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# Sparkle Roll Group Limited
# 耀萊集團有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 970)**

# CONTINUING CONNECTED TRANSACTIONS

**Financial adviser to the Company**

AmCap
*Ample Capital Limited*
*豐盛融資有限公司*

On 12 May 2014, SRXTD (an indirect wholly-owned subsidiary of the Company) and BJSRGB entered into the Management Agreement pursuant to which SRXTD agreed to provide management services to BJSRGB, which is principally engaged in the Business, for a term of two years and eleven months.

BJSRGB is owned by BJSRI as to 95%. As BJSRI held its interest in BJSRGB on behalf of SRHL while SRHL is wholly-owned by Mr. Qi, who is a substantial Shareholder of the Company, BJSRGB is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Management Agreement constitute continuing connected transactions of the Company.

Based on the Annual Caps, the applicable percentage ratios are more than 0.1% but less than 5%. As such, the transactions contemplated under the Management Agreement and the Annual Caps are subject to the reporting, annual review and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## INTRODUCTION

The Board is pleased to announce that SRXTD, an indirect wholly-owned subsidiary of the Company, and BJSRGB entered into the Management Agreement on 12 May 2014 in respect of the provision of management services by the Group to BJSRGB for the sales and marketing of Moutai Jackie Chan Liquor*(「茅台成龍酒」) in the PRC.

## BACKGROUND

BJSRGB has been appointed by Guojiu Moutai (Guizhou Renhuai) Sales Co., Ltd.*(國酒茅台(貴州仁懷)營銷有限公司) as a marketing agent of Moutai Jackie Chan Liquor in the PRC. The current appointment is for a term of one year from 1 January 2014 to 31 December 2014. In view of the Group's experience in trading of fine wines mainly of European origin in the PRC, the Group entered into the Management Agreement with BJSRGB in respect of the provision of management services by the Group to BJSRGB.

## THE MANAGEMENT AGREEMENT

**Principal terms**

**Date:** 12 May 2014

**Parties:**

(1) SRXTD, an indirect wholly-owned subsidiary of the Company

(2) BJSRGB, a company established in the PRC with limited liability and is beneficially owned as to 95% by Mr. Qi (through BJSRI and SRHL) and 5% by Ms. Zhou, respectively, and is a connected person of the Company

**Confirmed parties:**

(1) Mr. Qi, a substantial Shareholder of the Company

(2) BJSRI, a company established in the PRC, the entire equity interest in which is beneficially wholly-owned by Mr. Qi. BJSRI is the legal owner of the 95% equity interest in BJSRGB. BJSRI is holding its interest in BJSRGB on behalf of SRHL

(3) SRHL, a substantial Shareholder and a connected person of the Company, which is wholly owned by Mr. Qi. SRHL is holding approximately 28.3% shareholding interest in the Company

(4) Ms. Zhou, a holder of 5% equity interest in BJSRGB

**Subject matter**

Pursuant to the Management Agreement, SRXTD shall provide management services to BJSRGB in connection with its Business in the PRC. Except for matters in relation to the investments and capital raising of BJSRGB, SRXTD should have sufficient discretion and control in relation to (but not limited to) the management, operations, human resources, financial and administrative works of BJSRGB. In addition, SRXTD and its representatives shall have the power to enter into agreements or contracts on BJSRGB's behalf in relation to BJSRGB's daily operation and management. SRXTD shall establish a committee of three to five members with relevant experiences in sales and marketing which is responsible for the provision of the aforementioned management services. The aggregate salaries of the members of this committee shall be limited to RMB600,000 (equivalent to approximately HK$754,000) per annum.

**Term**

The term of the Management Agreement shall be for a period of two years and eleven months commencing from 1 May 2014 and up to 31 March 2017.

**Management fee**

As stipulated in the Management Agreement, SRXTD shall be entitled to receive a management fee from BJSRGB calculated as follows:

(i) For each financial year where the Total Revenue of BJSRGB is RMB200 million (equivalent to approximately HK$251.4 million) or below, management fee receivable by SRXTD shall be equivalent to 2% of the Total Revenue generated in that financial year.

(ii) For each financial year where the Total Revenue of BJSRGB is over RMB200 million (equivalent to approximately HK$251.4 million), management fee receivable by SRXTD shall be equivalent to (a) 2% of the first RMB200 million (equivalent to approximately HK$251.4 million) of the Total Revenue generated in that year; and (b) 3% of the remaining balance of the Total Revenue over that initial RMB200 million (equivalent to approximately HK$251.4 million) referred to in (a) above generated in that year.

The aforementioned management fee shall be payable by BJSRGB semi-annually on 31 March and 30 September every year.

The management fee was determined on an arm's length basis after a negotiation between the Group and the BJSRGB.

**Right of first refusal in relation to acquisition of equity interests in BJSRGB**

Pursuant to the Management Agreement, should any of the nominal and beneficial equity holders of BJSRGB wishes to effect a transfer of their interest in BJSRGB to a third party, SRXTD shall have the right of first refusal to acquire such interest in BJSRGB under the same terms, subject to the requirements of applicable laws and the Listing Rules. Should the Group decide to exercise its right of first refusal, SRXTD or its related companies and the shareholders of the BJSRGB are required to enter into a conditional agreement in connection with the acquisition. Such transaction may constitute another connected transaction subject to reporting, announcement and independent shareholders' approval requirement under Chapter 14A of the Listing Rules depending on the applicable percentage ratios calculated at the time the right of first refusal is exercised.

