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**MADISON GROUP<sup>®</sup>**

**Madison Holdings Group Limited**

**麥迪森控股集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8057)**

**MAJOR TRANSACTION  
IN RELATION TO  
THE ACQUISITION OF ENTIRE EQUITY INTEREST IN  
AND  
THE SALE LOAN OF THE TARGET COMPANY**

The Board announces that on 5 May 2018, the Purchaser and the Vendors, being the investment holding companies wholly-owned by the respective PRC Shareholders, entered into the Acquisition Agreement, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendors conditionally agreed to sell the Sale Shares and to sell or procure to sell the Sale Loan at the total Consideration of HK\$1,131,400,000, which will be satisfied partly by cash and partly by the allotment and issue of the Consideration Shares.

Upon completion of the Acquisition, the Company will hold the entire issued share capital of the Target Company. The Target Group, by virtue of the execution of the VIE Agreements by the Target WFOE with the PRC Project Company and the Registered Shareholders, can enjoy the economic benefits of the PRC Project Company and can control the board and member's voting rights of the PRC Project Company.

**GEM LISTING RULES IMPLICATIONS**

As certain applicable percentage ratios in respect of the Acquisition are more than 25% but less than 100%, the Acquisition itself constitutes a major transaction on the part of the Company under the GEM Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements.

## **GENERAL**

The EGM will be convened for the Shareholders to consider and, if thought fit, to approve, among others, the Acquisition Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Consideration Shares).

To the best of the knowledge, information and belief of the Directors, no Shareholder has a material interest in the transactions contemplated under the Acquisition Agreement. As such, no Shareholder will be required to abstain from voting on the resolution to approve the Acquisition Agreement and the transactions contemplated thereunder. Any vote exercised by the Shareholders at the EGM shall be taken by way of poll.

A circular containing, among other things, (i) further details of the Acquisition; (ii) the financial information of the Target Group; and (iii) a notice convening the EGM, will be despatched to the Shareholders as soon as practicable in accordance with the GEM Listing Rules. It is expected that the circular will be despatched to the Shareholders on or before 29 June 2018 as additional time will be required to finalise certain financial and general information of the Group to be included in the circular.

**Shareholders and potential investors of the Company should be aware that the Acquisition and the transactions contemplated thereunder are subject to certain conditions being satisfied, and consequently the Acquisition may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the securities of the Company.**

Reference is made to the announcement of the Company dated 19 April 2018 in relation to the entering into of the non-legally binding memorandum of understanding among the PRC Shareholders and the Purchaser, pursuant to which the PRC Shareholders intended to sell or procure their wholly-owned investment holding companies to sell, and the Purchaser intended to purchase the entire issued share capital of a company incorporated in the British Virgin Islands, which shall, through its subsidiary, execute the VIE Agreements with the PRC Project Company and the Registered Shareholders, for the purpose of establishing VIE arrangement so that the financial results of the PRC Project Company shall be accounted for and consolidated into the Company's consolidated accounts as if it were a subsidiary of the Group upon completion of the sale and purchase contemplated thereunder.

The Board announces that on 5 May 2018, the Purchaser and the Vendors, being the investment holding companies wholly-owned by the respective PRC Shareholders, entered into the Acquisition Agreement, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendors conditionally agreed to sell the Sale Shares and to sell or procure to sell the Sale Loan at the total Consideration of HK\$1,131,400,000, which will be satisfied partly by cash and partly by the allotment and issue of the Consideration Shares.

# THE ACQUISITION AGREEMENT

Date: 5 May 2018

Parties:

Purchaser: Madison Software Technology Limited, an indirect wholly-owned subsidiary of the Company

Vendors: Vision Creation Group Limited

Vision Paragon Limited

Victory Journey Holdings Limited

Link Joy Limited

Cosmo Tide Limited

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Vendors and its respective ultimate beneficial owners is an Independent Third Party.

## Asset to be acquired

Pursuant to the terms of the Acquisition Agreement, the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to (i) sell the Sale Shares, representing the entire issued share capital of the Target Company as at the date of this announcement and upon Completion, and (ii) sell or procure to sell the Sale Loan, representing all obligations, liabilities and debts owing by the Target Group on or at any time prior to the Completion.

## Consideration

The total Consideration for the Sale Shares and Sale Loan is HK\$1,131,400,000, of which the consideration payable for the Sale Loan shall be equivalent to the outstanding amount of the Sale Loan as at the Completion Date. The Consideration shall be payable by the Company to the Vendors (or their respective nominee(s)) in the following manner:

- (i) as to 40% of the Consideration (i.e. HK\$452,560,000) shall be satisfied by the Purchaser procuring the Company to allot and issue 251,422,220 Consideration Shares at the Issue Price, credited as fully paid, to the Vendors (or their respective nominee(s)), on the Completion Date;

- (ii) as to 6.5% of the Consideration (i.e. HK\$73,541,000) shall be satisfied by the Purchaser in cash on the last day of the third month from the Completion Date; and the cash consideration will be funded by equity or debt financing, or a combination of both;
- (iii) as to 13.5% of the Consideration (i.e. HK\$152,739,000) shall be satisfied by the Purchaser in cash on the last day of the sixth month from the Completion Date; and the cash consideration will be funded by equity or debt financing, or a combination of both; and
- (iv) as to the balance of 40% of the Consideration (i.e. HK\$452,560,000) (the “**Final Stage Consideration**”) shall be satisfied by the Purchaser procuring the Company to allot and issue up to 251,422,220 Consideration Shares at the Issue Price, credited as fully paid, to the Vendors (or their respective nominee(s)) on or before the last day of the twelfth month from the Completion Date.

The Consideration was determined after arm’s length negotiations between the parties to the Acquisition Agreement, after taking into account, among other things, (i) the PRC Project Company’s sizable team full of technical experts to develop mobile internet technology and blockchain technology and to provide back office support for our future expansion; (ii) the future business prospectus of the Target Group; (iii) the preliminary valuation of the PRC Project Company performed by an independent professional valuer; (iv) the range of the trading price of the Shares from HK\$1.44 to HK\$2.11 for the six months immediately preceding the date of the Acquisition Agreement as quoted on the Stock Exchange; and (v) the benefits to be derived by the Target Group from the Acquisition as described under the paragraph headed “Reasons for and benefits of the Acquisition” in this announcement.

## **The Consideration Shares**

### ***The First Consideration Shares***

Upon completion of the Acquisition, the Company shall allot and issue the First Consideration Shares, being 251,422,220 new Shares, to the Vendors (or their respective nominee(s)) at the Issue Price.

The First Consideration Shares represent (i) approximately 6.18% of the existing issued share capital of the Company as at the date of this announcement; (ii) approximately 5.82% of the issued share capital of the Company as enlarged by the allotment and issue of the First Consideration Shares; and (iii) approximately 5.50% of the issued share capital of the Company as enlarged by the allotment and issue of all the Consideration Shares.

### *Lock up undertaking of the First Consideration Shares*

The Vendors agree and undertake that the First Consideration Shares shall be subject to a 12-month lockup period commencing from the date of allotment and issue of the First Consideration Shares, during which the Vendors (or their respective nominee(s)) are prohibited to transfer or sell the First Consideration Shares.

### *The Second Consideration Shares*

Subject to the provisions set out in the paragraph headed “Profit guarantee” below, on or before the last day of the twelfth month from the Completion Date, the Purchaser shall procure the Company to allot and issue the Second Consideration Shares, being up to 251,422,220 new Shares, to the Vendors (or their respective nominee(s)) at the Issue Price.

The Second Consideration Shares represent (i) approximately 6.18% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 5.50% of the issued share capital of the Company as enlarged by the allotment and issue of all the Consideration Shares.

The Consideration Shares are to be issued by the Company under specific mandate to be sought from the Shareholders at the EGM. The Consideration Shares, when allotted and issued, will rank pari passu in all respects with all the Shares then in issue.

### *The Issue Price*

The Issue Price of HK\$1.8 per Consideration Share represents:

- (i) a premium of approximately 4.65% over the closing price of HK\$1.72 per Share as quoted on the Stock Exchange on 4 May 2018, being the Last Trading Day; and
- (ii) a premium of approximately 1.47% over the closing price of HK\$1.774 per Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of the Acquisition Agreement.

