautionary measures at the EGM to protect attending shareholders, staff and stakeholders from the risk of infection:

- compulsory body temperature checks, hand sterilisation and health declaration
- recommended wearing of a surgical face mask for each attendee
- no distribution of corporate gift or refreshment

The Company reminds shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting as an alternative to attending the meeting in person.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue.

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

“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
“2020 Distribution Agreement I”	the conditional distribution agreement dated 1 April 2020 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 2020 to 31 March 2023
“2020 Distribution Agreement II”	the conditional distribution agreement dated 1 April 2020 entered into between Silver Base Development and Guizhou Yaxi in relation to the purchase and supply of the Products for a term of three years commencing from 1 April 2020 to 31 March 2023
“2020 Distribution Agreements”	the 2020 Distribution Agreement I and the 2020 Distribution Agreement II
“Annual Cap(s)”	the maximum annual value (excluding VAT) payable to Guizhou Yaxi for the purchase of the Products pursuant to the 2020 Distribution Agreements
“associate(s)”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of the directors of the Company
“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
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be held to approve the 2020 Distribution Agreements and the transactions contemplated thereunder including the Annual Caps
“Group”	the Company and its subsidiaries
“Guizhou Yaxi”	貴州鴨溪窖酒銷售有限公司 (GuizhouYaxi Cellar Liquors Distribution Co., Ltd.*), a company formed under the laws of the PRC with limited liability

DEFINITIONS

“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 2020 Distribution Agreements, the transactions contemplated thereunder and the Annual Caps
“Independent Financial Adviser”	BaoQiao Partners Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the 2020 Distribution Agreements and the Annual Caps
“Independent Shareholders”	Shareholders other than Mr. Liang and his associates
“Latest Practicable Date”	5 May 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained therein
“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 controlling shareholder of the Company
“PRC”	the People’s Republic of China, which for the purpose of this circular 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 and any other baijiu Yaxi series products produced by Guizhou Yaxi on request by Silver Base Shenzhen/Silver base Development
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	the ordinary share(s) of HK\$0.1 each in the capital of the Company
“Shareholders”	holder(s) of the issued Share(s)
“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
“Transactions”	the continuing connected transactions under the 2020 Distribution Agreements
“VAT”	value added tax
“%”	per cent

LETTER FROM THE BOARD



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)

Executive Directors:

Liang Guoxing (*Chairman and Chief Executive Officer*)

Chen Xiaoxu

Non-executive Director:

Wu Jie Si

Independent non-executive Directors:

Hung Siu Kwan

Ma Lishan

Lee Kwok Keung Edward

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head office and principal place of
business in Hong Kong:*

25th Floor

One Hennessy

1 Hennessy Road

Hong Kong

8 May 2020

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO 2020 DISTRIBUTION AGREEMENTS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

References is made to the announcement of the Company dated 14 February 2017 and the circular of the Company dated 22 March 2017 in relation to, amongst others, the 2017 Distribution Agreement. The 2017 Distribution Agreement expired on 31 March 2020. The Group and Guizhou Yaxi decided to continue the distribution of the baijiu products of Guizhou Yaxi by the Group following the expiry of the 2017 Distribution Agreement. On 1 April 2020, the Company announced that (i) Silver Base Shenzhen, an indirect wholly-owned subsidiary of the Company, entered into the 2020 Distribution Agreement I with Guizhou Yaxi; and (ii) Silver Base Development, an indirect wholly-owned subsidiary of the Company, entered into the 2020 Distribution Agreement II with Guizhou Yaxi, on even date.

LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders with information regarding the following proposals to be put forward at the EGM for the Shareholders' consideration:

- (i) further information regarding the 2020 Distribution Agreements;
- (ii) a letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the 2020 Distribution Agreements;
- (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the 2020 Distribution Agreements and the transactions contemplated thereunder, and the Annual Caps; and
- (iv) a notice of the EGM.

THE 2020 DISTRIBUTION AGREEMENTS

On 1 April 2020, (i) Silver Base Shenzhen, an indirect wholly-owned subsidiary of the Company, entered into the 2020 Distribution Agreement I with Guizhou Yaxi; and (ii) Silver Base Development, an indirect wholly-owned subsidiary of the Company, entered into the 2020 Distribution Agreement II with Guizhou Yaxi.

Save for the parties to the agreement, the specific Products and the geographical distribution regions, the principal terms of the 2020 Distribution Agreements are identical to each other as set out below:

Date

1 April 2020

Parties

- (i) Under the 2020 Distribution Agreement I: Silver Base Shenzhen (as distributor) and Guizhou Yaxi (as supplier)
- (ii) Under the 2020 Distribution Agreement II: Silver Base Development (as distributor) and Guizhou Yaxi (as supplier)

Guizhou Yaxi is a company owned as to 20% by Mr. Liang Guofeng and 80% by Mr. Liang Guoming. Since Mr. Liang Guofeng and Mr. Liang Guoming are cousins of Mr. Liang, a Director, the chief executive officer and a controlling shareholder of the Company, who is interested in 1,004,046,750 Shares, representing approximately 44.42% of the entire issued share capital of the Company as at the Latest Practicable Date, 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).

LETTER FROM THE BOARD

Subject Matter

Pursuant to the 2020 Distribution Agreements, (i) Silver Base Shenzhen was appointed as a distributor of the Products of Guizhou Yaxi in the PRC; and (ii) Silver Base Development was appointed as a distributor of the Products of Guizhou Yaxi in regions other than PRC, for a term of three years commencing from 1 April 2020 to 31 March 2023.

Pursuant to the 2020 Distribution Agreements, Silver Base Shenzhen/Silver Base Development shall place purchase orders for the Products with Guizhou Yaxi and Guizhou Yaxi shall supply the Products to Silver Base Shenzhen/Silver Base Development during the term of the 2020 Distribution Agreements.

Pricing basis

Guizhou Yaxi has agreed with Silver Base Shenzhen/Silver Base Development that the purchase price of the Products offered to Silver Base Shenzhen/Silver Base Development will be no less favourable than the terms available to other independent third parties. The Products can only be purchased from Guizhou Yaxi, who is the sole supplier of the Products in the PRC.

The initial prices (the “**Initial Prices**”) at which Guizhou Yaxi will supply the specific Products to Silver Base Shenzhen/Silver Base Development have been fixed and may be adjusted by further agreements between the parties.

The Initial Prices were fixed with reference to (i) the prevailing market conditions; (ii) the market prices of products comparable to the Products; and (iii) arm’s length negotiations with Guizhou Yaxi (the “**Pricing Principle**”). Before fixing the Initial Prices, the Company obtained and reviewed (i) at least two samples of distribution agreements entered into between Guizhou Yaxi and other independent third parties; and (ii) at least two samples of sale invoices issued by Guizhou Yaxi to the independent third parties with information on unit prices of products comparable to the Products sold to such independent third parties.

The Company considers that the Initial Prices are not less favourable than the terms available to other independent third parties (i.e. The fixed Initial Prices under the 2020 Distribution Agreements are lower than the prices available to other independent third parties as shown under the sample distribution agreements and invoices (the “**Assessed Documents**”). In addition, the fixed Initial Prices under the 2020 Distribution Agreement I also equal to the prices under the 2017 Distribution Agreement. The Company also considers the number of Assessed Documents to be sufficient after taking into account their comparability and that the Initial Prices under the 2020 Distribution Agreements would still be within the range of prices available to independent third parties even if the prices shown under the Assessed Documents are the “high-end” of the prices available to independent third parties.

Upon further agreements between the parties, the Initial Prices may be adjusted in the future, subject to the Pricing Principle.

LETTER FROM THE BOARD

In respect of the Products to be produced on request by Silver Base Shenzhen/Silver base Development (if any), the price(s) will be fixed with reference to the aforesaid Pricing Principle.