**Annual Caps**

The annual caps ("**Annual Caps**") for the transactions contemplated under the Management Agreement pursuant to Rule 14A.35(2), which is calculated based on the estimated amount payable by BJSRGB to SRXTD during each of the periods, is set out below:

| | **Eleven months ending 31 March 2015** | **Year ending 31 March** | |
|---|---|---|---|
| | | **2016** | **2017** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Annual Caps | 2,900 | 3,700 | 4,600 |

The aforementioned Annual Caps were calculated based on (i) the projected sales volume of BJSRGB with reference to the estimated growth of moutai liquor sales in the PRC and the brand name effect of Moutai Jackie Chan Liquor; and (ii) the estimated advertising and promotional expenses in connection with the Management Agreement to be borne by BJSRGB.

## INFORMATION ON THE GROUP AND BJSRGB

The Group is principally engaged in trading of luxury automobiles, watches and jewellery in the PRC and trading of fine wines in the PRC, Hong Kong and Macau.

BJSRGB is principally engaged in the Business. BJSRGB has entered into sales contract with the distributor of Moutai Jackie Chan Liquor in the PRC to secure a steady supply of the said product.

## REASONS FOR AND BENEFITS OF THE MANAGEMENT AGREEMENT

Reference is made to the Profit Warning Announcement. In view of the expected decrease in the net profit of the Group for the year ended 31 March 2014, the Board has been exploring other business opportunities to diversify the Group's existing businesses which resulted in entering into the Management Agreement.

Although the Company does not have any proprietary interest in the trademark of Moutai Jackie Chan Liquor, the Board considers that the provision of management services to BJSRGB for the Business would be beneficial to both BJSRGB and the Group. While the Group will receive management fee under the Management Agreement, the Business would create a synergy effect with the Group's existing business in trading of fine wines of European origin. The Group is in the process of continuing its development of an established sales network for European fine wines in the PRC while BJSRGB has its own distribution network in the PRC. Therefore, the Group can utilise, and BJSRGB can be benefited from, the Group's expertise in this area towards the Business. As the Group's existing sales network can be utilised, it is expected that the required additional capital commitment to engage into the Business is minimal. As Jackie Chan（成龍）is an actor and celebrity with international recognition, BJSRGB is well positioned to market the product leveraging on Jackie Chan's prestige. In addition, based on the past performance of BJSRGB, it is expected that the Group can improve its revenue generating capability by tapping into the Business and, at the same time, mitigate many of the associated business risks (e.g. credit risk, liquidity risk, etc.) as such risks will be borne by BJSRGB. According to the Management Agreement, the costs of advertisement and promotion are to be borne by the BJSRGB while the Group is to receive the management fee calculated at a percentage of the gross sales value, it is expected that the cost loading of the Group will not be substantially increased. By participating in the Business through the Management Agreement, the Group can also avoid investing substantial capital (e.g. acquisition of inventory from supplier) into the Business. The Directors also consider that the provision of management services to BJSRGB is not contrary to the Group's interest because the Group's existing business of sales and distribution of fine wines just involve fine wines of European origin. Lastly, the Directors consider the right of first refusal to be beneficial to the Group as the Group will be in a position to closely monitor the operations of BJSRGB during the term of the Management Agreement. Should the Group be satisfied with BJSRGB's future performance, it is entitled the right of first refusal to purchase the equity interest in BJSRGB should its equity holders decide to dispose of their interest at a later date.

Having considered the above, the Directors (including the independent non-executive Directors but excluding Mr. Qi Jian Wei, a non-executive Director and a brother of Mr. Qi who did not give an opinion) consider that the transactions under the Management Agreement will be entered into in the ordinary and usual course of business and the terms of the Management Agreement and the Annual Caps as set out above are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## IMPLICATIONS UNDER THE LISTING RULES

Mr. Qi is a substantial Shareholder interested in (directly and indirectly) 848,400,000 Shares, representing approximately 28.47% of the Company's issued share capital. Accordingly, Mr. Qi is a connected person of the Company. As (i) SRHL is wholly owned by Mr. Qi, and (ii) BJSRI holds 95% equity interest in BJSRGB on behalf of SRHL, BJSRGB is a connected person of the Company. The transactions under the Management Agreement would constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Based on the Annual Caps as set out above, the applicable percentage ratios are more than 0.1% but less than 5%. Accordingly, the transaction contemplated under the Management Agreement constitute continuing connected transactions subject to the reporting, annual review and announcement requirements but exempt from independent shareholders' approval requirements pursuant to Rule 14A.34(1) of the Listing Rules.