The Issue Price was arrived at after arm’s length negotiation between the parties to the Acquisition Agreement after taking into account the prevailing market price of the Shares. The Directors consider that the Issue Price is fair and reasonable.

An application will be made to the Stock Exchange by the Company for the listing of, and permission to deal in, the Consideration Shares.

## Conditions precedent

Completion of the Acquisition is subject to the following conditions having been fulfilled or waived (as the case may be):

- (1) the passing by the Shareholders at the extraordinary general meeting of the Company of the ordinary resolutions to approve the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to, the issue of the Consideration Shares;
- (2) the Listing Committee of the Stock Exchange having granted the approval for the listing of and permission to deal in, the Consideration Shares;
- (3) completion of a due diligence exercise over the assets, liabilities, operation and business of the Target Group, in terms satisfactory to the Purchaser;
- (4) a legal opinion having been issued by the PRC legal adviser appointed by the Purchaser in the form and substance to the satisfaction of the Purchaser, on the matters relating to the Acquisition Agreement and the transactions contemplated thereunder, including the Reorganisation and the VIE Agreements;
- (5) all necessary approvals, consents, authorisation, registration and filings in connection with the transactions contemplated under the Acquisition Agreement having been obtained from the PRC government and regulator(s);
- (6) the VIE Agreements and the relevant documents in connection to the Reorganisation having been executed correctly and the Reorganisation having been completed in accordance with the consent and approval of the Purchaser;
- (7) the PRC Project Company having executed the service agreements with Mr. Xiong, Mr. Zhou and Mr. Zhao, being the key personnel of the PRC Project Company, in the form and substance to the satisfaction of the Purchaser;
- (8) all necessary consents and approvals required to be obtained on the part of the Vendors in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained;
- (9) all necessary consents and approvals required to be obtained on the part of the Purchaser in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained;

- (10) the warranties to be given by the Vendors under the Acquisition Agreement remaining true, accurate and not misleading in all material respects, and there being no situations, facts or circumstances that would or might render such warranties being breached; and
- (11) the warranties to be given by the Purchaser under the Acquisition Agreement remaining true, accurate and not misleading in all material respects, and there being no situations, facts or circumstances that would or might render such warranties being breached.

Save for conditions (1), (2), (4), (5), (6) and (7) which are incapable of being waived, the Purchaser may at its absolute discretion at any time waive in writing any other conditions and such waiver may be made subject to such terms and conditions as are determined by the Purchaser. As at the date of this announcement, the Purchaser has no intention to waive such conditions.

If any of the conditions has not been satisfied (or, as the case may be, waived by the Purchaser) on or before 12:00 noon on 31 December 2018 or such later date as the Vendors and the Purchaser may agree, the Acquisition Agreement shall cease and determine and neither party shall have any obligations and liabilities under the Acquisition Agreement save for any antecedent breaches of the terms thereof.

## **Completion**

Completion of the Acquisition shall take place on the seventh Business Day after all the conditions of the Acquisition Agreement have been fulfilled or waived or such other date as may be agreed among the Vendors and the Purchaser.

Upon completion of the Acquisition, the Target Group will become indirect wholly-owned subsidiaries of the Company and therefore, the financial information of the Target Group will be consolidated into the consolidated financial statements of the Group. The Target Company, by virtue of the execution of the VIE Agreements by the Target WFOE with the PRC Project Company and the Registered Shareholders, can enjoy the economic benefits of the PRC Project Company and can control the board and members' voting rights of the PRC Project Company.

The Company will discuss with the auditors of the Group to confirm that, upon completion of the Acquisition, the financial results of the PRC Project Company will be consolidated into the financial statements of the Group under the Hong Kong Financial Reporting Standards.

## **Profit guarantee**

Pursuant to the Acquisition Agreement, the Vendors irrevocably warrant and guarantee to the Purchaser that the audited net profit of the PRC Project Company after tax and any extraordinary or exceptional items (the “**Actual Net Profit**”) as shown in the audited financial statements of the PRC Project Company for the financial year ending 31 December 2018 (the “**Guaranteed Period**”) shall not be less than RMB70,000,000 (the “**Guaranteed Profit**”).

The Purchaser and the Vendors shall jointly procure the auditor to prepare the financial statements of the PRC Project Company on or before 31 March 2019 and the auditor shall also issue a certificate for the Actual Net Profit of the PRC Project Company to the Purchaser and the Vendors (the “**Auditor’s Certificate**”).

In the event that the Actual Net Profit is more than the Guaranteed Profit, no additional consideration will be paid to the Vendors.

In the event that the Actual Net Profit is less than the Guaranteed Profit, the Vendors shall compensate the Purchaser (the “**Compensation**”) as calculated according to the following formula:

$$\text{Compensation} = (\text{Guaranteed Profit} - \text{Actual Net Profit}) \times 13.33$$

For the avoidance of doubt, in the event that the PRC Project Company recorded net loss after tax and any extraordinary or exceptional items, the Actual Net Profit shall be deemed to be zero.

The maximum aggregate amount of the Compensation for the Guaranteed Period is limited to the amount of HK\$1,131,400,000, being the total Consideration payable by the Purchaser.

In the event that the Compensation is required, the Purchaser shall deduct the amount of the Compensation from the Final Stage Consideration (the “**Final Amount**”) and then procure the Company to allot and issue the revised Second Consideration Shares, the number of which shall be the Final Amount divided by the Issue Price. In the event that the Compensation is more than the Final Amount, no Consideration Shares will be allotted and issued, and the Vendors shall pay the shortfall of the Compensation and the Final Stage Consideration in cash to the Purchaser within 15 Business Days from the issuance of the Auditor’s Certificate.

## EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming there being no other changes in the share capital of the Company from the date of this announcement up to the Completion Date, set out below is the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately upon allotment and issue of the First Consideration Shares; and (iii) immediately upon allotment and issue of the Second Consideration Shares.

Shareholders	As at the date of this announcement		Immediately upon allotment and issue of the First Consideration Shares		Immediately upon allotment and issue of the Second Consideration Shares	
	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %
Royal Spectrum Holding Company Limited ("Royal Spectrum") (note)	1,968,000,000	48.35	1,968,000,000	45.54	1,968,000,000	43.04
<b>Public Shareholders</b>						
Vendor A	–	–	120,028,968	2.78	240,057,936	5.25
Vendor B	–	–	31,628,915	0.73	63,257,830	1.38
Vendor C	–	–	21,069,182	0.49	42,138,364	0.92
Vendor D	–	–	37,713,333	0.87	75,426,666	1.65
Vendor E	–	–	40,981,822	0.95	81,963,644	1.79
Other public Shareholders	2,102,056,000	51.65	2,102,056,000	48.64	2,102,056,000	45.97
<b>Total</b>	<b>4,070,056,000</b>	<b>100.00</b>	<b>4,321,478,220</b>	<b>100.00</b>	<b>4,572,900,440</b>	<b>100.00</b>

*Note:* These Shares were held by Royal Spectrum, which is legally and beneficially owned as to 96.63% by Devoss Global Holdings Limited, which, in turn, is legally and beneficially wholly-owned by Mr. Ting Pang Wan Raymond, an executive Director.

## INFORMATION REGARDING THE VENDORS, THE TARGET COMPANY, THE PRC PROJECT COMPANY AND THE REGISTERED SHAREHOLDERS

### Information on the Vendors

As at the date of this announcement, (i) Vendor A is a company incorporated in the British Virgin Islands and wholly-owned by Mr. Xiong; (ii) Vendor B is a company incorporated in the British Virgin Islands and wholly-owned by Mr. Zhao; (iii) Vendor C is a company incorporated in the British Virgin Islands and wholly-owned by Mr. Zhou; (iv) Vendor D is a company incorporated in the British Virgin Islands and wholly-owned by Ms. Wang; and (v) Vendor E is a company incorporated in the British Virgin Islands and wholly-owned by Mr. Wu.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, (i) the Vendors and their respective beneficial owners are Independent Third Parties; and (ii) each of the Vendors is principally engaged in investment holding.