For the purpose of adjusting the Initial Prices or fixing the prices of the Products to be produced on request, the Company will obtain and review (i) at least two samples of distribution agreements entered into between Guizhou Yaxi and other independent third parties; and (ii) at least two samples of sale invoices issued by Guizhou Yaxi to the independent third parties with information on unit prices of products comparable to the Products sold to such independent third parties.

The adjusted/fixed prices of the Products will not be higher than the prices available to other independent third parties as shown under the sample distribution agreements and invoices.

Silver Base Shenzhen/Silver Base Development is entitled to fix the reselling prices of the Products to consumers or its distributors.

Silver Base Shenzhen/Silver Base Development 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 Development. Pursuant to the 2020 Distribution Agreements, Silver Base Shenzhen/Silver Base Development shall pay 10% deposit on the day of placing order and settle the purchase price by means of bank remittance within 10 working days after placing of the concerned purchase order. The purchase price shall be deducted from deposit paid and after the deposit is completely offset, Silver Base Shenzhen/Silver Base Development shall settle the balance of the purchase price within 10 working days as aforesaid.

Condition Precedent

The 2020 Distribution Agreements are conditional upon the passing of the resolution by the Independent Shareholders at the EGM approving the 2020 Distribution Agreements, the transactions contemplated thereunder and the Annual Caps.

If the condition precedent is not fulfilled by the date of the EGM or its adjournment, the 2020 Distribution Agreements shall lapse and be terminated and, save for any antecedent breach, Silver Base Shenzhen/Silver Base Development and Guizhou Yaxi shall be released from the 2020 Distribution Agreements and neither party to the 2020 Distribution Agreements shall have any claim against the other party.

Internal control measures

The Company adopts the following internal control measures to ensure that the transactions contemplated under the 2020 Distribution Agreements are conducted on normal commercial terms and that the Initial Prices are not less favourable than the terms available to those of other independent third parties:

- (i) The Company will supervise the continuing connected transactions in accordance with the procedures set forth in the Company's internal control policy on continuing connected transactions.

LETTER FROM THE BOARD

- (ii) The head of the purchasing department overseeing the operation of the Company in connection with the 2020 Distribution Agreements will review and assess on a continuous basis whether the transactions are conducted in accordance with the terms of the 2020 Distribution Agreements.
- (iii) On a quarterly basis, the relevant personnel of the purchasing department will conduct market research for the purpose of considering if the Initial Prices are fair and reasonable when compared to the market prices of comparable products. If it is discovered that there is a significant discrepancy between the market prices and the Initial Prices, the relevant personnel of the purchasing department will notify the head of the finance department, who will then take appropriate actions, e.g. initiate renegotiation and adjustment of the Initial Prices with Guizhou Yaxi in accordance with the Pricing Principle.
- (iv) In addition, the internal control staff will check the relevant documents provided by the purchasing department against the purchase invoices and other relevant documents on a perpetual basis.
- (v) The auditors and independent non-executive Directors of the Company will conduct annual reviews of the continuing connected transactions entered into by the Group.

THE ANNUAL CAPS

The following table sets out the historical figures and annual caps for purchase of the Products under the 2017 Distribution Agreement (the “**Previous Caps**”):

	For the year ended 31 March 2018 RMB	For the year ended 31 March 2019 RMB	For the year ended 31 March 2020 RMB
Historical transaction amounts (excluding VAT)	Nil	51,207	Nil
Annual caps	170,000,000	205,000,000	250,000,000

As depicted from the above table, the utilization rates of Previous Caps were zero/close to zero.

When determining the Previous Caps, the Company expected sale potential of the Products through its internet business-to-business trading platform (the “**B2B Platform**”) and existing extensive distribution channels and networks of the Group for baijiu products in the PRC.

LETTER FROM THE BOARD

The overall performance of the B2B Platform was satisfactory. Nevertheless, the Group realised that the Products brand image is old and its market recognition was deteriorating. Under this circumstance, the Group intended to form new plan on marketing and packaging for the Products in order to revitalize the Products brand image. As the aforesaid new plan on marketing and packaging for the Products was not yet fixed during the term of the 2017 Distribution Agreement, there was no intensive marketing effort for the Products sale. Accordingly, the Products sale was not satisfactory for the three years ended 31 March 2020 (hence, minimal Products purchase was conducted during the period).

The Board proposes that the Annual Caps for the financial years of the Group ending 31 March 2021, 2022 and 2023 are as follows:

	For the year ending 31 March 2021 ("FY2021") RMB	For the year ending 31 March 2022 ("FY2022") RMB	For the year ending 31 March 2023 ("FY2023") RMB
Annual Caps (excluding VAT)	48,000,000	89,000,000	145,500,000

The Annual Caps are determined based on the estimated purchases under each of the 2020 Distribution Agreements (after rounding).

2020 Distribution Agreement I

In January 2020, the Group launched an Wechat application, namely "WeLiquor" which is an application (the "**Application**") for the sale of products (mainly liquor products) in the PRC.

The Group is inviting regional operators who procure and manage authorised distributors. In addition, the regional operators consolidate regional resources, organize regional activities, promote the Group's products and explore regional markets. The authorised distributors will purchase liquor products (including the Products) through the Application. As at the Latest Practicable Date, there are 12 regional operators co-operating with the Group and 125 authorised distributors procured by regional operators under the Application.

Upon formation of new plan on marketing and packaging for the Products in order to revitalize the Products brand image, the Group will put more marketing effort on the Products sale and promote the development of the Application.

For FY2021, the Group expects to have 60 regional operators and expects each of them to procure 15 authorised distributors. The Group also expects each authorised distributor to purchase the Products amounted to RMB85,000 during FY2021. After taking into account the Group's target gross profit margin and excluding VAT, the Group expect to purchase the Products amounted to approximately RMB47,400,000 to satisfy the authorised distributors' purchase during FY2021.

LETTER FROM THE BOARD

For FY2022, the Group expects to have 110 regional operators and expects each of them to procure 15 authorised distributors. The Group also expects each authorised distributor to purchase the Products amounted to RMB85,000 during FY2022. After taking into account the Group's target gross profit margin and excluding VAT, the Group expect to purchase the Products amounted to approximately RMB86,900,000 to satisfy the authorised distributors' purchase during FY2022.

For FY2023, the Group expects to have 180 regional operators and expects each of them to procure 15 authorised distributors. The Group also expects each authorised distributor to purchase the Products amounted to RMB85,000 during FY2023. After taking into account the Group's target gross profit margin and excluding VAT, the Group expect to purchase the Products amounted to approximately RMB142,200,000 to satisfy the authorised distributors' purchase during FY2023.

2020 Distribution Agreement II

The Group intends to promote and sell the Products in markets outside the PRC such as Hong Kong, Southeast Asian countries and other countries.

For FY2021, the Group intends to establish the Hong Kong market and another market in a Southeast Asian country, and estimated the Products sale of on a prudent basis with relative low selling price. The estimated Products purchase to satisfy the Products sale is approximately RMB500,000 for FY2021.

For FY2022, the Group intends to establish 4 markets in Southeast Asian countries and other countries, in addition to the previously established markets. The Group estimated the Products sale of on a prudent basis with increased selling price. The estimated Products purchase to satisfy the Products sale is approximately RMB2,100,000 for FY2022.

For FY2023, the Group intends to establish 3 markets in Southeast Asian countries and other countries, in addition to the previously established markets. The Group estimated the Products sale of on a prudent basis with increased selling price as it expects the Products recognition in the established markets. The estimated Products purchase to satisfy the Products sale is approximately RMB3,300,000 for FY2023.

REASONS FOR AND BENEFITS OF THE 2020 DISTRIBUTION AGREEMENTS

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 Group has been distributing the Products since 2010. 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.

