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Wan Kei Group Holdings Limited
宏基集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1718)

MAJOR TRANSACTION
IN RELATION TO THE ACQUISITION OF THE SALE SHARES

Financial Adviser to the Company



Reference is made to the MOU Announcement dated 6 July 2018 in relation to the MOU.

THE ACQUISITION

On 2 October 2018 (after trading hours), the Company, the Vendors and the Warrantors entered into the Share Purchase Agreement, pursuant to which, the Company conditionally agreed to acquire and the Vendors conditionally agreed to sell the Sale Shares at the Consideration of HK\$320,000,000. Upon Completion, the Company will hold approximately 51.315% of the issued share capital of the Target Company.

The Target Company is an investment holding company which holds all issued shares in the BVI Company, which in turn holds all issued shares in the HK Company. Upon completion of registration of the WFOE as a wholly foreign-owned enterprise in the PRC, the HK Company will hold the entire registered capital of the WFOE. Through the VIE Contracts, the WFOE will have effective control over the OPCO VIE Companies, and will enjoy the economic benefits generated by the OPCO VIE Companies.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition exceed(s) 25% but all are less than 100%, the Acquisition constitutes a major transaction of the Company and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

An EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Share Purchase Agreement and the transactions contemplated thereunder.

A circular containing, among others, details of the Share Purchase Agreement and the transactions contemplated thereunder, the Reorganisation and the VIE Contracts, and other information as required to be disclosed under the Listing Rules and a notice convening the EGM, together with a form of proxy will be despatched to the Shareholders on or before 24 October 2018.

As Completion is subject to fulfilment or waiver (as the case may be) of the Conditions, it may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

Reference is made to the MOU Announcement dated 6 July 2018 in relation to the MOU.

THE ACQUISITION

On 2 October 2018 (after trading hours), the Company, the Vendors and the Warrantors entered into the Share Purchase Agreement, the principal terms of which are set out as follows:

Date

2 October 2018

Parties

Purchaser: Wan Kei Group Holdings Limited

Vendors:

- (i) Compound Venture Limited
- (ii) Equinox Holdings Limited
- (iii) Compound Investment Limited

Warrantors:

- (i) Mr. SUN Xiyao (孫喜耀)
- (ii) Mr. ZHANG Yu (張宇)
- (iii) Mr. DING Jun (丁駿)

Assets to be acquired

Pursuant to the Share Purchase Agreement, the Company conditionally agreed to acquire and the Vendors conditionally agreed to sell the Sale Shares, representing approximately 51.315% of the issued share capital of the Target Company.

Consideration

The Consideration of HK\$320,000,000 (equivalent to approximately RMB281,491,907) shall be settled by the Company in cash upon Completion.

The Consideration was arrived at after arm's length negotiations between the Vendors and the Company by taking into consideration, among others, (i) the valuation, in RMB, of the entire equity interest in the OPCO Group as assessed by an independent valuer; (ii) the historical results of the OPCO Group; (iii) the benefits to be derived by the Group from the Acquisition as described in the paragraph of "Reasons for and Benefits of the Acquisition" in this announcement; and (iv) the profit guarantee provided by the Vendors and the Warrantors under the Share Purchase Agreement as set out under the section headed "Profit guarantee" below. The Consideration represents a discount of approximately 9.93% to approximately 51.315% of the valuation of the entire equity interest in the OPCO Group.

Profit guarantee

The Vendors and the Warrantors irrevocably and unconditionally guarantee to the Company that the audited consolidated net profit after tax (excluding extraordinary or exceptional items according to the Hong Kong Financial Reporting Standards) (the "**Actual Net Profit**") of the Target Group for each of the two years ending 31 March 2019 and 2020 (each a "**Guaranteed Period**") shall be no less than RMB31,000,000 respectively (the "**Guaranteed Profit**").

If the Actual Net Profit for any Guaranteed Period is less than the Guaranteed Profit, the Vendors shall jointly and severally pay to the Company a sum in cash (the "**Compensation**") calculated in accordance with the following formula:

$$C = (GP - AP) \times \frac{SS}{TS} \times F$$

Where:

"C" means the amount of the Compensation;

"GP" means the amount of the Guaranteed Profit for the relevant Guaranteed Period;

"AP" means the amount of the Actual Net Profit for the relevant Guaranteed Period;

"SS" means the total number of Sale Shares;

"TS" means the total number of issued shares in the Target Company as at the date of this announcement;
and

"F" means a compensation factor of 17.74.

In the event that the Actual Net Profit for any Guaranteed Period exceeds the Guaranteed Profit, no additional consideration will be paid to the Vendors.

For avoidance of doubt, if the Actual Net Profit for any Guaranteed Period shall be negative, the Actual Net Profit shall be deemed to be zero instead.

If the Actual Net Profit for any Guaranteed Period is less than the Guaranteed Profit, the Vendors shall pay the Compensation to the Company in full in cash within 20 Business Days after the date of publication of the annual results announcement of the Company for the corresponding financial year.

The abovementioned compensation factor of 17.74 represents the price-earning ratio derived by reference to the valuation of the OPCO Group over the corresponding Guaranteed Period and the discount of the consideration of the Acquisition to the valuation of the entire equity interest of the OPCO Group.

Conditions

Completion shall be subject to the fulfillment on or before the Long Stop Date, or waiver (where applicable) by the Company, of the following Conditions:

- (i) the Company, in its absolute discretion, being satisfied with the results of the due diligence review on, the legal status, businesses and financial condition of the Target Group;
- (ii) the WFOE having completed its registration as a wholly foreign-owned enterprise in the PRC and being legally and validly existing, and the Target Group having obtained necessary approval, permission, business licence, registration or filing of the relevant governmental or regulatory authorities, agencies or bodies for the operation of all businesses (including but not limited to the Main Business and the Licensed Operations) in accordance with the laws of its applicable jurisdiction, and such approval, permission, business licence, registration or filing being legal and valid;
- (iii) the Target Group having completed the corporate reorganisation (the “**Reorganisation**”) to the satisfaction of the Company, which includes but is not limited to (a) the Target Group having obtained necessary valid approval, permission, registration or filing of the relevant governmental or regulatory authorities, agencies or bodies in relation to the Reorganisation in accordance with the laws of any of its applicable jurisdictions; (b) the WFOE having entered into legal and valid VIE Contracts with the OPCO and the OPCO Registered Shareholders in accordance with the laws of their applicable jurisdictions, in order to effectively control the Licensed Operations and enjoy all economic benefits generated from the Licensed Operations; (c) the OPCO having brought into cessation of the special rights and privileges pertaining to the respective shareholdings of a number of the OPCO Registered Shareholders in the OPCO; (d) the OPCO having cancelled and terminated the OPCO Share Option Scheme and all the share options issued thereunder, and each of the employees of the OPCO who have been granted options to subscribe for shares in the OPCO under the OPCO Share Option Scheme having signed a letter of consent in relation to such cancellation and termination; (e) the BVI Company having acquired all issued shares in Yaoyu Technologies; (f) the WFOE having acquired the entire equity interest in Shanghai Xuyang; and (g) completion of the deregistration of Shanghai Chengjiu as a company in the PRC;

- (iv) the Company having obtained a legal opinion in relation to the Reorganisation issued by the PRC Legal Adviser in form and substance satisfactory to the Company in its absolute discretion, on, among others, (a) the due registration of the OPCO Group and the WFOE; (b) legality, validity and enforceability of the VIE Contracts; (c) the validity of the Licences (defined below) held by the OPCO Group; and (d) any other matters reasonably required by the Company;
- (v) the passing of the resolution(s) by the Shareholders at the EGM to approve the Share Purchase Agreement and the transactions contemplated thereunder;
- (vi) the Company, the Target Group and their Affiliates having obtained all approvals necessary for the Share Purchase Agreement and the transactions contemplated thereunder, including but not limited to all approvals, consents and authorisations (where applicable) from relevant governmental or regulatory authorities, agencies or bodies or any other third parties (including banks or creditors);
- (vii) no material adverse change in the equity interest (save any transfer of equity interest contemplated under the Share Purchase Agreement), operation, financial or trading conditions of the Target Group Companies since 31 March 2018 (being the date to which the latest audited accounts of the Target Group shall be made up) to the Completion Date;
- (viii) the Vendor Warranties remaining true, accurate, complete and not misleading in all material respects as at the Completion Date and at all times throughout the period from the date of the Share Purchase Agreement to the Completion Date; and
- (ix) there being no encumbrances on the issued share capital of the Target Company, including but not limited to the Sale Shares.