### **Information on the Target Company**

The Target Company is a company incorporated in the British Virgin Islands on 26 April 2018 and is principally engaged in investment holding. As at the date of this announcement, the Target Company is owned as to 47.74% by Vendor A, as to 12.58% by Vendor B, as to 8.38% by Vendor C, as to 15.00% by Vendor D, and as to 16.30% by Vendor E. The Target Company has not recorded any profits as it has no business operation since its incorporation.

Set out below is the unaudited financial information of the Target Company since the date of incorporation and up to 30 April 2018, as provided by the Vendors:

	<b>From the date of incorporation and up to 30 April 2018</b>
	<i>HK\$</i>
	(unaudited)
Turnover	0
Profit (loss) before taxation	(11,924)
Profit (loss) after taxation	(11,924)

The unaudited net liability of the Target Company as at 30 April 2018 was approximately HK\$11,924.

Immediately after completion of the Reorganisation, by virtue of the entering into of the VIE Agreements, the Target Company shall have indirect control over the PRC Project Company and enjoy the economic interest and benefits of the PRC Project Company via the VIE Agreements, and the financial results of the PRC Project Company shall be consolidated into the accounts of the Target Company.

### **Information on the PRC Project Company and the Registered Shareholders**

As at the date of this announcement, the PRC Project Company is a limited company established in Shenzhen, the PRC on 25 May 2015, with a registered capital of RMB1,250,000 and a paid up capital of RMB1,250,000, and is owned as to 73.42% by Holding Company A and as to 26.58% by Holding Company B.

Holding Company A is a limited partnership established in Yongxin County, Jiangxi Province, the PRC and is owned as to 51.0261% by Mr. Xiong, as to 11.4179% by Mr. Zhou, as to 20.4291% by Ms. Wang, and as to 17.1269% by Mr. Zhao.

Holding Company B is a limited partnership established in Yongxin County, Jiangxi Province, the PRC and is owned as to 38.6598% by Mr. Xiong and as to 61.3402% by Mr. Wu.

The PRC Project Company is principally engaged in mobile internet technology and blockchain application software products. The PRC Project Company commenced its business by offering various kinds of self-developed mobile games and have accumulated a large number of registered members by virtue of its large product portfolios.

The gaming industry are generally plagued by a number of problems, such as uncertain ownership rights of members' virtual props on the platform, insecure accounts being easily stolen, the operation is less transparency, and difficulty in recovering core data errors. The aforesaid problems have perplexed gaming industry participants of different scale for the long period of time.

The PRC Project Company has strived for various solutions for the aforesaid problems. Recently, the PRC Project Company has researched, developed and applied blockchain technology in the gaming industry to effectively ensure the security and authenticity of ownership of virtual props, while improving the fairness and playability of games on the platform. The PRC Project Company, through its research and development process, has accumulated pragmatic blockchain technology and trained up core staff in mastering blockchain technology. Safeguarded by the blockchain technology, the PRC Project Company is able to provide a fair and transparent entertainment community for its registered members.

Set out below is the financial information of the PRC Project Company for the two years ended 31 December 2017 based on the audited financial statements for the same period, as provided by the PRC Shareholders:

	<b>For the year ended 31 December 2016</b>	<b>For the year ended 31 December 2017</b>
	<i>RMB</i>	<i>RMB</i>
	(audited)	(audited)
	(approximately)	(approximately)
Turnover	18,203,803	109,708,316
Profit before taxation	7,742,829	70,609,634
Profit after taxation	5,812,308	70,650,947

The net assets of the PRC Project Company as at 31 December 2017 was approximately RMB5,993,776.

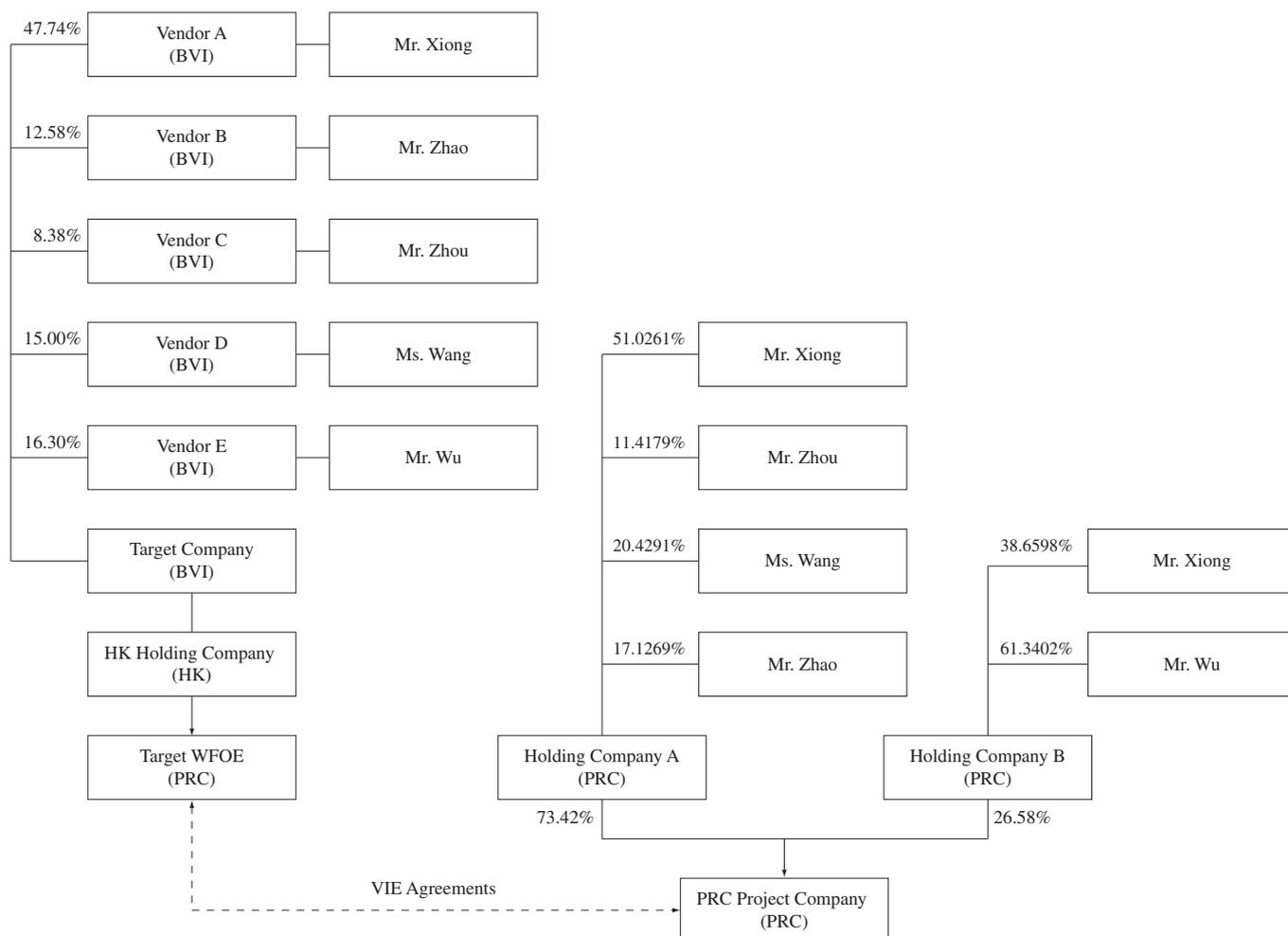
Immediately after completion of the Reorganisation, the PRC Project Company shall be controlled by the Target Company via the VIE Agreements.