LETTER FROM THE BOARD

The Yaxi brand has a very long history of almost 300 years and was awarded as China Well-known Trademark (中國馳名商標), China Time-honored (中華老字號) and China Protected Geographical Indication Products (國家地理標誌保護產品), all of which are symbols of premium branding of the Products. In addition, the Group believes that with the new WeLiquor distribution channel, enhanced product packaging, more sophisticated and targeted marketing and promoting strategy, the Group will be able to seize the market opportunity.

In addition, the Group intends to promote and sell the Products in markets outside the PRC such as Hong Kong, Southeast Asian countries and other countries. Accordingly, the Group decided to continue the distribution of the Products following the expiry of the 2017 Distribution Agreement and Silver Base Shenzhen/Silver Base Development entered into the 2020 Distribution Agreements with Guizhou Yaxi for a term of three years expiring on 31 March 2023.

The 2020 Distribution Agreements were entered into in the ordinary and usual course of business of the Group. The Directors (including the independent non-executive Directors) consider that the terms of the 2020 Distribution Agreements, the transactions contemplated thereunder and the Annual Caps 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 Guoming. Since Mr. Liang Guofeng and Mr. Liang Guoming are cousins of Mr. Liang, a Director, the chief executive officer and a controlling shareholder of the Company, who is interested in 1,004,046,750 Shares, representing approximately 44.42% of the entire issued share capital of the Company as at the Latest Practicable Date, Guizhou Yaxi is a connected person of the Company and the transactions under the 2020 Distribution Agreements therefore constitute continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

Mr. Liang, a Director, the chief executive officer and a controlling shareholder of the Company who has a material interest in the 2020 Distribution Agreements, has abstained from voting on the Board resolution approving the 2020 Distribution Agreements and the Annual Caps. Save as disclosed above, none of the Directors has a material interest in the transaction under the 2020 Distribution Agreements and was required to abstain from voting on the relevant Board resolution approving the 2020 Distribution Agreements and the Annual Caps.

As the applicable percentage ratios for the purchase of Products by Silver Base Shenzhen/Silver Base Development from Guizhou Yaxi pursuant to the 2020 Distribution Agreements calculated on an annual basis by reference to the estimated Annual Caps are more than 5% and the Annual Caps exceed HK\$10,000,000, the 2020 Distribution Agreements and the Annual Caps are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in relation to the 2020 Distribution Agreements, the Transactions and the Annual Caps.

BaoQiao Partners Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the 2020 Distribution Agreement, the Transactions and the Annual Caps.

EGM

Set out on pages 38 to 40 is a notice convening the EGM to be held at The Hong Kong Management Association (HKMA) – Wan Chai, 3/F, Pico Tower, 66 Gloucester Road, Wan Chai, Hong Kong on Friday, 29 May 2020 at 2:30 p.m. at which relevant resolution will be proposed to the Shareholders to consider and, if thought fit, approve the 2020 Distribution Agreements, the transactions contemplated thereunder and the Annual Caps.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting if you so wish.

To the best of the knowledge and belief of the Directors, having made all reasonable enquiries, save as and except for Mr. Liang and his associates, no Shareholder has a material interest in the Transactions such that he or it shall abstain from voting at the EGM on an ordinary resolution to approve the 2020 Distribution Agreements, the transactions contemplated thereunder and the Annual Caps.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements to attend the EGM, the register of members of the Company will be closed from Tuesday, 26 May 2020 to Friday, 29 May 2020 (both days inclusive) during which period no transfer of Shares can be registered. Shareholders are reminded that in order to qualify for attending and voting at the EGM, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. (Hong Kong time) on Monday, 25 May 2020.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (including the independent non-executive Directors), having received and considered the advice from the Independent Financial Adviser) are of the opinion that the 2020 Distribution Agreements, the Transactions and the Annual Caps are fair and reasonable and that the Transactions are in the ordinary and usual course of business of the Group, on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution set out in the notice of EGM enclosed to this circular.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
On behalf of the Board
Silver Base Group Holdings Limited
Liang Guoxing
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

8 May 2020

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO 2020 DISTRIBUTION AGREEMENTS

We refer to the circular of the Company dated 8 May 2020 (the “**Circular**”) of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings herein unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider the 2020 Distribution Agreements, the Transactions and the Annual Caps and to advise the Independent Shareholders as to whether the Transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

BaoQiao Partners Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the 2020 Distribution Agreements, the Transactions and the Annual Caps. The text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 30 of the Circular. We also wish to draw your attention to the letter from the Board, as set out on pages 4 to 13 of the Circular.

Having considered the factors and reasons considered by, and the opinions of the Independent Financial Adviser as stated in the aforementioned letter of advice, we are of the opinion that the terms of the 2020 Distribution Agreements and the Annual Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the 2020 Distribution Agreements and the Annual Caps.

Yours faithfully,
For and on behalf of
Independent Board Committee of
Silver Base Group Holdings Limited

Hung Siu Kwan
Independent
non-executive Director

Ma Lishan
Independent
non-executive Director

Lee Kwok Keung Edward
Independent
non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from BaoQiao Partners Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



BAOQIAO PARTNERS CAPITAL LIMITED

Unit 2803-2805, 28/F, Tower 1, Admiralty Centre,
18 Harcourt Road, Admiralty, Hong Kong

8 May 2020

*To the Independent Board Committee and the Independent Shareholders of
Silver Base Group Holdings Limited*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION IN RELATION TO THE 2020 DISTRIBUTION AGREEMENTS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2020 Distribution Agreements and the transactions contemplated thereunder (including the Annual Caps) (collectively, the “CCT”) and details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 8 May 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

As disclosed in the announcement of the Company dated 1 April 2020, on 1 April 2020, (i) Silver Base Shenzhen, an indirect wholly-owned subsidiary of the Company, entered into the 2020 Distribution Agreement I with Guizhou Yaxi; and (ii) Silver Base Development, an indirect wholly-owned subsidiary of the Company, entered into the 2020 Distribution Agreement II with Guizhou Yaxi, pursuant to which Silver Base Shenzhen and Silver Base Development were appointed by Guizhou Yaxi as the distributors of the Products in the PRC and regions other than the PRC respectively for a term of three years commencing from 1 April 2020 to 31 March 2023.

Guizhou Yaxi is a company owned as to 20% by Mr. Liang Guofeng and 80% by Mr. Liang Guoming. Since Mr. Liang Guofeng and Mr. Liang Guoming are cousins of Mr. Liang, a Director, the chief executive officer and a controlling shareholder of the Company, Guizhou Yaxi is a connected person of the Company and the transactions under the 2020 Distribution Agreements therefore constitute continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

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Mr. Liang, a Director, the chief executive officer and a controlling shareholder of the Company who has a material interest in the 2020 Distribution Agreements, has abstained from voting on the Board resolution approving the CCT. Save as disclosed above, none of the Directors has a material interest in the transactions under the 2020 Distribution Agreements and was required to abstain from voting on the relevant Board resolution approving the CCT.

As the applicable percentage ratios for the purchase of Products by Silver Base Shenzhen/Silver Base Development from Guizhou Yaxi pursuant to the 2020 Distribution Agreements calculated on an annual basis by reference to the estimated Annual Caps are more than 5% and the Annual Caps exceed HK\$10,000,000, the CCT is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Hung Sui Kwan, Mr. Ma Lishan and Dr. Lee Kwok Keung Edward (all being independent non-executive Directors) has been formed by the Company to advise the Independent Shareholders in respect of the CCT in terms of (i) whether the terms of the 2020 Distribution Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the CCT is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the CCT at the EGM. We, BaoQiao Partners Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

For the purposes of this letter, the exchange rates of HK\$1.00 = RMB0.90 and US\$1.00 = RMB7.00 have been used, where applicable, for illustration purposes only and do not constitute representations that any amount has been, could have been or may be exchanged at such rates or any other rates or at all on the date or dates in question or any other date.