As at the date of this announcement, the Group has nine ongoing continuing connected transactions (the "**Existing CCTs**") with Mr. Qi and his associates in relation to the Group's rental of certain properties in the PRC owned by Mr. Qi. Having considered: (i) the rents payable by the Group under the Existing CCTs are of an expense nature to the Group; (ii) the management fee receivable by the Group under the Management Agreement is of an income nature to the Group; (iii) the nature of the transactions under the Existing CCTs is not the same as that under the Management Agreement; and (iv) save for the estimated use of approximately 0.1% of the total leased area under the Existing CCTs for the Business, there is no other relationship between the Business and the Existing CCTs, the Directors are of the view that aggregation of all continuing connected transactions with Mr. Qi and his associates under Rule 14A.27 of the Listing Rules is not applicable. The Stock Exchange agrees with the Directors' view that the Existing CCTs need not be aggregated with the transactions contemplated under the Management Agreement.

Mr. Qi Jian Wei, a non-executive Director and a brother of Mr. Qi, is deemed to have a material interest in the Management Agreement and has accordingly abstained from voting on the relevant resolution of the Board in relation to the Management Agreement. Save for the above, none of the other Directors has a material interest in the Management Agreements and accordingly, none of the other Directors is required to abstain from voting on the relevant resolution of the Board in relation to the Management Agreement.

## DEFINITIONS

In this announcement, unless otherwise defined, terms used herein shall have the following meanings:

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| "Annual Caps" | the maximum aggregate annual amounts for the continuing connected transactions contemplated under the Management Agreement for the duration of the Management Agreement |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "BJSRGB" | 北京耀萊金榜酒業有限公司 (Beijing Sparkle Roll Golden Bond Liquor Ltd.*), a company established in the PRC with limited liability and is beneficially owned as to 95% by Mr. Qi (through BJSRI and SRHL) and 5% by Ms. Zhou, respectively, is a connected person of the Company |
| "BJSRI" | 北京耀萊投資有限公司 (Beijing Sparkle Roll Investments Co., Ltd.*), a company established in the PRC, the entire equity interest in which is beneficially wholly-owned by Mr. Qi |
| "Board" | the Board of Directors |
| "Business" | sales and marketing of Moutai Jackie Chan Liquor |
| "Company" | Sparkle Roll Group Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange |
| "connected person" | has the meaning ascribed to it under the Listing Rules |

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| "Director(s)" | the director(s) of the Company |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Management Agreement" | the management agreement dated 12 May 2014 entered into between SRXTD and BJSRGB and confirmed by Mr. Qi, BJSRI, SRHL and Ms. Zhou, pursuant to which SRXTD agreed to provide management services to BJSRGB in connection with the Business |
| "Moutai Jackie Chan Liquor"* (「茅台成龍酒」) | a branded moutai liquor manufactured by Kweichow Moutai Co., Ltd*(貴州茅台酒股份有限公司) |
| "Mr. Qi" | Mr. Qi Jian Hong(綦建虹)alias Mr. Kei Kin Hung, a substantial Shareholder interested in (directly and indirectly) 848,400,000 Shares, representing approximately 28.47% of the Company's issued share capital, and a connected person of the Company |
| "Ms. Zhou" | Ms. Zhou Hui(周慧)an equity holder of the 5% equity interest in BJSRGB. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Ms. Zhou is an independent third party (as defined in the Listing Rules) of the Company except for her interest in the BJSRGB |
| "PRC" | the People's Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan |
| "Profit Warning Announcement" | the profit warning announcement dated 27 March 2014 issued by the Company |

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| "Share(s)" | share(s) of HK$0.002 each in the share capital of the Company |
| "Shareholder(s)" | holders of the Shares |
| "SRHL" | Sparkle Roll Holdings Limited, a company incorporated in the BVI which is wholly-owned by Mr. Qi and is as of the date of this announcement interested in 843,440,000 Shares, representing approximately 28.30% of the Company's issued share capital |
| "SRXTD" | 北京耀萊新天地商業發展有限公司 (Sparkle Roll Xin Tian Di Commerce Development Limited*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Total Revenue" | the sum of all revenues from product sales and other business operations generated by BJSRGB during the term of the Management Agreement |
| "HK$" | Hong Kong dollar(s), the lawful currency of Hong Kong |
| "RMB" | Renminbi Yuan, the lawful currency of the PRC |
| "%" | per cent |

By order of the Board
**Sparkle Roll Group Limited**
**Tong Kai Lap**
*Chairman*

Hong Kong, 12 May 2014

*As at the date of this announcement, the Company has three executive Directors, three non-executive Directors and three independent non-executive Directors. The executive Directors are Mr. Tong Kai Lap, Mr. Zheng Hao Jiang and Mr. Zhao Xiao Dong. The non-executive Directors are Mr. Zhang Si Jian, Mr. Gao Yu and Mr. Qi Jian Wei. The independent non-executive Directors are Mr. Choy Sze Chung, Jojo, Mr. Lam Kwok Cheong and Mr. Lee Thomas Kang Bor.*

*In this announcement, RMB has been converted to HK$ at the rate of approximately RMB1 = HK$1.257 for illustration purpose only. No representation is made that any amounts in RMB or HK$ have been, could have been, or could be converted at the above rate or at any other rates or at all.*

* *For identification purpose only*