### Reorganisation of the Target Group

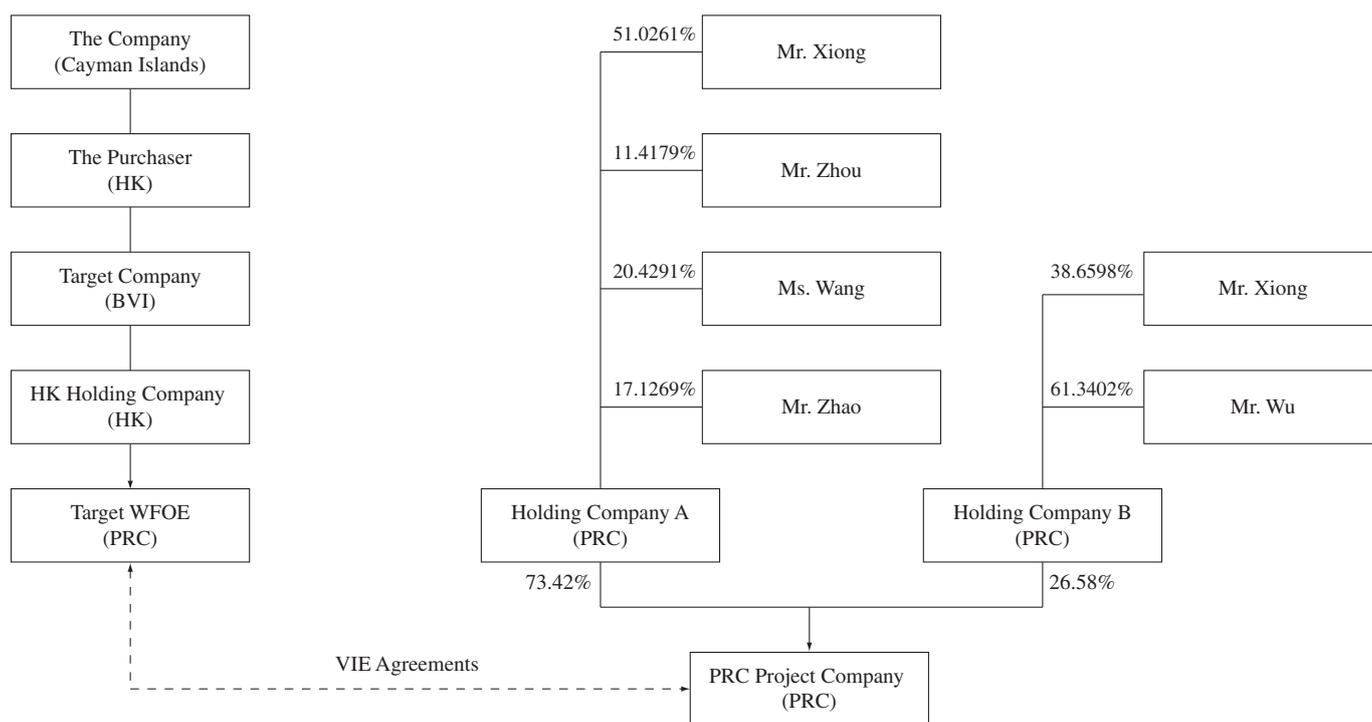
As at the date of this announcement, the PRC Project Company is wholly-owned by Holding Company A and Holding Company B, which are ultimately owned by the PRC Shareholders.

The Target Group will undergo the Reorganisation, pursuant to which the Target Company will incorporate a wholly-owned subsidiary in Hong Kong which will, in turn, establish the wholly-owned Target WFOE. Prior to the completion of the Acquisition, the Target WFOE will enter into the VIE Agreements with the PRC Project Company and the Registered Shareholders, to acquire all the control of and economic interests in the PRC Project Company. It is expected that, upon completion of the Reorganisation, the PRC Project Company will be accounted as a subsidiary of the Target Company, by virtue of VIE arrangement under the VIE Agreements.

### Shareholding structure of the Target Group immediately after completion of the Reorganisation but before the completion of the Acquisition



## Shareholding structure of the Target Group immediately after completion of the Acquisition



## REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in (i) the retail sales and wholesales of wine products and other alcoholic beverages; and (ii) the provision of financial services including corporate financial advisory services and asset management services.

Blockchain offers a new approach to data management and sharing, which has potential to change the financial services industry. Many financial institutions and stock exchanges are exploring small-scale applications as a “proof-of-concept”. For instance, Australian Securities Exchange has announced plans in December 2017 to replace the current clearing and settlement system with blockchain technology to enhance the efficiency of post-trade services ranging from securities clearing, settlement, trade order matching to ownership registration. The Directors are of the view that Blockchain technology has a potential to become the major underlying technology applicable to financial services industry in the future.

In this regard, the Company intends to explore different opportunities for the commercial application of blockchain technology on financial services business in Japan or any other regulated markets. It is the vision of the Group to build a complete ecosystem with various intermediary services, ranging from virtual asset trading, custodian, payment and settlement.

The Directors consider that the Acquisition will benefit the Company and the Shareholders as a whole as the acquisition of the entire equity interest of Target Company will not only benefit from the prospect of potential synergy between the original business of the Group and blockchain technology and the profit contributed by the PRC Project Company, but also enable the Group to expeditiously expose to blockchain technology and its related commercial application and a team of technical experts readily reserved for developing blockchain applications in Japan or any other regulated markets.

## **REASON FOR ENTERING INTO THE VIE AGREEMENTS**

Investment activities in the PRC by foreign investors are primarily regulated by the Guidance Catalogue of Industries for Foreign Investment<sup>#</sup> (《外商投資產業指導目錄》), which was promulgated and is amended from time to time jointly by the MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會). The said guidance catalogue divides industries into four categories in terms of foreign investment, including “encouraged”, “restricted” and “prohibited”, and all industries not listed under any of these categories are deemed to be “permitted”. Pursuant to the Guidance Catalogue of Industries for Foreign Investment (2017 Revision)<sup>#</sup> (《外商投資產業指導目錄(2017年修訂)》), the mobile game business that the PRC Project Company currently operates falls into the value-added telecommunications services and the internet cultural business which are considered “restricted” and “prohibited”, respectively. On 17 February 2011, the MOC issued the revised Internet Culture Interim Provisions, which became effective from 1 April 2011 and was amended on 15 December 2017. According to the Internet Culture Interim Provisions, “Internet cultural products” are defined as including the mobile games specially produced for mobile phones and games reproduced or provided through the mobile phones. Provision of internet cultural products and related services is subject to the approval of the MOC or its provincial counterpart. The MOC issued the Circular on Implementation of the Newly Revised Interim Provisions on the Administration of Internet Culture<sup>#</sup> (關於實施新修訂《互聯網文化管理暫行規定》的通知) on 18 March 2011, which provides that any competent government authorities of the PRC will not accept applications by foreign-invested internet content providers for operation of internet culture business (other than online music business) at the moment. Accordingly, the Target Company cannot acquire equity interest in the PRC Project Company through the Target WFOE, as the PRC Project Company conducts operation of mobile-online games, which falls within the ambit of internet culture business, a category of business in which foreign investors are prohibited to hold any equity interest.

In light of the above, the Target WFOE, the PRC Project Company and the Registered Shareholders shall enter into the VIE Agreements in order to comply with the applicable PRC laws and regulations, and enable the financial results, the entire economic benefits and the risks of the businesses of the PRC Project Company to flow into the Target WFOE and to enable the Target Company to have indirect control over the PRC Project Company as contemplated under the Acquisition Agreement.

The Company agrees that it would unwind the VIE Agreements as soon as the relevant PRC laws and regulations allow the mobile game business in the PRC to be operated by foreign investors without adopting a VIE structure. However, it is uncertain at this stage when the restrictions on foreign ownership in mobile game businesses will be lifted in the PRC. Under the Irrevocable Option Agreement, the Registered Shareholders must transfer to the Target WFOE or its nominee the equity interest in the PRC Project Company for no consideration or, if nil consideration for purchasing the entire equity interest in the PRC Project Company by the Target WFOE is unacceptable by relevant local regulations or government departments, at such consideration will be determined by Target WFOE, if and only if the laws in the PRC permits to do so.

The Directors have sought the advice from the PRC Legal Adviser to confirm, among others, (i) the use of the VIE structure and the VIE Agreements do not violate the relevant prevailing PRC laws and regulations; (ii) the VIE Agreements would not be deemed as concealing illegal intentions with a lawful form and void under the PRC contract law; and (iii) save for the clause providing that the arbitration tribunal may award injunctive relief or winding up orders and that the courts in Hong Kong, the Cayman Islands and the PRC may grant temporary injunctive relief or other temporary remedies, which may not be enforceable under PRC law, the VIE Agreements are enforceable under the laws of the PRC, so as to confirm that the VIE Agreements conferring significant control and economic benefits from the PRC Project Company to the Target Company would be enforceable under the relevant laws and regulations.