English translations of Chinese names marked with “*” in this letter are for illustration purposes only.

OUR INDEPENDENCE

In the last two years, prior to the Latest Practicable Date, we have not acted in any capacity in relation to any transactions of the Company. As at the Latest Practicable Date, we do not have any relationship with, or have any interest in, the Company and its respective subsidiaries and associates that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence as defined under Rule 13.84 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors and the management of the Company (collectively, the “**Management**”). We have assumed that all information and representations that have been provided by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were made and continue to be so as up to the date of the Circular. We have also assumed that all statements of belief, opinions, expectations, representations and intentions made by the Directors and the Management in the Circular and/or discussed with/provided to us were reasonably made after due enquiries and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers, the Directors and/or the Management, which have been provided to us.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Group in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs, financial condition and future prospects of the Company, its subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the entering into of the 2020 Distribution Agreements and the CCT. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the facts, information, representations and opinions made available to us, at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of approving the CCT, and this letter, except for its inclusion in the Circular and for inspection as required under the Listing Rules, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to advise the Independent Board Committee and the Independent Shareholders in respect of the CCT, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the CCT

Background of the 2020 Distribution Agreements

As the 2017 Distribution Agreement has expired since 31 March 2020 and the Company wishes to continue the distribution of the baijiu products of Guizhou Yaxi, each of Silver Base Shenzhen and Silver Base Development had on 1 April 2020 entered into the 2020 Distribution Agreement I and 2020 Distribution Agreement II with Guizhou Yaxi respectively, the terms of the respective the 2020 Distribution Agreement I and 2020 Distribution Agreement II (other than the geographical region(s) and product type(s) for 2020 Distribution Agreement II), are the same as those of the 2017 Distribution Agreement.

Information of the Group

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.

Information of Guizhou Yaxi

As disclosed in the Letter from the Board, Guizhou Yaxi is principally engaged in the manufacturing and sale of Yaxi (鴨溪) series baijiu (白酒) (the “**Yaxi Brand**”). The Yaxi Brand has a very long history of almost 300 years and was awarded as China Time-honored Brand (中華老字號) by Ministry of Commerce of the PRC in 2011, China Well-known Trademark (中國馳名商標) by the Trademark Office of National Intellectual Property Administration, the PRC in 2012, and Product of Geographical Indication (地理標誌產品) in 2012, all of which are symbols of premium branding of the Products.

Reasons for and benefits of the 2020 Distribution Agreements

The Group has been focusing on the distribution of high-end and premium baijiu and achieved positive sales growth in liquors segment for the last five years with CAGR of approximately 40.5%. As advised by the Management, the Group wishes to diversify its product offerings through growth in low and middle range baijiu products in view of the massive market space of low to middle range baijiu market (the analysis of the PRC baijiu market is disclosed in the section headed “Market potential of the low to middle range baijiu market in the PRC” below).

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As disclosed in annual report of the Company for the year ended 31 March 2019 (the “**2019 Annual Report**”), the Group has been committed to the strengthening of its low-end and middle range product lines and Guizhou Yaxi, one of Guizhou’s famous liquors, is a brand being actively promoted by the Group in recent years. As advised by the Management, the products of the Yaxi Brand (including the Products) are primarily low to middle range baijiu and we have reviewed the retail prices of the Products in JD.com (a popular e-commerce retail website in the PRC) and the pricing range of the Products is generally between RMB40 to RMB300 per bottle.

Having considered (i) 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; and (ii) the varieties of products offerings for the low to middle range baijiu market, including tailor-made products for the Group, under the 2020 Distribution Agreements; and (iii) the premium branding of the Yaxi Brand, the Directors decided to continue the distribution of the Products following the expiry of the 2017 Distribution Agreement and entered into of the 2020 Distribution Agreements with Guizhou Yaxi on 1 April 2020.

In view of the above and given that (i) the distribution of liquor products has been the principal activity of the Group; and (ii) it is a reasonable strategic move and consistent with the Group’s business direction to strengthen its low-end and middle range product lines in order to further develop its liquor business, we concur with the Management’s view that the entering into of the 2020 Distribution Agreements is in the interests of the Company and the Shareholders as a whole, and consider that the transactions contemplated under the 2020 Distribution Agreements are in the ordinary and usual course of business of the Group.

2. The 2020 Distribution Agreements

As disclosed in the Letter from the Board, save for the parties to the agreement, the specific Products and the geographical distribution regions, the principal terms of the 2020 Distribution Agreements are identical to each other as set out below:

Date:	1 April 2020
Parties:	(i) Under the 2020 Distribution Agreement I: Silver Base Shenzhen (as distributor) and Guizhou Yaxi (as supplier); and (ii) Under the 2020 Distribution Agreement II: Silver Base Development (as distributor) and Guizhou Yaxi (as supplier).
Subject matter:	Pursuant to the 2020 Distribution Agreements, (i) Silver Base Shenzhen was appointed as a distributor of the Products of Guizhou Yaxi in the PRC; and (ii) Silver Base Development was appointed as a distributor of the Products of Guizhou Yaxi in regions other than PRC, for a term of three years commencing from 1 April 2020 to 31 March 2023.

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Pursuant to the 2020 Distribution Agreements, Silver Base Shenzhen/Silver Base Development shall place purchase orders for the Products with Guizhou Yaxi and Guizhou Yaxi shall supply the Products to Silver Base Shenzhen/Silver Base Development during the term of the 2020 Distribution Agreements.

Pricing basis

Guizhou Yaxi has agreed with Silver Base Shenzhen/Silver Base Development that the purchase price of the Products offered to Silver Base Shenzhen/Silver Base Development will be no less favourable than the terms available to other independent third parties. The Products can only be purchased from Guizhou Yaxi, who is the sole supplier of the Products in the PRC.

The initial prices (the “**Initial Prices**”) at which Guizhou Yaxi will supply the specific Products to Silver Base Shenzhen/Silver Base Development have been fixed and may be adjusted by further agreements between the parties.

The Initial Prices were fixed with reference to (i) the prevailing market conditions; (ii) the market prices of products comparable to the Products; and (iii) arm’s length negotiations with Guizhou Yaxi (the “**Pricing Principle**”). Before fixing the Initial Prices, the Company obtained and reviewed (i) at least two samples of distribution agreements entered into between Guizhou Yaxi and other independent third parties; and (ii) at least two samples of sale invoices issued by Guizhou Yaxi to the independent third parties with information on unit prices of products comparable to the Products sold to such independent third parties.

The Company considers that the Initial Prices are not less favourable than the terms available to other independent third parties. (i.e. The fixed Initial Prices under the 2020 Distribution Agreements are lower than the prices available to other independent third parties as shown under the sample distribution agreements and invoices (the “**Assessed Documents**”). In addition, the fixed Initial Prices under the 2020 Distribution Agreement I also equal to the prices under the 2017 Distribution Agreement. The Company also considers the number of Assessed Documents to be sufficient after taking into account their comparability and that the Initial Prices under the 2020 Distribution Agreements would still be within the range of prices available to independent third parties even if the prices shown under the Assessed Documents are the “high-end” of the prices available to independent third parties

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Upon further agreements between the parties, the Initial Prices may be adjusted in the future, subject to the Pricing Principle.

In respect of the Products to be produced on request by Silver Base Shenzhen/Silver base Development (if any), the price(s) will be fixed with reference to the aforesaid Pricing Principle.