Other than Conditions (ii) to (vi) and Condition (ix), the Company may at any time waive in writing the abovementioned Conditions. If any of the Conditions has not been fulfilled by the Vendors or waived by the Company (where applicable) on or before the Long Stop Date, then the Share Purchase Agreement and any matters thereunder, and rights and obligations of the Parties shall lapse, without prejudice to any Party's right to claim against other Parties' antecedent breach of any obligations under the Share Purchase Agreement, and the Vendors shall indemnify the Company against any fees arising from all matters in relation to the negotiation, drafting and completion of the Share Purchase Agreement.

Completion

Subject to the fulfilment or waiver (as the case may be) of the Conditions, Completion shall take place on the Completion Date.

Upon Completion, the Company will hold approximately 51.315% of the issued share capital of the Target Company. As such, each of the Target Group Companies will become a non wholly-owned subsidiary of the Company, and its financial results, assets and liabilities will be consolidated into the consolidated financial statements of the Group.

Guarantee by the Warrantors

The Warrantors unconditionally and irrevocably, jointly and severally guarantee and warrant to the Company the due and timely observance and performance by the Vendors of all agreements, obligations, warranties, commitments and undertakings that ought to be observed and performed under the Share Purchase Agreement, and covenant to indemnify the Company in full against all losses and damages as a result of any failure of the Vendors to perform or comply with their obligations under the Share Purchase Agreement.

Non-competition

The Vendors and the Warrantors jointly and severally undertake that, they shall execute, and procure the main management members of the Target Group to execute, any undertakings or other legal documents in compliance with the Company's requirements, pursuant to which, they undertake that, for a period of three (3) years starting from the Completion Date, none of them shall engage in any business or activity which is in potential or actual competition with the business of the Target Group, provided that such restrictions shall not apply to the respective interests and/or duties of such persons in the Target Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in providing foundation construction, ground investigation services and financial services. As mentioned in the annual report of the Group for the year ended 31 March 2018, the Group reported a net loss of approximately HK\$70 million. The Board is of the view that the growth of the overall foundation industry in Hong Kong will continue to slow down in the coming years. Moreover, the global economy is in turmoil following the outbreak of the trade war between the PRC and the U.S.. The outlook for the global and Hong Kong economy is bleak in the short term. In order to maintain a stable and sustainable development of the Group's existing businesses as well as diversifying and expanding the Group's businesses at the same time, the Company will leverage on its industrial experience and the advantage of its existing resources and talented team to seek cooperation and investment opportunities with high-quality companies in the emerging industries in the PRC.

Among all the emerging industries nowadays, e-sports is rising all over the world including in Asia. Having made a first appearance as a demonstration sport in the recent 2018 Asian Games hosted in Jakarta and Palembang of Indonesia, e-sports will also be added as an official medal sport in the 2022 Asian Games to be hosted in Hangzhou, the PRC. In recent years, the e-sports industry has experienced rapid growth globally with an unprecedented growth in audience and revenue. According to a market research in 2018 conducted by Newzoo, an international market research company focusing in games, mobile and e-sports industry and based in Netherland, the United States and China, the global audience of e-sports increased from approximately 281 million in 2016 by approximately 19.2% to approximately 335 million in 2017 and was expected to increase further by approximately 13.4% to approximately 380 million in 2018. Revenue of global e-sports market has also significantly increased from approximately USD493 million in 2016 by approximately 32.9% to approximately USD655 million in 2017 and

was expected to increase further by approximately 38.3% to approximately USD906 million in 2018. Following this trend, the global e-sports market is expected to generate a revenue of approximately USD1.65 billion by 2021. Meanwhile, the proportion of the revenue from the e-sports market in China to that of the world was expected to rise from approximately 15% in 2017 to approximately 18% in 2018. Therefore, the Board is of the view that the growth of the e-sports industry is expected to continue in the coming years driven by the steady growth of audience and increase in revenue generated, while China will be expected to lead the market with its booming e-sports market.

To coherently promote the culture of e-sports on national level, the PRC government implemented “Ten Initiatives for Boosting Consumer Spending*” (十大擴消費行動) in accordance with the “Action Plan to Stimulate Industrial Transformation and Upgrading Through Increased Consumption*” (促進消費帶動轉型升級的行動方案) in April 2016. Under the plan, the PRC government emphasised on strengthening organisational coordination in and supervision over the e-sports sector in order to raise public awareness on e-sports by encouraging PRC enterprises to host more large-scale e-sports competition events.

While identifying and evaluating opportunities in e-sports, the Board noticed that the OPCO Group has been involved in organising e-sports events in Europe, North America and Southeast Asia. Some of the highlight tournaments were the International DOTA2 Championships 2016 in the U.S., the Frankfurt Major in Germany, the Manila Major in the Philippines and the Kiev Major in Ukraine.

Apart from involving in organising events in other parts of the world, the OPCO Group has also been playing a leading role in rapidly growing market in China for more than three years. The OPCO Group possesses substantial experience in organising and managing several large-scale offline e-sports competitions series in China, such as Mars DOTA2 League (“MDL”), Mars PUBG Elite Tournament (“MPE”) (Mars絕地求生精英賽), DOTA2 Professional League (“DPL”) (中國DOTA2職業聯賽) and the China-Korea e-Sports Competition, etc. All of these were key e-sports events and competition in China in recent years:

- (i) MDL is a large-scale tournament solely hosted by the OPCO Group and is dedicated to DOTA2, a well-known free-to-play action real-time strategic video game. The first MDL was hosted as an international elites invitational in Jiangsu Province of China in 2014. Since then, the OPCO Group has organised six MDLs in Shanghai, Wuxi, Xiamen, Wuhan, Macau and Changsha. The respective scales of MDLs and the prizes reached world-class level which gathered a pool of top-tier e-sports elites and have accumulated over 100 million live-streaming views in recent Changsha MDL.
- (ii) PUBG, the abbreviation of PlayerUnknown’s Battlegrounds, has been one of the most popular video games since it was initially released in 2017. The OPCO Group organised MPE and invited top national professional players to join. The maximum number of live broadcast views on a single day and the total number of viewers of the events reached 3 million and 140 million respectively. Consequently, the OPCO launched PUBG Laboratory* (吃雞實驗室), an online platform recording video clips to demonstrate the tactics of winning PUBG, which have a total of over 10 million accumulated views.

- (iii) DPL, the first large-scale DOTA2 e-sports professional tournament in China, was hosted by the Sports Information Center of the General Administration of Sports of China (國家體育總局體育信息中心) (“SIC”), in cooperation with Beijing Perfect World Network Technology Company Limited, the operator of DOTA2 in China, and organised by the OPCO Group.
- (iv) The OPCO Group was authorised to act as an organiser of the China-Korea e-Sports Competition for two consecutive years in 2016 and 2017, hosted by the SIC and the Korea e-Sports Association. The competition was broadcasted live through HuoMao TV (火貓直播), a well-known online games live broadcast platform in the PRC, and Korean media with full online video coverage, which received positive feedbacks from e-sports enthusiasts all over the world.

Furthermore, the Board observes that the concept of “E-sports Town” is encouraged in the PRC, and there is a rapid development of characteristic towns through constructing e-sports stadiums, universities, cultural centres and theme parks by certain local governments in the PRC. In 2017, the “Several Opinions on Accelerating the Innovation and Development of Cultural and Creative Industries in the City*” (關於加快本市文化創意產業創新發展的若干意見) proposed the establishment of Shanghai as a e-sports metropolis* (全球電競之都) where e-sports is promoted. With the support from the Shanghai government in promoting the development of e-sports, the Board foresees an expansion of the PRC e-sports industry, in particular in Shanghai as the leading city in the PRC for the development of the e-sports industry. Therefore, the OPCO Group, which is headquartered in Shanghai, will benefit from the support of the PRC government and can take this opportunity to utilise its experience in the e-sports industry to develop and expand its business strategies.

The Group has been proactively seeking investment opportunities through potential acquisitions in order to develop new lines of businesses with growth potential. The Board, after considering the growing trend of the e-sports industry and the substantial experience in planning, managing and organising e-sports events accumulated by the OPCO Group, believes that the Acquisition will benefit the Group by diversifying its business risk, stabilising its income stream and maximizing Shareholders’ interests in long term.

The Board considers that the terms of the Share Purchase Agreement were determined after arm’s length negotiations between the Parties. The Board is of the view that the terms of the Share Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Change in use of proceeds of Placing

Reference is made to the announcement of the Company dated 29 November 2016 (the “**Placing Announcement**”) in relation to the placing (the “**Placing**”) of 160,000,000 new Shares. The Company completed the Placing on 16 December 2016 and raised net proceeds of approximately HK\$134.0 million.