## **INFORMATION OF THE VIE AGREEMENTS**

The VIE Agreements consist of a series of agreements, among other things, the Management Services Agreement, the Equity Pledge Agreement, the Irrevocable Option Agreement, the Power of Attorney, the Undertaking Letters, the Declaration Letters and the PRC Shareholders' Confirmations, for the purpose of establishing the VIE arrangement between the Target WFOE on one hand and the PRC Project Company and the Registered Shareholders on the other hand.

### **(1) Management Services Agreement**

It is proposed that the Target WFOE, the Registered Shareholders and the PRC Project Company would enter into the Management Services Agreement, pursuant to which the PRC Project Company would agree to engage the Target WFOE to provide management services to the PRC Project Company, including operating management, project management, technical services, personnel arrangement, financial management, etc. in accordance with the requirements of the PRC Project Company. The Target WFOE shall participate and assist in the management of the project operation and complete the management consulting service in time and submit the relevant management consulting report within the time limit required by the PRC Project Company, and provide the required technical services.

Pursuant to the Management Services Agreement, the PRC Project Company is proposed to make provisions for and pay management and consultancy fees to the Target WFOE on an annual basis.

The Registered Shareholders shall pledge their holding of 100% of the equity interest in the PRC Project Company to guarantee the PRC Project Company to fulfill its obligations under the Management Services Agreement.

The Management Services Agreement shall be for a fixed term to be agreed among the parties. Upon the expiry of each term, the Target WFOE is entitled at its sole and absolute discretion to renew the Management Services Agreement for a further term for each renewal. The PRC Project Company and the Registered Shareholders are not entitled to terminate the Management Services Agreement during the term of such agreement. The Target WFOE is entitled to terminate the Management Services Agreement by giving one month's prior notice in writing to the PRC Project Company.

## **(2) Irrevocable Option Agreement**

It is proposed that the Target WFOE, the PRC Project Company and the Registered Shareholders would enter into the Irrevocable Option Agreement, pursuant to which:

- (i) the PRC Project Company and the Registered Shareholders shall irrevocably grant the exclusive right to the Target WFOE to purchase the entire equity interest in the PRC Project Company for no consideration or, if nil consideration for purchasing the entire equity interest in the PRC Project Company by the Target WFOE is unacceptable by relevant local regulations or government departments, at such consideration will be determined by Target WFOE. The Registered Shareholders must return to the Target WFOE or its nominee any consideration that the Registered Shareholders had received from the Target WFOE for the acquisition of the equity interest in the PRC Project Company;
- (ii) the Target WFOE shall also have the right at its discretion to direct the PRC Project Company and the Registered Shareholders to transfer the equity interest in the PRC Project Company to a third party designated or arranged by the Target WFOE at no consideration or, if nil consideration for purchasing the entire equity interest in the PRC Project Company by a third party designated or arranged by the Target WFOE is unacceptable by relevant local regulations or government departments, at such consideration will be determined by the Target WFOE. The Registered Shareholders must return to the Target WFOE or its nominee any consideration that the Registered Shareholders had received from the Target WFOE for the acquisition of the equity interest in the PRC Project Company;

- (iii) the Target WFOE may at any time by way of serving a notice of purchase (including by telephone, e-mail, telegraph) to the PRC Project Company and the Registered Shareholders in order to exercise the option to purchase the equity interest in the PRC Project Company;
- (iv) the PRC Project Company and the Registered Shareholders shall notify the Target WFOE by way of written notice in the event of a divorce, major diseases, insolvency (including but not limited to being prosecuted), bankruptcy, dissolution or deregistration, etc., which may potentially affect their holding of equity interest in the PRC Project Company;
- (v) if any Registered Shareholders by reason of divorce, insolvency, death, bankruptcy, dissolution, deregistration, etc., may lead to their equity interest in the PRC Project Company being inherited or transferred to other third party(ies) (including but not limited to their spouse, heir, creditor, etc.), and in the event that the Target WFOE decided not to exercise the option set out in paragraphs (i) and (ii) above, the other Registered Shareholders shall exercise their right of first refusal to acquire the relevant equity interest in the PRC Project Company such that the party who had exercised the right of first of refusal shall be subject to the obligations under the Management Services Agreement, the Undertaking Letters and the Equity Pledge Agreement; and
- (vi) the PRC Project Company and the Registered Shareholders shall covenant, among others, that:
  - (a) without the prior written consent of the Target WFOE, they shall not sell, transfer, mortgage, dispose of by way of gift or dispose of in any other manner any equity interest in the PRC Project Company or create any security interest in such equity interest;
  - (b) without the prior written consent of the Target WFOE, the PRC Project Company shall not enter into any transaction (except in the ordinary course of business) that may cause any material changes to its assets, liabilities, operations, shareholders' interests or other legal interests; and
  - (c) they shall not in any manner supplement or amend the articles of association of the PRC Project Company to the extent that it may cause any material changes to the assets, liabilities, operations, shareholders' interests or other legal interests of the PRC Project Company.

The exercise period of the option under the Irrevocable Option Agreement shall remain in effect indefinitely as permitted by the law and/or until the Target WFOE having exercised such option.

### **(3) Equity Pledge Agreement**

It is proposed that the Target WFOE, the PRC Project Company and the Registered Shareholders would enter into the Equity Pledge Agreement, pursuant to which the Registered Shareholders unconditionally and irrevocable agreed to pledge all the equity interest in the PRC Project Company that they own (including any interest or dividend paid for such shares) to the Target WFOE as a security for the performance of the obligations by the PRC Project Company and the Registered Shareholders under the Management Services Agreement.

The pledge shall remain valid until the PRC Project Company and the Registered Shareholders unconditionally and irrevocably fulfilled all the obligations (including, but not limited to, the settlement and/or the payment of the service charge, liquidated damages (if any), etc.) under the Management Services Agreement.

### **(4) Power of Attorney**

It is proposed that the directors of the PRC Project Company, the Registered Shareholders and the legal representative of the PRC Project Company would execute the Power of Attorney to appoint the Target WFOE as its/their attorney-in-fact to, among others, (i) exercise all the directors' rights, shareholders' rights and legal representative's rights (as the case may be) including but not limited to passing of board resolutions and shareholders' resolutions as well as the right to appoint or remove the directors, legal representative, general manager and other senior management of the PRC Project Company; (ii) sign on their behalf all the documents necessary to give effect to the relevant agreements, materials and any other documents (including the VIE Agreements); and (iii) exercise all the rights and powers under the Equity Pledge Agreement and the right to deal with the assets of the PRC Project Company.

It is expected that the term of the Power of Attorney shall commence from the date of the Power of Attorney to the earlier of the revocation or termination of each of the Management Services Agreement, the Irrevocable Option Agreement and the Equity Pledge Agreement.

## **(5) Undertaking Letters**

It is proposed that the directors of the PRC Project Company, the Registered Shareholders and the legal representative of the PRC Project Company would execute the Undertaking Letters to undertake that (i) they will act in accordance with the instructions of the Target WFOE upon the exercise of the powers of the directors of the PRC Project Company, the power of the shareholders of the PRC Project Company and the power of the legal representative of the PRC Project Company respectively; and (ii) each of the directors of the PRC Project Company, each of the Registered Shareholders of the PRC Project Company and the legal representative of the PRC Project Company has also undertaken not to compete with the business operated by the PRC Project Company.

## **(6) Declaration Letters**

It is proposed that the PRC Shareholders and their respective spouse would execute the Declaration Letters to declare that, among other things, (i) they acknowledge that all the equity interests held by the PRC Shareholders and all the equity interests indirectly held by the relevant PRC Shareholders in the PRC Project Company do not form part of their matrimonial property and PRC Shareholders are entitled to sign and fulfill the VIE Agreements personally; and (ii) the spouse of PRC Shareholders undertake that if they get a divorce, they will not claim the relevant equity in the the PRC Project Company by any way, including but not limited to the equity of distribution of profits, acquiring residual properties upon liquidation of the PRC Project Company, investment and incorporation of branch offices and subsidiaries.