For the purpose of adjusting the Initial Prices or fixing the prices of the Products to be produced on request, the Company will obtain and review (i) at least two samples of distribution agreements entered into between Guizhou Yaxi and other independent third parties; and (ii) at least two samples of sale invoices issued by Guizhou Yaxi to the independent third parties with information on unit prices of products comparable to the Products sold to such independent third parties.

The adjusted/fixed prices of the Products will not be higher than the prices available to other independent third parties as shown under the sample distribution agreements and invoices.

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

Silver Base Shenzhen/Silver Base Development 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 Development. Pursuant to the 2020 Distribution Agreements, Silver Base Shenzhen/Silver Base Development shall pay 10% deposit on the day of placing order and settle the purchase price by means of bank remittance within 10 working days after placing of the concerned purchase order. The purchase price shall be deducted from deposit paid and after the deposit is completely offset, Silver Base Shenzhen/Silver Base Development shall settle the balance of the purchase price within 10 working days as aforesaid.

Condition

The 2020 Distribution Agreements are conditional upon the approval of the Independent Shareholders at the EGM.

Assessment of the terms of the 2020 Distribution Agreements

Guizhou Yaxi is the sole supplier of the Products in the PRC and based on our review of the terms of the 2017 Distribution Agreement and the 2020 Distribution Agreements, we noted that, the terms of the 2020 Distribution Agreements, other than the extension of distribution regions to regions other than PRC and the increase in product types to cater for the international markets, are identical to that of the 2017 Distribution Agreement.

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2017 Distribution Agreement

There was only one sale and purchase transaction made between the Group and Guizhou Yaxi in FY2019 under the 2017 Distribution Agreement (the “**2019 CCT Transaction**”). We have obtained the relevant transaction documents, including the purchase order and invoice and the sample sales documents of the comparable products sold by Guizhou Yaxi to independent third parties at the relevant time and we noted that the transaction terms of the 2019 CCT Transaction were agreed based on the terms of the 2017 Distribution Agreement.

2020 Distribution Agreements

As disclosed in the Letter from the Board, the Initial Prices under the 2020 Distribution Agreements were fixed with reference to the Pricing Principle.

In assessing the fairness and reasonableness of the pricing basis of the 2020 Distribution Agreements, we have obtained (i) the Assessed Documents of Guizhou Yaxi mentioned in the Letter from the Board, including the distribution agreements and samples sale invoices; and (ii) additional sales samples (including contracts and/or invoices) from Guizhou Yaxi in relation to sales of Products to the independent third parties for the year ended 31 March 2020 (collectively, the “**Sample Documents**”) and reviewed the details of the Sample Documents in terms of the pricing, the payment term and the delivery arrangement etc. In selecting the Sample Documents, we have requested and received a full contract list (based on the representation of the Management) of the comparable products sold by Guizhou Yaxi to the independent third parties for the year ended 31 March 2020 provided by Guizhou Yaxi to the Group. We have obtained more than half of the contracts on the list and reviewed the contracts and corresponding sales invoices to the contracts (except for the three contracts entered into between Guizhou Yaxi and its customers during the first quarter of 2020, which no sales order has been placed by the customers) provided by Guizhou Yaxi.

We noted from the Sample Documents and the 2020 Distribution Agreements that (i) the Initial Prices of the Products payable by the Group to Guizhou Yaxi as stated in the 2020 Distribution Agreement are lower than those offered by Guizhou Yaxi to the independent third parties as stated in the Sample Documents obtained; and (ii) the payment terms as stated the 2020 Distribution Agreements are similar to those offered by Guizhou Yaxi to the independent third parties as stated under the Sample Documents obtained.

Internal control measures

We have discussed with the Management and reviewed the internal control measures in place in respect of the continuing connected transactions of the Group. The major internal control measures, which are similar to those adopted by the Group for the 2017 Distribution Agreement, include:

- (i) the Company will supervise the continuing connected transactions in accordance with the procedures set forth in the Company’s internal control policy on continuing connected transactions;

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- (ii) the head of the purchasing department overseeing the operation of the Company in connection with the 2020 Distribution Agreements will review and assess on a continuous basis whether the transactions are conducted in accordance with the terms of the 2020 Distribution Agreements;
- (iii) on a quarterly basis, the relevant personnel of the purchasing department will conduct market research for the purpose of considering if the Initial Prices are fair and reasonable when compared to the market prices of comparable products. If it is discovered that there is a significant discrepancy between the market prices and the Initial Prices, the relevant personnel of the purchasing department will notify the head of the finance department, who will then take appropriate actions, e.g. initiate renegotiation and adjustment of the Initial Prices with Guizhou Yaxi in accordance with the Pricing Principle;
- (iv) in addition, the internal control staff will check the relevant documents provided by the purchasing department against the purchase invoices and other relevant documents on a perpetual basis; and
- (v) the auditors and independent non-executive Directors of the Company will conduct annual reviews of the continuing connected transactions entered into by the Group.

We have reviewed the internal control measures taken by the Group in respect of the CCT under the 2017 Distribution Agreement. There was only one transaction (i.e. 2019 CCT Transaction) entered into between the Group and Guizhou Yaxi under the 2017 Distribution Agreement and we noted that (i) the terms of 2019 CCT Transaction were conducted in accordance with the terms of the 2017 Distribution Agreement; (ii) the 2019 CCT Transaction had been reviewed by the Group's internal control department in accordance with the Group's internal control policies; and (iii) as disclosed in the 2019 Annual Report, the auditors and independent non-executive Directors had conducted annual review of the 2019 CCT Transaction pursuant to the Listing Rules.

Having considered that (i) there are no changes in major terms (other than the extension of the geographical regions to regions other than PRC and the increase in product types to cater for the international markets) of the 2020 Distribution Agreements; (ii) the terms available to the Group will not be less favorable than those available to the independent third parties; and (iii) there is sufficient internal control measures in place to ensure that the CCT will be conducted in accordance with the terms under the 2020 Distribution Agreements, we concur with the Directors' view that the terms of the 2020 Distribution Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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3. The Annual Caps

3.1 Historical amounts and annual caps

The following table set out the historical figures and annual caps for purchase of the Products for the years ended 31 March 2018 (“FY2018”), 2019 (“FY2019”) and 2020 (“FY2020”) under the 2017 Distribution Agreement (the “Previous Caps”):

	FY2018	FY2019	FY2020
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Historical transaction amounts (excluding VAT)	Nil	51,207	Nil
Previous Caps	170,000,000	205,000,000	250,000,000

As depicted from the above table, the utilisation rates of the Previous Caps were zero/close to zero.

With reference to the Letter from the Board, when determining the Previous Caps, the Company had considered the sales potential of the Products through its internet business-to-business trading platform (the “B2B Platform”) and the existing extensive distribution channels and networks of the Group for baijiu products in the PRC. According to the Management, the market response of the Products in the last three years shows that the Products brand image is old and its market recognition was deteriorating, which negatively affected the reselling margin and performance of the Products and thus, the utilisation rates of Previous Caps were zero/close to zero.

3.2 The Annual Caps

We have reviewed the section headed “The Annual Caps” in the “Letter from the Board” contained in the Circular, and discussed with the Management regarding its basis for setting the Annual Caps.

Below table set out the proposed Annual Caps for the transactions contemplated under the 2020 Distribution Agreements for each of year ending 31 March 2021, 2022 and 2023 (“FY2021”, “FY2022” and “FY2023” respectively):

	FY2021	FY2022	FY2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Annual Caps (excluding VAT)	48,000,000	89,000,000	145,500,000

The Annual Caps (a round number) are determined based on the estimated purchases under the 2020 Distribution Agreements.

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(i) *2020 Distribution Agreement I*

Pursuant to the 2020 Distribution Agreement I, Silver Base Shenzhen will continue to be the distributor of the Products of Guizhou Yaxi in the PRC on the same terms (other than the Annual Caps) as those of the 2017 Distribution Agreement.