In the Placing Announcement, it was disclosed that the Company intended to use the proceeds of the Placing on developing a business regarding investment and financing services and for setting up a subsidiary with a money lenders licence.

As at the date of this announcement, the Group has used approximately HK\$20.8 million of the proceeds of the Placing for investment and financial services and for setting up a subsidiary with a money lenders licence. As at the date of this announcement, the said subsidiary has been granted the money lenders licence and the Group intends to utilise up to approximately HK\$36.5 million of the proceeds of the Placing in developing the Group's money lending business in the next 12 months.

On the other hand, due to the increasing level of instability pertaining to the financial markets and competition in the financial services sector and the benefits of the proposed entry to the e-sports markets as mentioned in the paragraph "Reasons for and Benefits of the Acquisition" of this announcement, the Board considers that the reallocation of the use of proceeds from the Placing, may bring better prospects to the Company and its Shareholders in the current situation. The Company therefore intends to change the use of up to approximately HK\$76.7 million of such proceeds, and utilise the amount to fund the Acquisition instead.

The table below shows detailed information on the original allocation of the proceeds of the Placing (as disclosed in the Placing Announcement), an analysis of the utilisation of the proceeds of the Placing as at the date of this announcement, and the proposed reallocation of any unutilised proceeds of the Placing:

	Original allocation of the proceeds of the Placing (as disclosed in the Placing Announcement) <i>HK\$ million (approximately)</i>	Utilised amount as at the date of this announcement <i>HK\$ million (approximately)</i>	Unutilised amount as at the date of this announcement <i>HK\$ million (approximately)</i>	Revised allocation as at the date of this announcement <i>HK\$ million (approximately)</i>
Investment, financing and money lending services	134.0	20.8	113.2	36.5
Acquisition of the Target Company	—	—	—	76.7
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>134.0</u>	<u>20.8</u>	<u>113.2</u>	<u>113.2</u>

INFORMATION OF THE GROUP

The Group is principally engaged in providing (i) foundation construction; (ii) ground investigation services; and (iii) financial services.

INFORMATION OF THE VENDORS AND THE WARRANTORS

Each of the Vendors is a BVI business company incorporated in the British Virgin Islands which are investment holding companies.

Each of the Warrantors is a PRC citizen. The Warrantor-1 holds the legal title of all issued shares in the Vendor-1. The Warrantor-1 beneficially owns approximately 62.297% of such shares, and holds approximately 24.942%, approximately 8.960% and approximately 3.801% of such shares on trust for Qianhai Kaiyuan Asset Management Co., Ltd*, WANG Feng* and XIA Huili* respectively. The Warrantor-2 is the sole legal and beneficial owner of all issued shares of the Vendor-2, and the Warrantor-3 is the sole legal and beneficial owner of all issued shares of the Vendor-3.

To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Vendors and its ultimate beneficial owners (including but not limited to the Warrantors) are Independent Third Parties.

INFORMATION OF THE TARGET GROUP

The Target Company

The Target Company is an investment holding company incorporated in the Cayman Islands on 20 April 2018 with limited liability, which is directly owned as to 51.315% by the Vendors as at the date of this announcement. Mr. Sun, Mr. Zhang, Mr. Ding, WANG Shumin* and LU Changqi* are the current directors of the Target Company.

The BVI Company

The BVI Company is an investment holding company incorporated in the British Virgin Islands on 17 April 2018 with limited liability, which is directly wholly-owned by the Target Company as at the date of this announcement. Mr. Zhang is the sole director of the BVI Company.

The HK Company

The HK Company is an investment holding company incorporated in Hong Kong on 28 February 2018 with limited liability, which is directly wholly-owned by the BVI Company as at the date of this announcement. Mr. Zhang is the sole director of the HK Company.

The WFOE

The WFOE is, as at the date of this announcement, in the process of registration as a wholly foreign-owned enterprise with limited liability in the PRC. Upon completion of its registration, its entire registered capital will be held by the HK Company, and Mr. Zhang will be its sole director.

Information of the OPCO Group

The OPCO

The OPCO is a joint stock company established in the PRC on 17 April 2012 with limited liability. As at the date of this announcement, the OPCO is principally engaged in the business of operation of e-sports events, production of videos of e-sports events broadcast online, and filming and production of dramas broadcast online in the PRC. As at the date of this announcement, the OPCO is wholly-owned by the OPCO Registered Shareholders.

As at the date of this announcement, the OPCO holds the Commercial Performance Licence* (營業性演出許可證) issued by Shanghai Pudong New Area Administration of Culture, Radio, Film & TV* (上海浦東新區文化廣播影視管理局), which is effective and permits the licensee to operate a business as an agency and organiser of performances.

Yao Yu Advertising

YaoYu Advertising is a company established in the PRC on 13 May 2015 with limited liability. As at the date of this announcement, YaoYu Advertising is principally engaged in the business of advertising media agency, provision of strategic marketing services, and promotion and operation of e-sports events. As at the date of this announcement, the OPCO holds the entire registered capital of YaoYu Advertising.

As at the date of this announcement, YaoYu Advertising holds the Radio and TV Program Production and Business Operation Licence* (廣播電視節目製作經營許可證) issued by SMAC, which permits the licensee to produce, distribute radio and television programs.

Shanghai Xuyang

Shanghai Xuyang is a company established in the PRC on 13 March 2017 with limited liability. As at the date of this announcement, Shanghai Xuyang does not have any business operations. As at the date of this announcement, the OPCO holds 75% of the entire registered capital of Shanghai Xuyang.

Yaoyu Technologies

Yaoyu Technologies is a company incorporated in Hong Kong on 3 December 2014 with limited liability, which is directly wholly-owned by the OPCO as at the date of this announcement. Mr. Ding is the sole director of the Yaoyu Technologies. As at the date of this announcement, the scope of businesses of Yaoyu Technologies covers design, production, agency and release of various types of advertisements, marketing planning, business consulting and business management consulting.

Shanghai Chengjiu

Shanghai Chengjiu is a company established in the PRC on 15 March 2017 with limited liability. As at the date of this announcement, Shanghai Chengjiu does not have any business operations, and its deregistration as a company in the PRC is in progress. As at the date of this announcement, the OPCO holds 51% of the entire registered capital of Shanghai Chengjiu.

Financial information of the OPCO Group

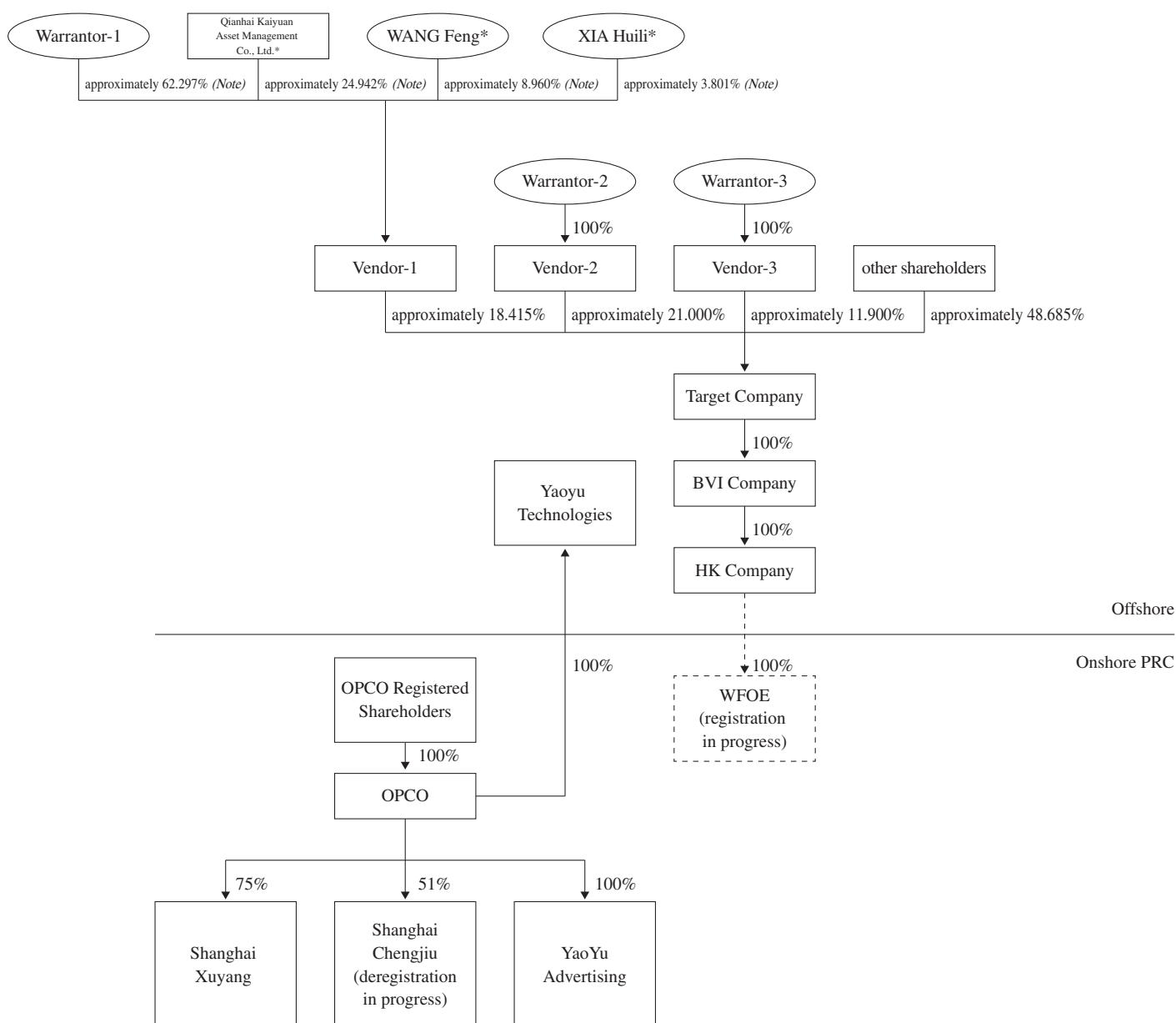
Set out below is the financial information of the OPCO Group based on the unaudited consolidated financial statements for the two years ended 31 March 2017 and 2018:

	For the year ended 31 March 2017 (unaudited) <i>RMB'000</i> (approximately)	For the year ended 31 March 2018 (unaudited) <i>RMB'000</i> (approximately)
Net profit before taxation and extraordinary items	36,145	40,767
Net profit after taxation and extraordinary items	27,264	30,906

As at 31 March 2018, the unaudited net asset value of the OPCO Group was approximately RMB159,581,000.

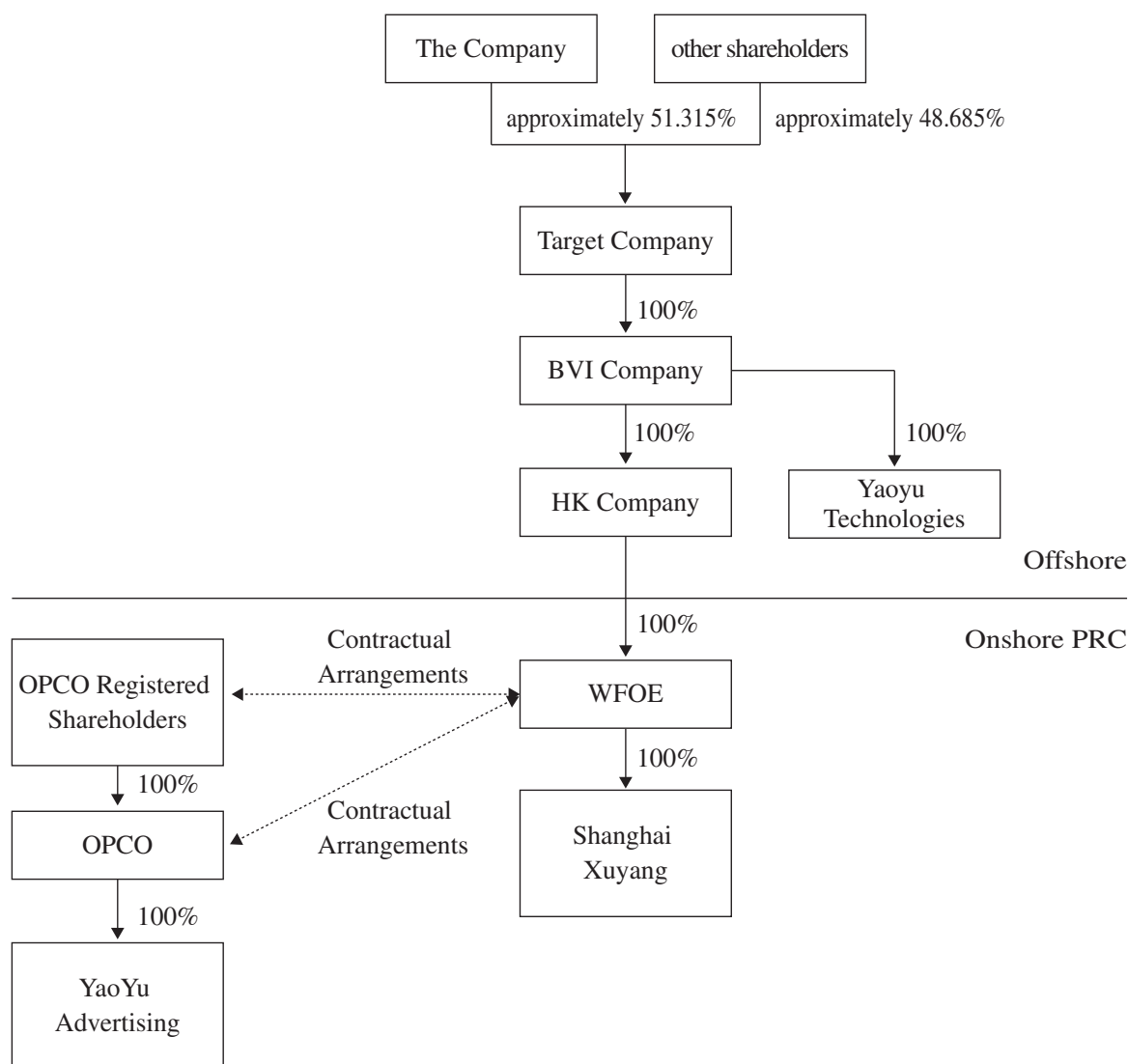
Shareholding structure

Set out below is the shareholding structure of the Target Group as at the date of this announcement:



Note: The Warrantor-1 holds the legal title of all issued shares in the Vendor-1. The Warrantor-1 beneficially owns approximately 62.297% of such shares, and holds approximately 24.942%, approximately 8.960% and approximately 3.801% of such shares on trust for Qianhai Kaiyuan Asset Management Co., Ltd*, WANG Feng* and XIA Huili* respectively.

Set out below is the proposed shareholding structure of the Target Group as at immediately after Completion:



Pursuant to the VIE Contracts, the WFOE will have effective control over the OPCO VIE Companies and enjoy the economic benefits generated by the OPCO VIE Companies. The Directors have discussed with the reporting accountants and confirmed that under the prevailing accounting principles, after completion of the registration of the WFOE as a wholly foreign-owned enterprise in the PRC, the Company has the right to consolidate the financial results of the OPCO VIE Group in its consolidated accounts as if they were subsidiaries of the Target Company.

Information of the OPCO Registered Shareholders

As at the date of this announcement, the OPCO Registered Shareholders and their respective shareholdings in the OPCO are as follows:

	Approximate % of interest held (Note)
Warrantor-2	21.000%
Warrantor-3	11.900%
Warrantor-1	11.472%
Guangzhou Huaduo Network Technology Co., Ltd.	10.000%
Ningbo Meishan Bonded Port Area Fengheng Investment Management Partnership (Limited Partnership) *	5.626%
Qianhai Kaiyuan Asset Management Co., Ltd.*	4.593%
Changzhou Benzhen Investment Co., Ltd.*	3.817%
Tibet Gaoge Investment Co., Ltd.*	3.763%
SU Qiong*	3.150%
Ningbo Meishan Bonded Port Area Xiayuan Investment Management Partnership (Limited Partnership) *	2.750%
HUANG Xiaoming*	2.500%
YU Rongquan*	2.333%
WANG Jing*	2.100%
LI Cailing*	2.100%
JIANG Chang*	1.969%
WANG Feng*	1.650%
DING Hanpeng*	1.500%
SHI Juanhua*	1.000%
WANG Fengqin*	1.000%
XI Xi*	1.000%
Hangzhou Qiancheng Jinzao Investment Management Partnership (Limited Partnership)*	1.000%
Zhejiang Jinzhuan Benzhen Asset Management Co., Ltd.*	0.823%
SUN Zhilan*	0.733%
XIA Huili*	0.700%
HAN Zuying*	0.653%
LIU Liping*	0.533%
QIAN Peixin*	0.333%

Note: Certain percentage figures included in the above list have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, all the OPCO Registered Shareholders are Independent Third Parties.