## **(7) PRC Shareholders' Confirmations**

It is proposed that each of the PRC Shareholders would confirm to the effect that (i) all the equity interests directly held by the Registered Shareholders and all the equity interests indirectly held by the relevant PRC Shareholders in the PRC Project Company do not form part of their matrimonial property; (ii) his/her spouse does not have the right to claim any interests in the respective Registered Shareholder (together with any other interests therein) or exert influence on the day-to-day management of the respective Registered Shareholder; and (iii) in the event of his/her death, incapacity, divorce or any other event which causes his/her inability to exercise his/her rights as a shareholder of the respective Registered Shareholder, he/she will take necessary actions to safeguard his/her interests in the respective Registered Shareholder (together with any other interests therein) and his/her successors (including his/her spouse) will not claim any interests in the respective Registered Shareholder (together with any other interests therein) to the effect that the Registered Shareholder's interests in the PRC Project Company shall not be affected.

## **Protection of the interest and assets of the PRC Project Company**

The Management Services Agreement, the Irrevocable Option Agreement, the Equity Pledge Agreement, the Undertaking Letters and the PRC Shareholders' Confirmations shall include a provision that each agreement is binding on the successors and permitted assignees of the respective parties. In the event of death, bankruptcy, divorce, insolvency (including but not limited to being prosecuted), dissolution or deregistration of any party of the Registered Shareholders and the PRC Shareholders, the Target WFOE may exercise its option under the Irrevocable Option Agreement to replace the relevant party of the Registered Shareholders and the PRC Shareholders, thus protecting the interest of the Group and allowing the Target WFOE to enforce its rights under the VIE Agreements against the successors and permitted assignees of the shareholders of the PRC Project Company.

In order to have effective control over and to safeguard the assets of the PRC Project Company, the VIE Agreements shall provide that, without the prior written consent of the Target WFOE, the PRC Project Company shall not, in any form, dispose of significant assets (including but not limited to any significant customer resources, fixed assets, trademarks, technical knowhow or other intellectual property rights and/or other equity interests or similar interests held by the PRC Project Company), operating rights and/or dispose of all or part of its business (including sale, replacement, mortgage or disposal in any other ways), with respect to it and/or its subsidiaries (if any).

The VIE Agreements shall also provide that, without the prior written consent of the Target WFOE, (i) the PRC Project Company shall not increase or decrease the registered capital or accept any investment or capital increase from the Registered Shareholders or any third parties to the PRC Project Company or change the form of the company or make any major adjustments regarding carrying out liquidation or dissolution; or the business scope, mode, profit model, marketing strategy, business policy or customer relationship; (ii) the PRC Project Company and/or its subsidiaries shall not enter into any partnership or joint venture or profit sharing arrangement with any third parties, or any other arrangements for the transfer of benefits or profit sharing in the form of royalties, service fees or consultancy fees; and (iii) the PRC Project Company shall not declare or distribute dividends or any other interests to its shareholders, including the after-tax profits that the PRC Project Company has not yet allocated before the commencement of the VIE Agreements.

In addition, upon completion of the Acquisition, the Board will review the VIE structure regularly and determine if the Group encounters any issues in safeguarding its assets held through the VIE Agreements. If any major issues or difficulties arise in doing so, the Board will engage legal advisers and/or other professionals to assist the Group to tackle such issues or difficulties.

## **VIE Agreements confer economic benefits on the Target WFOE from the PRC Project Company**

The VIE Agreements shall confer upon the Group the right to enjoy all the economic benefit of the PRC Project Company by the Management Services Agreement under which the PRC Project Company will pay the Target WFOE the management and consultancy fees equivalent to the total income of the PRC Project Company minus all relevant costs, expenses and taxes payable by the PRC Project Company.

## **VIE Agreements confer control from the PRC Project Company to the Target WFOE**

The VIE Agreements shall confer upon the Group sufficient control over the board and daily operations of the PRC Project Company. The appointment of directors of the PRC Project Company is subject to the Target WFOE being satisfied of the director's qualification and requires the explicit consent of the Target WFOE. If the Target WFOE is dissatisfied with the performance of the director(s) of the PRC Project Company and proposes to remove such director(s), the PRC Project Company shall remove such person(s) as director(s) upon the Target WFOE's proposal. Also, the PRC Project Company shall agree with the Target WFOE that the PRC Project Company will, and its shareholders will cause the PRC Project Company to, accept proposals put forward by the Target WFOE relating to the daily operations of the PRC Project Company and employment of staff, operate all business of the PRC Project Company in the ordinary course of business and refrain from any action or omission that may adversely affect the business of the PRC Project Company.

Moreover, under the Management Services Agreement, the Target WFOE will formulate rules, regulations, internal control policies, risk control management systems, standards administration, accounting, budget, marketing, human resources and operating policies, as well as the practices which relevant to or affecting the business of the PRC Project Company, and assist the PRC Project Company in the effective implementation of relevant policies and practices.

Furthermore, as a general housekeeping rule, the Target WFOE will have the custody of the constitutional items of the PRC Project Company, including the company chop and seal. At the request of the Target WFOE, the PRC Project Company will provide it with the relevant legal documents and other information on the PRC Project Company's business operation.

## **RISKS AND LIMITATIONS RELATING TO THE VIE STRUCTURE**

### **Economic risks of the Company**

The Target WFOE, as the primary beneficiary of the PRC Project Company, is not obligated under any of the VIE Agreements to share the losses of the PRC Project Company or provide financial support to the PRC Project Company. Moreover, as a limited liability company, the PRC Project Company is solely liable for its own debts and losses. As advised by the PRC Legal Adviser, the PRC laws and regulations do not expressly require the Target WFOE to share the losses of the PRC Project Company or provide financial support to the PRC Project Company.

However, upon Completion, the financial results of the PRC Project Company will be consolidated into the financial statements of the Group, it is likely that the Company's business and financial position will be affected if the PRC Project Company suffers losses or fails to obtain the requisite licences and approvals to continually operate its mobile game business in the PRC.

### **Limitations in exercising the option to acquire ownership in the PRC Project Company**

In the case that the Target WFOE exercises its options to acquire all or part of the equity interest in the PRC Project Company under the Irrevocable Option Agreement, the acquisition of the entire equity interests in the PRC Project Company may only be conducted to the extent as permitted by the applicable PRC laws and may be subject to necessary approvals and relevant procedures under applicable PRC laws.

Further, a substantial amount of other costs (if any), expenses and time may be involved in transferring the ownership of the PRC Project Company, which may have a material adverse impact on the Target WFOE's businesses, prospects and results of operation.

The Target WFOE may need to pay a substantial amount of enterprise income tax for the income from the ownership transfer according to the Irrevocable Option Agreement.

### **Arrangements when potential conflicts of interest arise**

The Target WFOE shall rely on the VIE Agreements to exercise control over and to draw the economic benefits from the PRC Project Company. The Target WFOE may not be able to provide sufficient incentives to the Registered Shareholders for the purpose of encouraging it/them to act in the best interests of the PRC Project Company, other than stipulating the relevant obligations in the VIE Agreements. The Registered Shareholders may breach the VIE Agreements in the event of conflicts of interest or deterioration of its/their relationship with the Target WFOE, the results of which may have a material adverse impact on the Target WFOE's business, prospects and results of operation.

It is not assured that if conflicts arise, the Registered Shareholders will act in the best interests of the Target WFOE or that the conflicts will be resolved in favour of the Target WFOE. If any of the Registered Shareholders fail to perform its obligations under the respective VIE Agreements, the Target WFOE may have to rely on legal remedies under the PRC laws through legal proceedings, which may be expensive, time-consuming and disruptive to the Target WFOE's operations and will be subject to uncertainties as discussed above.

### **Other risks relating to the VIE Agreements**

Despite there is currently no indication that the VIE Agreements will be interfered or objected by any PRC regulatory authorities, uncertainties still exist regarding the interpretation and application of the PRC laws and regulations especially in the area of mobile game business. For instance, the PRC regulatory authorities may issue further guidelines that impose stricter foreign ownership requirements in that area of business. Given the uncertain legal and business environment in the PRC, it is difficult to foresee whether the PRC regulatory authorities will take the same view regarding the VIE Agreements as the PRC Legal Adviser in the future.