As disclosed in the Letter from the Board, the estimated transactions contemplated under the 2020 Distribution Agreement I are amounting to approximately RMB47,400,000, RMB86,900,000 and RMB142,200,000 for FY2021, FY2022 and FY2023 respectively, which represent approximately 98% of the proposed Annual Caps for each of FY2021, FY2022 and FY2023.

The Group is a national baijiu distributor and it has well-established distribution network and channel management in the PRC. Based on the information provided by the Company, in the PRC market, the Group transacted with more than 440 customers (among which more than 300 are sub-distributors) for FY2019 and entered into of more than 3,000 sales and purchase contracts with its customers for FY2019.

Based on our discussion with the Management, the estimated transactions are determined based on the Group's experience in distributing baijiu products in the PRC, in terms of the pricing mechanisms, the regional coverage and the Group's existing relationship with the PRC distributors. The Group will (i) engage regional operators to procure authorised distributors in the corresponding region(s); and (ii) enter into contracts with authorised distributors for a target purchase amount. As disclosed in the Letter from the Board, the Group expects to transact with 60, 110, 180 regional operators for FY2021, FY2022 and FY2023 respectively and each regional operator will procure 15 authorised distributors. Each authorised distributor is expected to purchase RMB85,000 per annum (the "**Target Purchases**"). Based on the above estimated numbers of regional operators/ authorised distributors and the amount of the Target Purchases and after taking into account the Group's target gross profit margin, the estimated transactions under the 2020 Distribution Agreement I for FY2021, FY2022 and FY2023 are amounting to approximately RMB47,400,000, RMB86,900,000 and RMB142,200,000 respectively.

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We noted that there would be no commitment given by the regional operators and/or the authorised distributors in respect of the numbers of authorised distributors to be procured by the regional operators and/or the amount of the Target Purchases based on our review of the sample distribution/sales and purchase contracts of the Group. We consider that the Group has extensive distribution channels and business relationship to secure the regional operators and authorised distributors. In respect of the Target Purchases, the Products are low to middle range products (i.e. retail prices lower than RMB300 per bottle) and in light of the Group's past marketing experience of the Products, for prudence sake, the Management expects that each authorised distributor would purchase few hundred bottles of baijiu per contract and the amount of Target Purchase is a reasonable estimate of the transactions to be made by the Group. In terms of the target gross margin, we noted such margin was in line with those of the Products sold by the Group in the first quarter of 2020 after reviewing the full sales list and relevant sample sales record.

In order to further assess the fairness and reasonableness of the estimated transaction amounts for FY2021, FY2022 and FY2023, we have considered the following factors in deriving our opinion.

Market potential of low to middle range baijiu market in the PRC

According to the 2018 China Alcohol Industry Economic Operation Report* (2018中國酒業經濟運行報告) (the “**2018 Alcohol Industry Report**”) published by China Alcohol Industry Association* (中國酒業協會) (the “**Association**”) on the website of National Bureau of Statistics of the PRC (“**NBS**”) (*stats.gov.cn*), the PRC baijiu industry dominated the PRC alcohol market in terms of both revenue and profit for the years from 2014 to 2018. In addition, the total revenue and profit of the baijiu enterprises with annual revenue over RMB20 million were approximately RMB536.4 billion and RMB125.1 billion respectively for 2018, representing a year-on-year growth of approximately 12.9% and 30.0% respectively.

The Association expects the growth of PRC baijiu industry will continue given the rising disposable income and increasing in consumer spending in the PRC. As published by NBS, the disposable income per capita in the PRC increased from RMB21,966 for 2015 to RMB30,733 for 2019 at a compound annual growth rate (“**CAGR**”) of approximately 8.8% while consumer spending on food, cigarettes and liquors per capita increased from RMB4,814 for 2015 to RMB6,084 for 2019 at a CAGR of approximately 6.0%.

In addition, based on the research from Qianzhan Industrial Research Institute* (前瞻產業研究院) (“**Qianzhan**”) (an industry research institute in the PRC) of the PRC baijiu market published in 2018, the sales volume of the low and middle range baijiu (i.e. unit price below RMB300 per bottle) accounted for approximately 76.5% of the total baijiu market while the remaining 23.5% were taken by high-end and premium baijiu (i.e. unit price over RMB300 per bottle).

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New marketing plan on the Products

Based on our discussion with the Management and as disclosed in the 2019 Annual Report, the Group has been committed to the strengthening of its low-end and middle range product lines and the Yaxi Brand has a very long history and it is one of Guizhou's famous liquor brand.

The Group has been discussing with Guizhou Yaxi to form a new plan on marketing and packaging for the Products in order to revitalise the Products brand image. The Group intends to launch various promotional and marketing activities for promoting the new brand image of the Products in the PRC. In addition, the Group will coordinate the marketing activities with the sub-distributors (i.e. regional operators and authorised distributors) in driving market recognition and enhancing market presence of the Products.

In addition, in January 2020, the Group launched a WeChat application, namely "WeLiquor" (i.e. a B2C social ecommerce platform) for the sale and marketing of liquor products, in addition to its existing B2B platform, with a view to reach the mass population, in particular, younger generation in the PRC. As disclosed in the Letter from the Board, there are 12 regional operators co-operating with the Group and 125 authorised distributors procured by regional operators under the "WeLiquor" application as at the Latest Practicable Date.

Ecommerce becomes popular in the alcohol industry in the PRC. According to an article released by the International Wine and Spirits Review ("IWSR") (a supplier of data and intelligence on the global alcoholic beverage market) on 5 September 2018, the online alcohol sales were developing fast in China, growing at around 15% per year. Of the 10 core countries it researched, the largest ecommerce market for alcoholic beverages is China with US\$6.1 billion (equivalent to approximately RMB42.7 billion), which is three times the size of the next-largest markets of France and the UK, and four times the size of the US beverage alcohol ecommerce market.

Social ecommerce is commerce that takes place on a social media platform (including WeChat applications) and is driven by the changing cultural and consumer preferences of younger generations. Based on the 2019 China Social Ecommerce Industry Development Report* (2019中國社交電商行業發展報告) published by the Internet Society of China (中國互聯網協會), the market of social-e-commerce in the PRC in 2019 were estimated to reach approximately RMB2,060.6 billion, with an annual growth rate of over 63% in the past five years, and there were approximately 48 million practitioners and 512 million consumers. It was also reported in the "2018 Online Report of Tmall Alcoholic Drinks Consumption Data" jointly published by CBNDData and Tmall (a popular e-commerce platform in the PRC) that there is an increasing trend of alcohol consumption by the younger generation who were born after 1980s, who contributed to 50% of online sales of alcoholic drinks in both 2017 and 2018.

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In light of the above, we are of the view that (i) the new marketing plan for the Products and the popularity of social ecommerce marketing will enhance the market presence of the Products and create significant opportunities to boost sales of the Products; (ii) the continuing increase in disposable income and consumer spending on food and beverages as well as the increasing popularity of alcohol consumption among the younger generation provide strong support for the growth of the baijiu industry in the PRC; and (iii) the massive market space of the low to middle range baijiu market providing opportunities for market expansion of the Group.

Last but not the least, based on the information provided by the Management and disclosed in the 2019 Annual Report, the Group's total purchase ("**2019 Liquor Purchase**") and revenue from sales ("**2019 Liquor Sales**") of liquors for FY2019 amounted to approximately HK\$1,533.4 million (equivalent to approximately RMB1,380.1 million) and approximately HK\$1,554.9 million (equivalent to approximately RMB1,399.4 million) respectively, the estimated purchases under the 2020 Distribution Agreement I for FY2021, FY2022 and FY2023 represent merely approximately 3.4%, 6.3%, and 10.3% of the 2019 Liquor Purchase and approximately 3.4%, 6.2%, and 10.2% of the 2019 Liquor Sales. We are of the view that, by leveraging the existing marketing channels and relationship with the Group's business partners (i.e. the Group had more than 300 sub-distributors in 2019), the Group's projections and assumptions of the estimated purchases under the 2020 Distribution Agreement I are commercially justifiable and the estimated transaction amounts for FY2021, FY2022 and FY2023 are fair and reasonable.