INFORMATION OF THE VIE CONTRACTS

Reasons for use of the VIE Contracts

The OPCO VIE Companies are principally engaged in the businesses of operation of e-sports events and production of related events videos, among which the production of videos of e-sports events and dramas broadcast online, and organising cultural and artistic performances during e-sports events, are considered to be engaged in (i) television program production and business operation; and (ii) commercial performance, a prohibited business and restricted business respectively for foreign investors pursuant to the Special Management Measures (Negative List) for the Access of Foreign Investment (2018) (《外商投資准入特別管理措施(負面清單)(2018年版)》) (the “**Negative List**”) promulgated by the NDRC and MOFCOM.

As a result, to comply with the applicable PRC Laws, the WFOE, the OPCO and the OPCO Registered Shareholders shall, as part of the Reorganisation, enter into the VIE Contracts to enable the entire economic benefits of the businesses of the OPCO VIE Companies to flow into the WFOE, to enable the consolidation of the financial results of the OPCO VIE Companies in the Group’s consolidated accounts after completion, and to enable the WFOE to gain effective control over the OPCO VIE Companies.

VIE Contracts

Principal terms of each of the agreements under the VIE Contracts are set out as follows:

(i) Exclusive Call Option Agreement

- Parties:
- (i) WFOE;
 - (ii) OPCO Registered Shareholders; and
 - (iii) OPCO

Options: The OPCO Registered Shareholders irrevocably and unconditionally grant to the WFOE or any person(s) designated by the WFOE, the exclusive option to purchase (at any time, in one or more times), to the extent permitted under relevant PRC Laws, all or part of the OPCO Registered Shareholders’ shares in the OPCO (the “**Share Call Option**”).

The OPCO irrevocably and unconditionally grants to the WFOE or any person(s) designated by the WFOE, the exclusive option to purchase (at any time, in one or more times), to the extent permitted by PRC Laws, all or part of the assets owned by the OPCO (the “**Assets Call Option**”, together with the Share Call Option, the “**Call Options**”).

Other than the WFOE and any person(s) designated by the WFOE, no third party shall be entitled to the Call Options or any rights related to the shares held by the OPCO Registered Shareholders and the assets of the OPCO.

Consideration:

The consideration for the exercise of the Share Call Option and/or the Assets Call Option shall be a nominal price of RMB1, unless another price is required by the relevant PRC authority or PRC Laws, in which case, the consideration shall be the minimum price in compliance with such requirement.

The OPCO Registered Shareholders and/or the OPCO shall, and the OPCO Registered Shareholders have undertaken to, return any consideration they received from the WFOE or the person(s) as designated by the WFOE.

Term:

The Exclusive Call Option Agreement has an initial term of ten years from the date of its execution, the WFOE may choose to extend the Exclusive Call Option Agreement, unless or until the date that the shares in the OPCO held by the OPCO Registered Shareholders and/or the assets have all been transferred to the WFOE and/or the person(s) as designated by the WFOE (the date of completion of the change in the industrial and commercial registration shall prevail) and that the WFOE and its subsidiaries and branches can legally engage in the business of the OPCO. If the WFOE fails to determine the extension period of the Exclusive Call Option Agreement upon its expiration, the Exclusive Call Option Agreement shall be automatically extended and until the extension period is determined by the confirmation letter delivered by the WFOE. Notwithstanding the foregoing, the WFOE shall have the right to terminate the Exclusive Call Option Agreement unilaterally at any time by giving written notice to the OPCO Registered Shareholders and the OPCO, and shall not be liable for any breach of contract in such event. Unless otherwise mandatorily provided by PRC Laws, the OPCO Registered Shareholders and the OPCO have no right to terminate the Exclusive Call Option Agreement unilaterally.

(ii) Exclusive Business Cooperation Agreement

Parties: (i) WFOE; and

(ii) OPCO

Services: The OPCO agrees to engage the WFOE as its exclusive service provider to provide the OPCO with comprehensive business support, technical services and consulting services (all or part of the services determined by the WFOE at times) within the business scope of the OPCO, including but not limited to, technical services, technical consultation, business consultation, intellectual property licensing, equipment and leasing, marketing consultation, products research and development, system maintenance, and the provision of management consulting services related to the business operation of the OPCO, and in the circumstances permitted by PRC Laws, the provision at times of any other consultation and services related to the foregoing as requested by the OPCO.

Unless with the prior written consent of the WFOE, the OPCO shall not accept and shall procure its controlled subsidiaries not to accept any consultation and/or services provided by any third party other than cooperated banks, and shall not cooperate with any third party other than cooperated banks.

Fees: Without prejudice to the mandatory provisions of PRC Laws, during the valid period of the Exclusive Business Cooperation Agreement, the OPCO and its controlled subsidiaries shall, after making up for the previous year's losses (if necessary), deducting the necessary costs, expenses, taxes incurred during the corresponding financial year and making provision for the statutory reserve fund that must be accrued according to law, pay in full the income of the OPCO and its controlled subsidiaries (including the accumulated income of the previous financial year) (equivalent to the consolidated net profit of the OPCO) as service fee (the "**Service Fee**") to the WFOE after the end of each financial year. The WFOE has the right to determine the abovementioned deductible items.

The WFOE has the right to adjust the amount of the Service Fee at its own discretion, by taking into consideration the following factors, including but not limited to, (i) the technical difficulty and the complexity of the technical consultation and other services provided by the WFOE; (ii) the time required for the WFOE's technical staff to provide such technical consultation and other services; (iii) the specific content and commercial value of the technical consultation and other services provided by the WFOE; and (iv) market price of the same type of services.

Term:

The Exclusive Business Cooperation Agreement has an initial term of ten years from the date of execution, the WFOE may choose to extend the Exclusive Business Cooperation Agreement. If the WFOE fails to determine the extension period of the Exclusive Business Cooperation Agreement upon its expiration, the Exclusive Business Cooperation Agreement shall be automatically extended and until the extension period is determined by the confirmation letter delivered by the WFOE.

The Exclusive Business Cooperation Agreement shall be terminated in accordance with the following provisions or circumstances:

- (i) on the date that the OPCO goes bankrupt, is liquidated, terminated or dissolved according to law within the validity period of the Exclusive Business Cooperation Agreement;
- (ii) on the date that all the shares and assets of the OPCO have been transferred to the WFOE or its designated party in accordance with the Exclusive Call Option Agreement;
- (iii) once PRC Laws allow the WFOE to directly hold the shares of the OPCO and the WFOE and its subsidiaries and branches can legally engage in the OPCO's business, the date on which the WFOE is duly registered as the OPCO's sole equity owner;
- (iv) the WFOE terminates the Exclusive Business Cooperation Agreement by giving a prior 30-day written notice to the OPCO at any time during the valid period of the Exclusive Business Cooperation Agreement, on the expiration of the written notice;

- (v) early termination in accordance with the provisions of the Exclusive Business Cooperation Agreement.

The WFOE shall not be liable for any breach of contract for unilaterally terminating the Exclusive Business Cooperation Agreement pursuant to the foregoing. The OPCO has no right to terminate the Exclusive Business Cooperation Agreement unilaterally.

(iii) Share Pledge Agreement

Parties:

- (i) WFOE;
- (ii) OPCO Registered Shareholders; and
- (iii) OPCO

Pledge:

The OPCO Registered Shareholders agree to pledge by way of first priority pledge of all their respective shares (including any shares subsequently registered or acquired) in the OPCO to the WFOE as collateral for the timely and full repayment of the secured indebtedness due by the OPCO and/or the OPCO Registered Shareholders under the Contractual Arrangements (the “**Secured Obligations**”) and the performance of all the contractual obligations of the OPCO and the OPCO Registered Shareholders under the Contractual Arrangements (the “**Contractual Obligations**”). The OPCO agrees with the abovementioned pledge by the OPCO Registered Shareholders under the Share Pledge Agreement.

The OPCO Registered Shareholders undertake to the WFOE, among others, that except for the performance of the Exclusive Call Option Agreement, without the prior written consent of the WFOE, the OPCO Registered Shareholders shall not, or allow others to, transfer all or any part of the shares, create or allow any security interest or other encumbrance that may affect the rights and interests of the WFOE in the shares of the OPCO. Any proceeds from the transfer of the shares in the OPCO agreed in writing by the WFOE shall first be used for early settlement of the secured indebtedness to the WFOE or to be deposited with a third party agreed with the WFOE.

If the OPCO Registered Shareholders and/or the OPCO breach any obligation under the Contractual Arrangements, the WFOE, as the pledgee, is entitled to enforce its rights under the Share Pledge Agreement.