In addition, the VIE Agreements may not provide control as effective as direct ownership. The Target WFOE does not have any direct equity ownership in the PRC Project Company and has relied on the VIE Agreements to effect changes in the management of the PRC Project Company and make an impact on its business decision making, as opposed to exercising its rights directly as a shareholder. If the PRC Project Company or its shareholders refuse to cooperate, the Company will face difficulties in effecting control over the PRC Project Company's operation of business through the VIE structure, which may adversely affect the Company's business efficiency.

Moreover, the VIE Agreements may be subject to scrutiny by the tax authorities and additional tax may be imposed. Under the Management Services Agreement, the PRC Project Company is required to pay the Target WFOE management and consultancy fees for the services rendered by the Target WFOE. Such service fee payments between related parties may be subject to scrutiny or challenge by the PRC tax authorities within ten years after the taxable year when such transactions are conducted.

Further, the VIE Agreements are governed by the PRC laws. When a dispute arises under any of the VIE Agreements, the parties to the dispute may have to rely on legal remedies under the PRC laws. The VIE Agreements provide that dispute will be submitted to the Shenzhen Court of International Arbitration# (深圳國際仲裁院(深圳仲裁委員會)) for arbitration to be conducted in Shenzhen. The decision of such arbitration is final and binding on the parties to the dispute.

Since the legal environment in the PRC is different from that in Hong Kong and other jurisdictions, the uncertainties in the PRC legal system could limit the ability of the Target WFOE to enforce the VIE Agreements. There is no assurance that such arbitration result will be in favour of the Target WFOE and/or that there will not be any difficulties in enforcing any arbitral awards granted, including specific performance or injunctive relief and claiming damages by the Target WFOE. As the Target WFOE may not be able to obtain sufficient remedies in a timely manner, its ability to exert effective control over the PRC Project Company and the conduct of the mobile games operating business could be materially and adversely affected, and may disrupt the business of the Target WFOE and have a material adverse impact on the Target WFOE's business, prospects and results of operation.

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

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

Further, on 28 September 2009, the GAPP, the National Copyright Administration of the PRC (中華人民共和國國家版權局) and the National Office of Combating Pornography and Illegal Publications# (國家掃黃打非辦公室) jointly published the GAPP Notice 13, which prohibits foreign investors from participating in mobile games operating businesses through foreign-invested enterprises in the PRC, and from controlling and participating in such businesses of domestic companies indirectly through other forms of joint ventures or contractual or technical support arrangements.

Although the GAPP Notice 13 prohibits foreign investors from participating in mobile games operating businesses through foreign-invested enterprises in the PRC, and from controlling and participating in such businesses of domestic companies indirectly through other forms of joint ventures or contractual or technical support arrangements, (i) no implementation rule or interpretation of the GAPP Notice 13 has been issued by the GAPP or any other PRC government agency and the scope of the implementation and enforcement of the GAPP Notice 13 remains uncertain, and (ii) some other primary government regulators, such as MOFCOM, MOC and the Ministry of Industry and Information Technology of the PRC, did not join the GAPP in issuing the GAPP Notice 13. The PRC Legal Adviser shall provide its opinion in the circular on whether the VIE Agreements will be deemed invalid or ineffective under PRC laws and regulations simply because of the GAPP Notice 13 and the use of the VIE Agreements does not constitute a breach of the PRC laws and regulations.

### **Risks in relation to the Draft Foreign Investment Law**

The MOFCOM, published the Draft Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in the PRC, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalise its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. While the MOFCOM has solicited comments on this draft earlier in 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating the foreign investments in the PRC and may also impact the viability of the corporate structure of the Target Group, and its corporate governance, business operations and financial results to some extent.

Among other things, the Draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a FIE. The Draft Foreign Investment Law specifically provides that entities established in the PRC but “controlled” by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOFCOM, treated as a PRC domestic investor provided that the entity is “controlled” by PRC entities and/or citizens. In this connection, “control” is broadly defined in the draft law to cover any of the following summarised categories: (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) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial matters or other key aspects of business operations. Once an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within the “prohibited or restricted list” to be separately issued by the State Council of the PRC in the future, market entry clearance by the MOFCOM or its local counterparts would be required. Otherwise, all foreign investors may make investments on the same terms as Chinese investors without being subject to additional approval from the government authorities as mandated by the existing foreign investment legal regime.

The VIE structure has been adopted by many PRC-based companies to obtain necessary licences and permits in the industries that are currently subject to foreign investment restrictions in the PRC. Under the Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is on the “prohibited or restricted list”, the existing VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (i.e. (i) natural persons with PRC nationality; (ii) the PRC government and the departments or agencies thereunder; or (iii) domestic enterprises under the control of the subjects as mentioned in the preceding two categories). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the “prohibited or restricted list” without market entry clearance may be considered as illegal.

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

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

Moreover, it is uncertain whether the businesses that the Target Group plans to operate through the Target WFOE and the PRC Project Company, will be subject to the foreign investment restrictions or prohibitions set forth in the “prohibited or restricted list” to be issued. If the Draft Foreign Investment Law (when enacted) and the final “prohibited or restricted list” mandate further actions, such as the MOFCOM market entry clearance, to be completed by companies with VIE structure like the Target Group, the Target Group will face uncertainties as to whether such clearance can be timely obtained, or at all. If the Company cannot timely comply with the final form of the Draft Foreign Investment Law, if and when it becomes effective, it may be required to dispose of the PRC Project Company under the VIE Agreements; and if the Company no longer has a sustainable business after such disposal, it may be delisted by the Stock Exchange.

Furthermore, it cannot be assured that the PRC Project Company will still be controlled. If such corporate structure is required to be changed, further actions required to be taken by the Target Group under the enacted version of the Draft Foreign Investment Law may materially and adversely affect the business and financial condition of the Target Group.

The Draft Foreign Investment Law is a draft without any legal effect, and a number of legislative procedures have to be undergone before its promulgation and implementation. The Company will disclose, as soon as possible, (i) updates of material changes to the Draft Foreign Investment Law as and when they occur; and (ii) a clear description and analysis of the final form of the Draft Foreign Investment Law as implemented, specific measures to be taken by the Company to fully comply with the final form of the Draft Foreign Investment Law supported by a PRC legal opinion and any material impact of the final form of the Draft Foreign Investment Law on the Company's operations and financial position.

## **GEM LISTING RULES IMPLICATIONS**

As certain applicable percentage ratios in respect of the Acquisition are more than 25% but less than 100%, the Acquisition itself constitutes a major transaction on the part of the Company under the GEM Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements.

## **EGM**

The EGM will be convened for the purpose of considering and, if deemed appropriate, approving, among other things, the Acquisition Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Consideration Shares).

To the best of the knowledge, information and belief of the Directors, no Shareholder has a material interest in the transactions contemplated under the Acquisition Agreement. As such, no Shareholder will be required to abstain from voting on the resolution to approve the Acquisition Agreement and any vote exercised by the Shareholders taken at the EGM shall be taken by way of poll.

A circular containing, among other things, (i) further details of the Acquisition; (ii) the financial information of the Target Group; and (iii) a notice convening the EGM, will be despatched to the Shareholders as soon as practicable in accordance with the GEM Listing Rules. It is expected that the circular will be despatched to the Shareholders on or before 29 June 2018 as additional time will be required to finalise certain financial and general information of the Group to be included in the circular.