(ii) 2020 Distribution Agreement II

Pursuant to the 2020 Distribution Agreement II, Silver Base Development has been appointed as the distributor of the Products of Guizhou Yaxi in regions other than the PRC.

As disclosed in the Letter from the Board, the estimated transactions contemplated under the 2020 Distribution Agreement II are amounting to approximately RMB500,000, RMB2,100,000 and RMB3,300,000 for FY2021, FY2022 and FY2023 respectively, which represent approximately 2% of the proposed Annual Caps for each of FY2021, FY2022 and FY2023.

As disclosed in the Letter from the Board and discussed with the Management, the Group intends to promote and sell the Products in the markets outside the PRC, such as Hong Kong, Asian Countries, including Singapore, South Korea, Japan, Thailand and Malaysia and other countries, including the UK and the US in the next three years.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group has been distributing mainly liquors and cigarettes products to the international markets for over a decade and mostly through cooperation with overseas liquor distributors (the “**Overseas Distributors**”). As disclosed in the 2019 Annual Report, the Group’s revenue contributed by international markets was approximately HK\$484.87 million and HK\$430.49 million for FY2019 and FY2018 respectively. Based on our discussion with the Management, the Group currently distributes high-end and premium baijiu overseas, such as Moutai and Wuliangye and the Group intends to test the market demand and prospects of the middle range Chinese baijiu in the international markets. We have reviewed the list of the Overseas Distributors of the Group provided by the Management and noted that the Group has maintained stable business relationship with the Overseas Distributors over the years (i.e. from 5 years to over 20 years) and the Group sells liquors products through the Overseas Distributors to end customers in Asian and European countries.

After considering (i) the Group’s intention to develop the middle range Chinese baijiu market overseas; (ii) the Group has well established distribution network in the international markets; (iii) the estimated transaction amounts are small as compared to the size of overseas sales of the Group, we are of the view that the estimated transaction amounts for FY 2021, FY2022 and FY2023 under the 2020 Distribution Agreement II are fair and reasonable.

In conclusion, we consider the proposed Annual Caps under each the 2020 Distribution Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. Listing Rules Implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the CCT must be restricted by the Annual Caps for the period concerned under the 2020 Distribution Agreements; (ii) the terms of the CCT must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors’ annual review on the terms of the 2020 Distribution Agreements must be included in the Company’s subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the CCT (i) has not been approved by the Board; (ii) was not, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) has exceeded the Annual Caps. In the event that the total amounts of the CCT are anticipated to exceed the Annual Caps, or that there is any proposed material amendment to the terms of the 2020 Distribution Agreements, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the CCT and thus the interest of the Independent Shareholders would be safeguarded.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the 2020 Distribution Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the CCT is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the CCT and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
BaoQiao Partners Capital Limited

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules, were as follows:

(i) Shares of the Company

Name of Director and Chief executive of the Company	Number or attributable number of shares held or short positions	Position	Nature of interests	Approximate percentage or attributable percentage of shareholding of the Company
Liang Guoxing	277,290,000 (Note 1)	Long	Interest in controlled corporation	12.27%
	726,756,750 (Note 2)	Long	Founder and beneficial object of a discretionary trust	32.16%
	2,050,000 (Note 3)	Long	Family interest	0.09%

(ii) Share Options

Name of Directors	Underlying shares pursuant to the share options as at the Latest Practicable Date	Approximate percentage or attributable percentage of shareholding of the Company
Chen Xiaoxu <i>(Note 4)</i>	1,500,000	0.06%
Wu Jie Si <i>(Note 4)</i>	1,500,000	0.06%
Hung Sui Kwan <i>(Note 4)</i>	1,500,000	0.06%
Ma Lishan <i>(Note 4)</i>	750,000	0.03%
Lee Kwok Keung Edward <i>(Note 4)</i>	750,000	0.03%

Notes:

- (1) These Shares were held by Keen Pearl Limited, a company incorporated in the British Virgin Islands and the entire issued share capital of which is owned by Mr. Liang Guoxing, an executive Director, the chairman and the chief executive officer of the Company.
- (2) These Shares were held by Yinji Investments Limited. The entire issued share capital of Yinji Investments Limited is beneficially owned by Grand Base Holdings Limited, a company incorporated in the British Virgin Islands and indirectly owned by a discretionary trust, the beneficiaries of which are Mr. Liang Guoxing, Ms. Luo Li, the spouse of Mr. Liang Guoxing and Miss Liang Gia Li Melody, the daughter of Mr. Liang Guoxing. HSBC International Trustee Limited was deemed to be interested in the shares in the capacity of a trustee of the discretionary trust as aforementioned.
- (3) These interests represent the share options granted to Ms. Luo Li, the spouse of Mr. Liang Guoxing under the share option scheme of the Company.
- (4) These interests represent the share options granted to the Directors under the share option scheme of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

(b) Substantial shareholders of the Company

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of shareholders	Number or attributable number of shares held or short positions	Position	Nature of interests	Approximate percentage or attributable percentage of shareholding of the Company
Keen Pearl Limited	277,290,000 (Note 1)	Long	Beneficial Owner	12.27%
Yinji Investments Limited	726,756,750 (Note 2)	Long	Beneficial Owner	32.16%
Grand Base Holdings Limited	726,756,750 (Note 2)	Long	Interest in controlled corporation	32.16%
HSBC International Trustee Limited	726,756,750 (Note 2)	Long	Trustee of discretionary trust	32.16%
Luo Li	728,806,750 (Notes 2 & 3)	Long	Beneficial object of a discretionary trust, beneficial owner	32.24%
Liang Gia Li Melody	726,756,750 (Note 2)	Long	Beneficial object of a discretionary trust	32.16%
Liu Yang (“ Ms. Liu ”)	365,612,000 (Note 4)	Long	Interest in controlled corporation, beneficial owner	16.18%
Atlantis Capital Group Holdings Limited (“ Atlantis Group ”)	365,612,000 (Note 5)	Long	Interest in controlled corporation	16.18%

Name of shareholders	Number or attributable number of shares held or short positions	Position	Nature of interests	Approximate percentage or attributable percentage of shareholding of the Company
Riverwood Umbrella Fund on behalf Riverwood Fortune Fund (“ Riverwood Umbrella Fund ”)	162,847,000 (Note 6)	Long	Beneficial owner	7.17%
Easy Fame Investment (HK) Limited	846,213,750 (Note 7)	Long	Interest in controlled corporation	37.41%
Fully Chance Group Development Limited	846,213,750 (Note 7)	Long	Interest in controlled corporation	37.41%
Guandong Finance Limited	846,213,750 (Note 7)	Long	Interest in controlled corporation	37.41%
Lin Ho Man	846,213,750 (Note 7)	Long	Interest in controlled corporation	37.41%
UBS Group AG	167,581,341 (Note 8)	Long	Security interest in shares and interest in controlled corporation	7.41%

Notes:

- (1) These shares were held by Keen Pearl Limited, a company incorporated in the British Virgin Islands and the entire issued share capital of which is owned by Mr. Liang Guoxing, an executive Director, the chairman and chief executive officer of the Company.
- (2) These shares were held by Yinji Investments Limited. The entire issued share capital of Yinji Investments Limited was beneficially owned by Grand Base Holdings Limited, a company incorporated in the British Virgin Islands and indirectly owned by a discretionary trust, the beneficiaries of which are Mr. Liang Guoxing, Ms. Luo Li, the spouse of Mr. Liang Guoxing, and Miss Liang Gia Li Melody, the daughter of Mr. Liang Guoxing. HSBC International Trustee Limited was deemed to be interested in the shares in the capacity of a trustee of the discretionary trust as aforementioned.
- (3) These interests included interest in 2,050,000 share options granted to Ms. Luo Li, the spouse of Mr. Liang Guoxing under the share option scheme of the Company.
- (4) Pursuant to the disclosure of interests notice filed by Ms. Liu on 3 January 2020, among others, Atlantis Group, Atlantis Investment (Ireland) Limited (“**Atlantis Ireland**”) and Atlantis Investment Management Limited (“**Atlantis Investment**”) (collectively the “**LY Companies**”) were disclosed as having interest in 365,612,000 Shares, 60,001,000 Shares, 365,612,000 Shares respectively and the LY Companies were indirectly/directly wholly-owned by Ms. Liu. Therefore, Ms. Liu is deemed to be interested in the Shares.