Term:

The pledge shall take effect on the date of its registration with the administration for industry and commerce where the OPCO locates. The term of the pledge (the “**Term of the Pledge**”) shall take effect until:

- (i) the Secured Indebtedness and the Contractual Obligations have been fully repaid and discharged;
- (ii) all the shares in the OPCO held by the OPCO Registered Shareholders have been transferred to the WFOE and/or its designated party pursuant to the Exclusive Call Option Agreement, and the WFOE and its subsidiaries and branches can legally engage in the OPCO’s business;
- (iii) all the assets of the OPCO have been transferred to the WFOE or its designated party in accordance with the Exclusive Call Option Agreement, and the WFOE and its subsidiaries and branches can legally engage in the OPCO’s business with the assets;
- (iv) the WFOE has unilaterally terminated the Share Pledge Agreement; or
- (v) the Share Pledge Agreement has been terminated pursuant to the requirement of applicable PRC Laws.

The Share Pledge Agreement shall terminate upon expiration of the Term of the Pledge.

(iv) Shareholders' Voting Right Entrustment Agreement and Power of Attorney

- Parties:
- (i) WFOE;
 - (ii) OPCO Registered Shareholders; and
 - (iii) OPCO

Subject matter: Each of the OPCO Registered Shareholders irrevocably undertakes to sign a Power of Attorney upon execution of the Shareholders' Voting Right Entrustment Agreement, pursuant to which, to respectively grant to the WFOE or in accordance with the instruction of the WFOE grant to the Company's directors and their successors (including a liquidator replacing the Company's directors) all their voting rights in the OPCO, among others,

- (i) as the agent of the OPCO Registered Shareholders, to propose, convene and attend the shareholders' meetings of the OPCO;
- (ii) to exercise all shareholder's rights and shareholder's voting rights enjoyed by the OPCO Registered Shareholders in accordance with PRC Laws and the articles of association (as amended from time to time) of the OPCO, including but not limited to the right to dividends, sale or transfer or pledge or disposal of all or part of the OPCO's shares;
- (iii) to act as the legal representative, the chairman, executive director or manager of the OPCO and/or to designate, appoint or remove the legal representative, the chairman, director, supervisor, chief executive officer, manager and other senior management of the OPCO on behalf of the OPCO Registered Shareholders; in the event that the actions of the directors, supervisors or senior management of the OPCO prejudice the interests of the OPCO or its shareholders, to file lawsuits or take other legal actions against such directors or senior management;
- (iv) to sign documents (including minutes of shareholders' meeting) and to file documents with the relevant companies registry;

- (v) to exercising voting right on behalf of the OPCO Registered Owners in the event of bankruptcy, liquidation, dissolution or termination of the OPCO;
- (vi) the right to distribute the remaining assets after OPCO's bankruptcy, liquidation, dissolution or termination;
- (vii) to make decision in relation to submitting and filing documents related to the OPCO to the government departments; and
- (viii) exercising in accordance with the law any shareholder's rights to deal with OPCO's assets, including but not limited to the right to manage its asset-related business, the right to use its income and the right to obtain its assets.

The OPCO Registered Shareholders undertake and warrant that, the power of attorney will not give rise to any actual or potential conflict of interest between themselves and the WFOE and/or its designated party.

Term:

The Shareholders' Voting Right Entrustment Agreement shall take effect from the date of execution and shall remain effective irrevocably, unless instructed to the contrary by the WFOE or by the WFOE's early termination.

Once PRC Laws allow the WFOE or the Company or its directly or indirectly controlled subsidiaries to directly hold the shares of the OPCO, and to legally engage in the OPCO's business, the Shareholders' Voting Right Entrustment Agreement shall terminate automatically on the date when the WFOE is duly registered as the sole shareholder of the OPCO.

(v) Spousal Consent Letters

Parties: The spouse of each of the OPCO Registered Shareholders who is a married natural person

Subject matter: The spouse (if any) of each of the OPCO Registered Shareholders who is a married natural person shall execute a spousal confirmation to the WFOE to the effect that, among others:

- (i) the spouse unconditionally and irrevocably consents to execution of the Exclusive Call Option Agreement, the Share Pledge Agreement, the Shareholders' Voting Right Entrustment Agreement (collectively, the "**Transaction Documents**") and that the respective OPCO Registered Shareholders' shares in the OPCO shall be disposed of pursuant to the abovementioned agreements;
- (ii) the spouse undertakes not to make any claim for the shares in the OPCO held by the respective OPCO Registered Shareholders;
- (iii) the performance of the Transaction Documents by the respective OPCO Registered Shareholders and any further amendment or termination of the Transaction Documents does not require the authorisation or consent of the spouse.

Compliance of the VIE Contracts with PRC Laws

Based on the confirmation received from SMAC, the PRC Legal Adviser is of the opinion that, the VIE Contracts do not violate PRC Laws applicable to the business of the WFOE and the OPCO. The PRC Legal Adviser confirms that the VIE Contracts would not be deemed as "concealing illegal intentions with a lawful form" and void under the PRC contract law. The VIE Contracts to be entered into are legally binding on and enforceable against each party of each of the agreements in accordance with their terms and provisions under PRC Laws except certain terms of the VIE Contracts as set out in the paragraph headed "Risk factors in relation to the VIE Contracts – Certain provisions in the VIE Contracts may not be enforceable under PRC Laws" below.

As at the date of this announcement, the OPCO has not encountered any interference or encumbrance from any governing bodies in operating its business.

In light of the above, the Directors believe that save as disclosed, the VIE Contracts are enforceable under the relevant PRC Laws, and that the VIE Contracts will provide a mechanism that enables the WFOE to exercise effective control over the OPCO VIE Companies.

Manner of settlement of disputes which may arise from the VIE Contracts

Dispute Resolution

The VIE Contracts contain a dispute resolution clause. Pursuant to such clause, in the event of any dispute between the parties to the VIE Contracts regarding the interpretation and performance of the agreement, the parties to the dispute shall settle the dispute through amicable negotiation. If an agreement to settle the dispute has not been reached within thirty (30) days after a party has requested for a settlement of the dispute through negotiation, then either party may submit the dispute to the Shanghai International Economic and Trade Arbitration Commission (Shanghai International Arbitration Center) for arbitration in accordance with its then effective arbitration rules. The arbitration shall be conducted in Shanghai and the language for arbitration shall be Chinese. The decision of the arbitration shall be final and binding on the parties. The arbitral tribunal may award compensation over the OPCO's shares, assets or property rights for any loss caused to the WFOE arising from other parties' breach, provide mandatory relief (such as for the conduct of business or to compel the transfer of asset) or order the winding up of the OPCO. If necessary, before final decision is made by the arbitral tribunal, the arbitral tribunal has the power to grant injunctive relief. In addition, the courts of Hong Kong, Cayman Islands and other competent jurisdictions (the courts of the places where the OPCO locates or where the OPCO or the WFOE's principal assets are located should be deemed as having jurisdiction) have the power to grant or enforce the decision of the arbitral tribunal, and to grant or enforce interim relief over the OPCO's shares or property rights, and to grant or enforce interim relief in support of the arbitration pending formation of the arbitral tribunal or in appropriate situation.

Succession

The VIE Contracts contains provision to the effect that, in the event of death, incapability, marriage, divorce, bankruptcy of an OPCO Registered Shareholder or the occurrence of any other circumstances which may affect the shares in the OPCO held by an OPCO Registered Shareholder, the successor(s) (including the spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents) or assignees of the OPCO Registered Shareholder shall be deemed signing parties to the VIE Contracts to which the OPCO Registered Shareholder is a party, and shall inherit or take up the rights and obligations of the OPCO Registered Shareholder under the VIE Contracts.

Liquidation

Pursuant to the Exclusive Call Option Agreement, in the event of dissolution or liquidation of the OPCO, the OPCO Registered Shareholders shall authorise the WFOE to appoint a liquidator for the OPCO and to manage the assets of the OPCO. The OPCO shall, to the extent permitted by PRC Laws, dispose all its assets to the WFOE or any person(s) designated by the WFOE, at an aggregate consideration of the minimum purchase price permitted by PRC Laws.

RISK FACTORS IN RELATION TO THE VIE CONTRACTS

Possible impact of the Draft Law (as hereinafter defined) on the VIE Contracts and the business of the Target Group

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

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

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

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

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

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

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

Upon Completion, each of the Target Company and the WFOE will become a subsidiary of the Company. The Company may not, upon Completion, be controlled by the PRC investors. According to the PRC Legal Adviser, upon Completion, the WFOE may not be considered as being controlled by PRC investors as currently defined under the Draft Law. As a result, assuming investment in radio and television programs production and business operation (including imported business) and performance agency business are still categorised under the Negative List as prohibited and restricted business respectively and the Draft Law is finally adopted and becomes law, there remains uncertainty that whether the WFOE can engage in such businesses through the VIE Contracts given that the WFOE may not be considered as being controlled by PRC investors as currently defined under the Draft Law.