**Shareholders and potential investors of the Company should be aware that the Acquisition and the transactions contemplated thereunder are subject to certain conditions being satisfied, and consequently the Acquisition may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the securities of the Company.**

## DEFINITIONS

Unless the context requires otherwise, capitalised terms in this announcement shall have the following meanings:

“Acquisition”	the acquisition of the Sale Shares and the Sale Loan by the Purchaser pursuant to the terms of the Acquisition Agreement
“Acquisition Agreement”	the conditional acquisition agreement in relation to the Acquisition dated 5 May 2018 entered into among the Vendors and the Purchaser
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday, Sunday and other general holidays in Hong Kong and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a black rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
“Company”	Madison Holdings Group Limited, a company incorporated in the Cayman Islands, whose Shares are listed on GEM (Stock code: 8057)
“Completion Date”	the seventh Business Day after fulfilment or waiver (as the case may be) of the conditions to the Acquisition Agreement
“Consideration”	the total consideration of HK\$1,131,400,000 for the Acquisition which will be satisfied partly cash and partly by the allotment and issue of the Consideration Shares
“Consideration Shares”	up to 502,884,440 new Shares which shall be allotted and issued by the Company to satisfy part of the Consideration in accordance with the Acquisition Agreement
“Declaration Letters”	the declaration letters to be executed by the PRC Shareholders and their respective spouse as part of the VIE Agreements

“Directors”	directors of the Company
“Draft Foreign Investment Law”	Foreign Investment Law of the PRC (Draft for Comment)# (《中華人民共和國外國投資法(草案徵求意見稿)》) published by MOFCOM in January 2015
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares)
“Equity Pledge Agreement”	the equity pledge agreement to be entered into among the Target WFOE, the PRC Project Company and the Registered Shareholders as part of the VIE Agreements
“FIE”	foreign invested entity
“First Consideration Shares”	a total of 251,422,220 Consideration Shares to be allotted and issued at the Issue Price, credited as fully paid, to the Vendors (or their respective nominee(s)), on the Completion Date, pursuant to the Acquisition Agreement
“GAPP”	the General Administration of Press and Publication of the PRC# (中華人民共和國新聞出版總署), currently known as the State Administration of Press Publication, Radio, Film and Television# (國家新聞出版廣電總局)
“GAPP Notice 13”	the Notice Regarding the Consistent Implementation of the Stipulations on Three Provisions of the State Council and the Relevant Interpretation of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games# (關於貫徹落實國務院《「三定」規定》和中央編辦有關解釋, 進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知)
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange

“Group”	the Company and its subsidiaries
“HK Holding Company”	a company to be incorporated in Hong Kong and wholly-owned by the Target Company
“Holding Company A”	Yongxin Yinluo Technology Development Centre (Limited Partnership)# (永新縣音絡科技研發中心 (有限合伙企業)), a limited partnership established in the PRC, holding 73.42% equity interests in the PRC Project Company
“Holding Company B”	Yongxin Ruixin Technology Development Centre (Limited Partnership)# (永新縣創力科技研發中心 (有限合伙企業)), a limited partnership established in the PRC, holding 26.58% equity interests in the PRC Project Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any of the directors, chief executives or substantial shareholders of the Company or subsidiaries of the Company or any of their respective associates
“Internet Culture Interim Provisions”	the revised Interim Provisions on the Administration of the Internet Culture# (互聯網文化管理暫行規定)
“Issue Price”	the issue price of HK\$1.80 per Consideration Share
“Irrevocable Option Agreement”	the irrevocable option agreement to be entered into among the Target WFOE, the PRC Project Company and the Registered Shareholders as part of the VIE Agreements
“Last Trading Day”	4 May 2018, being the last trading day prior to the date of the Acquisition Agreement
“Management Services Agreement”	the management services agreement to be entered into among the Target WFOE, the PRC Project Company and the Registered Shareholders as part of the VIE Agreements
“MOC”	Ministry of Culture of the PRC (中華人民共和國文化部)

“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部) or its competent local branches
“Mr. Wu”	Mr. Wu Minghao, the beneficial owner of Vendor E
“Mr. Xiong”	Mr. Xiong Hu, the beneficial owner of Vendor A
“Mr. Zhao”	Mr. Zhao Mingming, the beneficial owner of Vendor B
“Mr. Zhou”	Mr. Zhou Chaofan, the beneficial owner of Vendor C
“Ms. Wang”	Ms. Wang Hui, the beneficial owner of Vendor D
“Power of Attorney”	the power of attorney to be executed by the directors of the PRC Project Company, the Registered Shareholders and the legal representative of the PRC Project Company to appoint the Target WFOE as its/their attorney-in-fact as part of the VIE Agreements
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Adviser”	Hills & Co., the legal adviser to the Company as to the PRC laws
“PRC Project Company”	Shenzhen Sanzhi Xiaoxiong Technology Limited# (深圳市三只小熊科技有限公司), a company established in the PRC, whose principal business includes, among others, development and operation of mobile games, and which by virtue of the VIE Agreements, shall be accounted for as a subsidiary of the Target Company upon completion of the Acquisition
“PRC Shareholders”	collectively, Mr. Xiong, Ms. Wang, Mr. Zhou, Mr. Zhao and Mr. Wu, the ultimate beneficial owners of the PRC Project Company
“PRC Shareholders’ Confirmations”	the confirmations to be made by the PRC Shareholders as part of the VIE Agreements
“Purchaser”	Madison Software Technology Limited, an indirect wholly-owned subsidiary of the Company incorporated in Hong Kong

“Registered Shareholders”	the holders of the equity interest in the PRC Project Company, namely Holding Company A and Holding Company B
“Reorganisation”	the reorganisation to be undergone by the Target Company, pursuant to which, the Target Company will incorporate a wholly-owned subsidiary in Hong Kong which will, in turn, establish the wholly-owned Target WFOE. The Target WFOE will enter into the VIE Agreements with the PRC Project Company and the Registered Shareholders
“Sale Loan”	all obligations, liabilities and debts owing by the Target Group on or at any time prior to the Completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion
“Sale Shares”	10,000 shares of the Target Company, being the entire issued share capital of the Target Company as at the date of the Acquisition Agreement and up to Completion which are legally and beneficially owned by the Vendors
“Second Consideration Shares”	up to 251,422,220 Consideration Shares, subject to the fulfillment of profit guarantee as mentioned in the paragraph headed “Profit Guarantee”, to be allotted and issued at the Issue Price, credited as fully paid, to the Vendors (or their respective nominee(s)), on or before the last day of the twelfth month the Completion Date, pursuant to the Acquisition Agreement
“Share(s)”	the issued ordinary share in the share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Perfect Elite Investment Holdings Limited, a company incorporated in the British Virgin Islands, which will indirectly control the PRC Project Company through VIE arrangement upon Reorganisation
“Target Group”	collectively, the Target Company, all its subsidiaries and the PRC Project Company

“Target WFOE”	an indirect subsidiary of the Target Company to be established and a wholly foreign-owned enterprise established in the PRC
“Undertaking Letters”	the undertaking letters to be executed by the directors of the PRC Project Company, the Registered Shareholders and the legal representative of the PRC Project Company as part of the VIE Agreements
“Vendor A”	Vision Creation Group Limited, a company incorporated in the British Virgin Islands
“Vendor B”	Vision Paragon Limited, a company incorporated in the British Virgin Islands
“Vendor C”	Victory Journey Holdings Limited, a company incorporated in the British Virgin Islands
“Vendor D”	Link Joy Limited, a company incorporated in the British Virgin Islands
“Vendor E”	Cosmo Tide Limited, a company incorporated in the British Virgin Islands
“Vendors”	collectively, Vendor A, Vendor B, Vendor C, Vendor D, and Vendor E
“VIE”	variable interest entity
“VIE Agreements”	a series of agreements, including but not limited to the Management Services Agreement, the Equity Pledge Agreement, the Irrevocable Option Agreement, the Power of Attorney, the Undertaking Letters, the Declaration Letters and the PRC Shareholders’ Confirmations, to be executed for the purpose of establishing the variable interest entity arrangement between the PRC Project Company and the Target Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“RMB” Renminbi, the lawful currency of the PRC

“%” per cent.

# *The English transliteration of the Chinese names in this announcement, where indicated, is included for information purpose only, and should not be regarded as the official English names of such Chinese names.*

By order of the Board  
**Madison Holdings Group Limited**  
**Ting Pang Wan Raymond**  
*Chairman & Executive Director*

Hong Kong, 5 May 2018

*As at the date of this announcement, the executive Directors are Mr. Ting Pang Wan Raymond, Mr. Zhu Qin, Mr. Zhou, Francis Bingrong, Mr. Teoh Ronnie Chee Keong and Ms. Kuo Kwan; and the independent non-executive Directors are Ms. Fan Wei, Mr. Chu Kin Wang Peleus and Mr. Ip Cho Yin, J.P.*

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

*This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least seven days from the date of its posting and the Company’s website at <http://www.madison-wine.com>.*