- (5) Pursuant to the disclosure of interests notice filed by Atlantis Group on 3 January 2020, among others, Atlantis Ireland and Atlantis Investment were disclosed as having interest in 60,001,000 Shares and 365,612,000 Shares respectively and Atlantis Ireland and Atlantis Investment were directly wholly-owned by Atlantis Group. Therefore, Atlantis Group is deemed to be interested in the Shares.
- (6) Pursuant to the disclosure of interests notice filed by Riverwood Umbrella Fund on 16 January 2020, Riverwood Umbrella Fund is a Cayman Islands incorporated company and is the beneficial owner of 162,847,000 Shares.
- (7) Based on the disclosure of interests notice filed by Lin Ho Man on 28 December 2018, he is deemed to be interested in 846,213,750 Shares through Fully Chance Group Development Limited, Easy Fame Investment (HK) Limited and Guangdong Finance Limited. The 846,213,750 Shares were charged as security for a loan.
- (8) Based on the disclosure of interests notice filed by UBS Group AG on 14 April 2020, it is deemed to be interested in 17,341 Shares through UBS AG. UBS Group AG has security interest in 167,564,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing service contract or proposed service contract with any member of the Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. EXPERT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Name	Qualification
BaoQiao Partners Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

BaoQiao Partners Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, BaoQiao Partners Capital Limited did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, BaoQiao Partners Capital Limited did not have, directly or indirectly, any interest in any assets which had since 31 March 2019 (being the date to which the latest published consolidated audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 March 2019, being the date to which the latest published audited financial statements of the Group were made up.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in a business which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company).

7. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

(a) Save and except:

- (i) the 2020 Distribution Agreements; and
- (ii) the renewal tenancy agreement dated 1 April 2020 entered into between Silver Base International Development Co. Limited and Silver Base (Holdings) Limited, a company owned by Mr. Liang, in relation to the leasing of House No. 8, No. 33 Island Road, Hong Kong, for a term of two years commencing from 1 April 2020 at a monthly rent of HK\$750,000 (exclusive of management fee, rates, and all other outgoings),

there is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group as at the Latest Practicable Date.

(b) Save as disclosed in (a) above, as at the Latest Practicable Date, none of the Directors or their respective associates had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 March 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. MISCELLANEOUS

- (i) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is at 25th Floor, One Hennessy, 1 Hennessy Road, Hong Kong.
- (ii) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iii) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on business days at the office of the Company at 25th Floor, One Hennessy, 1 Hennessy Road, Hong Kong from the date of this circular up to and including the date of EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the 2017 Distribution Agreement;
- (c) the 2020 Distribution Agreements;
- (d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 14 of this circular;
- (e) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 30 of this circular;
- (f) the written consent of the Independent Financial Adviser as referred to in paragraph headed "4. Expert" of this Appendix; and
- (g) this circular.

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

IMPORTANT NOTES

In view of the ongoing Novel Coronavirus (COVID-19) pandemic, the Company will implement the following precautionary measures at the EGM to protect attending shareholders, staff and stakeholders from the risk of infection:

- compulsory body temperature checks, hand sterilisation and health declaration
- recommended wearing of a surgical face mask for each attendee
- no distribution of corporate gift or refreshment

The Company reminds shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting as an alternative to attending the meeting in person.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue.

NOTICE OF EGM

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of the shareholders (the “**Shareholders**”) of Silver Base Group Holdings Limited (the “**Company**”) will be held at The Hong Kong Management Association (HKMA) – Wan Chai, 3/F, Pico Tower, 66 Gloucester Road, Wan Chai, Hong Kong on Friday, 29 May 2020 at 2:30 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) (i) the distribution agreement (a copy of which has been produced to the EGM marked “A” and signed by the chairman of the EGM for the purpose of identification) dated 1 April 2020 and entered into between 銀基貿易發展(深圳)有限公司 (Silver Base Trading and Development (Shenzhen) Co. Limited) (“**Silver Base Shenzhen**”) and 貴州鴨溪窖酒銷售有限公司 (Guizhou Yaxi Cellar Liquors Distribution Co., Ltd.*) (“**Guizhou Yaxi**”) (the “**2020 Distribution Agreement I**”); and (ii) the distribution agreement (the “**2020 Distribution Agreement II**”) (a copy of which has been produced to the EGM marked “B” and signed by the chairman of the EGM for the purpose of identification) dated 1 April 2020 and entered into between Silver Base International Development Co. Limited (“**Silver Base Development**”) and Guizhou Yaxi (the “**2020 Distribution Agreement II**”, together with 2020 Distribution Agreement I, the “**2020 Distribution Agreements**”), in relation to the purchase and supply of baijiu (白酒) Yaxi (鴨溪) series with 52 degree alcohol content and any other baijiu Yaxi series products produced by Guizhou Yaxi on request by Silver Base Shenzhen/Silver base Development (the “**Products**”) for a term of three years commencing from 1 April 2020 to 31 March 2023 and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) the annual caps of RMB48,000,000, RMB89,000,000, and RMB145,500,000 for the purchase of the Products by Silver Base Shenzhen/Silver Base Development from Guizhou Yaxi pursuant to the 2020 Distribution Agreements for the financial years of the Group ending 31 March 2021, 31 March 2022 and 31 March 2023 respectively, be and are hereby approved, confirmed and ratified; and
- (c) any one or more of the directors (the “**Directors**”) of the Company be and is/are hereby authorised to take all steps he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the 2020 Distribution Agreements and the transactions contemplated thereunder.”

By Order of the Board
Silver Base Group Holdings Limited
Wong Hing Keung
Company Secretary

Hong Kong, 8 May 2020

NOTICE OF EGM

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Head office and principal place of
business in Hong Kong:*

25th Floor
One Hennessy
1 Hennessy Road
Hong Kong

Notes:

1. Any Shareholder entitled to attend and vote at the EGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a Shareholder. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
2. The form of proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
3. Delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the EGM and in such event, the form of proxy shall be deemed to be revoked.
4. Where there are joint Shareholders any one of such joint Shareholder may vote, either in person or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint Shareholders be present at the EGM the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint Shareholders, and for this purpose seniority shall be determined by the order in which the names stand in the register of shareholders of the Company in respect of the joint holding.
5. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a shareholder of the Company from attending in person and voting at the EGM or any adjournment thereof, should he so wish.
6. As at the date of this notice, the board of the company comprises of Mr. Liang Guoxing (Chairman and Chief Executive Officer) and Ms. Chen Xiaoxu as executive Directors; Mr. Wu Jie Si as non-executive Director; and Mr. Hung Sui Kwan, Mr. Ma Lishan and Mr. Lee Kwok Keung Edward as independent non-executive Directors.

* *For identification purpose only*