If the authorities deny the validity, effectiveness and enforceability of the VIE Contracts, the Group would (i) lose control of the OPCO; and (ii) be unable to consolidate the financial results of the OPCO or properly safeguard or control the assets of the OPCO, which would result in a material adverse effect on the Group's business, financial condition and results of operations.

However, according to the PRC Legal Adviser, the Draft Law is published for consultation purpose and has not yet become legally binding. As there are uncertainties on the final content and interpretations of the Draft Law if and when it is adopted and becomes law, there is no assurance that the VIE Contracts and the business of the Target Group will not be materially affected in the future. In order to continuously monitor the development of the Draft Law to assess the possible impact on the VIE Contracts and the business of the Target Group, the Board will monitor the updates of the Draft Law and discuss with the PRC legal adviser to determine if any modification or amendment to the VIE Contracts are required to be made.

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

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

The OPCO Registered Shareholders may have potential conflicts of interest with the Group

The Group's control over the OPCO is based on the VIE Contracts. Therefore, conflict of interests of the OPCO Registered Shareholders will adversely affect the interests of the Group. Pursuant to the Shareholders' Voting Right Entrustment Agreement and Power of Attorney, the OPCO Registered Shareholders shall irrevocably appoint the WFOE as their attorney-in-fact to act for all matters pertaining to the OPCO and to exercise all of their rights as shareholders of the OPCO. Therefore, it is unlikely that there will be potential conflict of interests between the Group and the OPCO Registered Shareholders. However, in the unlikely event that conflicts of interest arise between the OPCO Registered Shareholders and the Group and such conflicts cannot be resolved, the Company will consider to remove and replace the OPCO Registered Shareholders under the VIE Contracts.

Certain provisions in the VIE Contracts may not be enforceable under PRC Laws

The VIE Contracts provide that the arbitral tribunal may award remedies over the shares or assets of the OPCO or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the OPCO. The VIE Contracts also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitral tribunal or otherwise under appropriate situation, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts of Hong Kong, Cayman Islands and other competent jurisdictions (the courts of the place where the OPCO locates or where the OPCO or the WFOE's principal assets are located should be deemed as having jurisdiction).

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

The VIE Contracts may be subject to the scrutiny of the PRC tax authorities and additional tax may be imposed

The Group could face material adverse tax consequences if the PRC tax authorities determine that the arrangements under the VIE Contracts was not entered into based on arm's length negotiations. In that case, the PRC tax authorities may adjust the income and expenses of the WFOE and/or the OPCO for PRC tax purposes, which could result in higher tax liabilities on the WFOE and/or the OPCO.

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

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

The insurance of the Group does not cover the risks relating to the VIE Contracts and the transactions contemplated thereunder and the Company has no intention to purchase any insurance in this regard. If any risk arises from the VIE Contracts in the future, such as those affecting the enforceability of the VIE Contracts and the operation of the OPCO, the financial results and financial position of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations.

The WFOE's ability to acquire the shares in the OPCO may be subject to various limitations and substantial costs

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

Economic risks the WFOE bears as the primary beneficiary of the OPCO, financial support to the OPCO and potential exposure of the Target Company to losses

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

INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP

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

Management controls

- (i) The Group will appoint one or more executive directors (the "**Responsible Director(s)**") to the board of directors of the OPCO. The Responsible Director(s) shall be mainly responsible for enforcing all management controls of the OPCO, and shall be required to conduct monthly reviews on the operations of the OPCO and submit such monthly reviews to the Board;
- (ii) the Responsible Director(s) shall establish a team to be funded by the Group who shall station at the OPCO and shall be actively involved in various aspects of the daily managerial and operational activities of the OPCO;
- (iii) upon receiving notification of any material events of the OPCO, the Responsible Director(s) must report to the Board as soon as practicable;
- (iv) the Responsible Director(s) shall conduct regular site visits to the OPCO and conduct interviews with the relevant senior management of the OPCO every six months and submit the interview notes to the Board; and
- (v) all seals, chops, incorporation documents and all other legal documents of the OPCO and its subsidiary must be kept at the office of the WFOE.

Financial controls

- (i) The financial team of the Company shall collect monthly management accounts, bank statements and cash balances and major operational data of the OPCO within 15 days after each month end for review. The financial team of the Company will seek explanations from the senior management of the OPCO on any material fluctuations of the aforesaid collected items. Upon discovery of any suspicious matters, the financial team of the Company must report to the Responsible Director(s) as soon as practicable, who shall in turn report to the Board;
- (ii) if the payment of the service fees from the OPCO to the WFOE is delayed, the financial team of the Company must meet with the OPCO Registered Shareholders to investigate, and should report any suspicious matters to the Board. In extreme cases, the OPCO Registered Shareholders will be removed and replaced under the VIE Contracts; and
- (iii) the OPCO must assist and facilitate the Company to conduct all on-site internal audits on the OPCO if so required by the Company.

Legal review

The Responsible Director(s) will consult the Company's PRC legal adviser from time to time to check if there are any legal developments in the PRC affecting the VIE Contracts, and should immediately report to the Board so as to allow the Board to determine if any modification or amendment are required to be made.

The Board's view on the VIE Contracts

Based on the above, the Board is of the view that the VIE Contracts are narrowly tailored to achieve the OPCO VIE Companies' business purpose and to minimise the potential conflict with and are enforceable under relevant PRC Laws. The VIE Contracts enable the Target Company to gain control over the financing and business operations of the OPCO VIE Companies, and enjoy the economic benefits generated by the OPCO VIE Companies. The VIE Contracts also provide that the WFOE may unwind the VIE Contracts as soon as relevant PRC Laws allow the WFOE to register itself as the shareholder of the OPCO.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition exceed(s) 25% but all are less than 100%, the Acquisition constitutes a major transaction of the Company and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

An EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Share Purchase Agreement and the transactions contemplated thereunder.

A circular containing, among others, details of the Share Purchase Agreement and the transactions contemplated thereunder, the Reorganisation and the VIE Contracts, and other information as required to be disclosed under the Listing Rules and a notice convening the EGM, together with a form of proxy will be despatched to the Shareholders on or before 24 October 2018.

As Completion is subject to fulfilment or waiver (as the case may be) of the Conditions, it may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

DEFINITIONS

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

“Acquisition” the proposed acquisition of the Sale Shares by the Company from the Vendors pursuant to the Share Purchase Agreement

“Affiliates” with respect to any person, any of such person’s connected person(s), any other person directly or indirectly controlling, controlled by, or under common control with such person (including any subsidiary) or any investment funds managed or advised by such person or any of its other Affiliates and, for any person who is an individual, includes such individual’s spouse, children, any person(s) cohabiting as a spouse of such person.

“**Affiliated**” shall have correlative meanings. For the purpose of this definition, the term “**control**” (including with correlative meanings, the terms “**controlling**”, “**controlled by**” and “**under common control with**”), as used with respect to any person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities or by contract or otherwise

“Board” the board of Directors

“Business Day”	a day (other than Saturday, Sunday and public holiday) on which normal commercial banks in Hong Kong are open for ordinary banking services
“BVI Company”	Victory Target International Limited, a BVI business company incorporated in the British Virgin Islands with limited liability, all issued shares in which are held by the Target Company
“China” or “PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Company”	Wan Kei Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (stock code: 1718)
“Completion”	completion of the Acquisition
“Completion Date”	the third (3rd) Business Day (or such other date as may be agreed in writing by the Parties) after the date on which all the Conditions have been satisfied or otherwise waived in accordance with the Share Purchase Agreement
“Condition(s)”	the condition(s) precedent set out in the Share Purchase Agreement
“connected person(s)”	has the meaning as ascribed thereto in the Listing Rules
“Consideration”	HK\$320,000,000, being the total consideration for the Acquisition payable by the Company under the Share Purchase Agreement
“Contractual Arrangements”	the contractual arrangements under the VIE Contracts
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting to be convened and held by the Company to consider and, if thought fit, approve the Share Purchase Agreement

“Exclusive Business Cooperation Agreement”	the exclusive business cooperation agreement to be entered into between the WFOE and the OPCO, the details of which are set out in the section headed “Information of the VIE Contracts – VIE Contracts” of this announcement
“Exclusive Call Option Agreement”	the exclusive call option agreement to be entered into between the WFOE, the OPCO Registered Shareholders and the OPCO, the details of which are set out in the section headed “Information of the VIE Contracts – VIE Contracts” of this announcement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK Company”	Orient Paradise International Limited, a company incorporated in Hong Kong with limited liability, all issued shares in which are held by the BVI Company
“Independent Third Party(ies)”	individual(s) or company(ies) which is/are not connected with any Directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates and is/are independent of the Company
“Licensed Operations”	the activities covered by the scope of the Licences
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	2 April 2019 (being the date falling six (6) months after the date of the Share Purchase Agreement) or such other date as the Parties may agree in writing
“Main Business”	the operation of e-sports events and the production of relevant event videos
“MOFCOM”	Ministry of Commerce of the PRC
“MOU”	the non-legally binding memorandum of understanding as defined in the MOU Announcement
“MOU Announcement”	the announcement of the Company dated 6 July 2018

“Mr. Ding”	Mr. DING Jun (丁駿), a PRC citizen who is a registered shareholder of approximately 11.900% of all issued shares in the OPCO as at the date of this announcement, and is an Independent Third Party
“Mr. Sun”	Mr. SUN Xiyao (孫喜耀), a PRC citizen who is a registered shareholder of approximately 11.472% of all issued shares in the OPCO as at the date of this announcement, and is an Independent Third Party
“Mr. Zhang”	Mr. ZHANG Yu (張宇), a PRC citizen who is a registered shareholder of approximately 21.000% of all issued shares in the OPCO as at the date of this announcement, and is an Independent Third Party
“NDRC”	National Development and Reform Commission of the PRC
“OPCO”	Shanghai YaoYu Culture Media Co., Ltd. (上海耀宇文化傳媒股份有限公司), a joint stock limited company established under the law of the PRC
“OPCO Group”	the OPCO and its subsidiaries, including (i) the OPCO VIE Companies; (ii) Shanghai Xuyang; (iii) Shanghai Chengjiu (before completion of its deregistration as a company in the PRC); and (iv) Yaoyu Technologies
“OPCO Registered Shareholders”	the registered holders of all the issued shares of the OPCO for the time being, including Mr. Sun, Mr. Zhang, Mr. Ding and other person(s)
“OPCO Share Option Scheme”	the share option incentive plan formulated by the OPCO and was approved at the second extraordinary general meeting of the OPCO in 2016. The plan’s subject matter is the ordinary shares of the OPCO, the plan grants options to the incentive objects (including the directors, supervisors, senior management and other employees of the OPCO) who shall purchase the shares of the OPCO at a predetermined exercise price and conditions during the validity period of the plan
“OPCO VIE Companies”	collectively the OPCO and YaoYu Advertising, being the entities to be subject to the VIE Contracts
“Party(ies)”	party(ies) to the Share Purchase Agreement

“PRC Laws”	any laws, regulations, rules, notices, interpretation or other binding documents issued by any central or local legislative, executive or judicial authorities in the PRC
“PRC Legal Adviser”	the legal adviser of the Company in relation as to the laws of the PRC in relation to the Acquisition and the VIE Contracts
“Sale Shares”	collectively, Sale Shares-1, Sale Shares-2 and Sale Shares-3
“Sale Shares-1”	160,131 shares in the Target Company held by the Vendor-1, representing approximately 18.415% of the issued share capital of the Target Company
“Sale Shares-2”	182,609 shares in the Target Company held by the Vendor-2, representing approximately 21.000% of the issued share capital of the Target Company
“Sale Shares-3”	103,478 shares in the Target Company held by the Vendor-3, representing approximately 11.900% of the issued share capital of the Target Company
“Shanghai Chengjiu”	Shanghai Chengjiu Culture Media Co., Ltd.* (上海承就文化傳媒有限公司), a company registered in the PRC non-wholly owned by the OPCO, the de-registration of which is under progress as at the date of this announcement
“Shanghai Xuyang”	Shanghai Xuyang Culture Media Co., Ltd.* (上海旭央文化傳媒有限公司), a company registered in the PRC, the equity interest in which is owned as to 75% by the OPCO as at the date of this announcement
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Pledge Agreement”	the share pledge agreement to be entered into between the WFOE, the OPCO Registered Shareholders and the OPCO, the details of which are set out in the section headed “Information of the VIE Contracts – VIE Contracts” of this announcement

“Shareholders’ Voting Right Entrustment Agreement and Power of Attorney”	the shareholders’ voting right entrustment agreement and power of attorney to be entered into between the WFOE, the OPCO Registered Shareholders and the OPCO, the details of which are set out in the section headed “Information of the VIE Contracts – VIE Contracts” in this announcement
“Share Purchase Agreement”	the conditional Share Purchase Agreement dated 2 October 2018 entered into among the Company, the Vendors and the Warrantors in relation to the Acquisition
“SMAC”	Shanghai Municipal Administration of Culture, Radio, Film & TV (上海市文化廣播影視管理局)
“Spousal Consent Letter(s)”	letter(s) of consent to be signed by the spouse of each of the OPCO Registered Shareholders who is a married natural person, the details of which are set out in the section headed “Information of the VIE Contracts – VIE Contracts” of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Blue Marble Limited, an exempted company incorporated in the Cayman Islands with limited liability, which is owned as to approximately 51.315% by the Vendors as at the date of this announcement
“Target Group”	collectively, (i) the Target Company; (ii) the BVI Company; (iii) the HK Company; (iv) the WFOE (from the date of completion of its registration as a wholly foreign-owned enterprise in the PRC, inclusive); (v) Shanghai Xuyang; (vi) Shanghai Chengjiu (before completion of its deregistration as a company in the PRC); (vii) Yaoyu Technologies; and (viii) the OPCO VIE Companies, which shall be controlled by the WFOE through the VIE Contracts
“Target Group Company(ies)”	any member company of the Target Group
“U.S.”	the United States of America

“Vendor-1”	Compound Venture Limited, a BVI business company incorporated in the British Virgin Islands with limited liability
“Vendor-2”	Equinox Holdings Limited, a BVI business company incorporated in the British Virgin Islands with limited liability
“Vendor-3”	Compound Investment Limited, a BVI business company incorporated in the British Virgin Islands with limited liability
“Vendors”	collectively, Vendor-1, Vendor-2 and Vendor-3
“Vendor Warranties”	the representations, warranties and undertakings provided by the Vendors and/or the Warrantors under the Share Purchase Agreement
“VIE Contracts”	collectively, (i) the Exclusive Call Option Agreement; (ii) the Exclusive Business Cooperation Agreement; (iii) the Share Pledge Agreement; (iv) the Shareholders’ Voting Right Entrustment Agreement and Power of Attorney; and (v) the Spousal Consent Letters
“Warrantor-1”	Mr. Sun, who holds the legal title of all issued shares in the Vendor-1, of which he beneficially owns approximately 62.297%, and holds approximately 24.942%, approximately 8.960% and approximately 3.801% on trust for Qianhai Kaiyuan Asset Management Co., Ltd.*, WANG Feng* and XIA Huili* respectively
“Warrantor-2”	Mr. Zhang, who is the legal and beneficial owner of all issued shares in Vendor-2
“Warrantor-3”	Mr. Ding, who is the legal and beneficial owner of all issued shares in Vendor-3
“Warrantors”	collectively, Warrantor-1, Warrantor-2 and Warrantor-3
“WFOE”	a wholly foreign-owned enterprise which will be established in the PRC with limited liability before Completion, the registration of which is in progress as at the date of this Announcement, and the entire issued share capital of which will, upon completion of its registration, be held by the HK Company

“YaoYu Advertising”	Shanghai YaoYu Advertising Media Co., Ltd.* (上海耀宇廣告傳媒有限公司), a company registered in the PRC which is a wholly-owned subsidiary of the OPCO as at the date of this announcement
“Yaoyu Technologies”	Yaoyu Technologies Limited (耀宇科技有限公司), a company incorporated in Hong Kong with limited liability which is a wholly-owned subsidiary of the OPCO as at the date of this announcement
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“USD”	United States dollar(s), the lawful currency of the U.S.
“%”	per cent.

For the purpose of illustration only and unless otherwise stated, conversion of RMB into HK\$ in this announcement is based on the exchange rate of RMB1 to HK\$1.1368. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.

By Order of the Board
Wan Kei Group Holdings Limited
Fong Hon Hung
Chairman

Hong Kong, 2 October 2018

As at the date of this announcement, the executive Directors are Mr. Fong Hon Hung, Mr. Zhang Zhenyi, Mr. Chan Kwan and Mr. Yan Shuai; and the independent non-executive Directors are Mr. Lo Wa Kei Roy, Ms. Wang Qing and Mr. Leung Ka Fai Nelson.

* *For identification purpose only*