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碧生源控股有限公司
BESUNYEN HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 926)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcements of the Company dated 28 March 2011, 27 September 2011 and 12 July 2012, as well as the circular of the Company dated 2 August 2012 in relation to the continuing connected transactions between Beijing Outsell, a wholly-owned subsidiary of the Company, and Pincha under the Structure Contracts, the Distribution Agreements and the Lease Agreements.

The Board hereby announces that as the term of each of the Structure Contracts, the Distribution Agreements and the Lease Agreements entered into among Beijing Outsell, Mr. Zhao and Pincha (as the case may be), as well as the annual caps for the continuing connected transactions thereunder will expire on 31 December 2014, on 27 October 2014 (i) Beijing Outsell entered into the New Structure Contracts with Mr. Zhao and Pincha for a term of 24 years from 1 January 2015 to 31 December 2038; and (ii) Beijing Outsell and Pincha entered into the New Distribution Agreement and the New Lease Agreement, each for a term of three years from 1 January 2015 to 31 December 2017.

The Company estimates that the aggregate annual caps for the continuing connected transactions contemplated under the above-mentioned New Structure Contracts, New Distribution Agreement and New Lease Agreement for the three years ending 31 December 2017 will amount to RMB42,514,600, RMB65,045,600 and RMB100,538,600, respectively.

As at the date of this announcement, Pincha is wholly-owned by Mr. Zhao, the controlling shareholder of the Company and an executive Director. Therefore, both Mr. Zhao and Pincha are connected persons of the Company for the purpose of the Listing Rules, and the transactions contemplated among Beijing Outsell, Mr. Zhao and Pincha under each of the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios in respect of the aggregate annual caps for the continuing connected transactions contemplated under the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement exceed 5%, both the entering into of such agreements and the respective proposed annual caps for the continuing connected transactions contemplated thereunder are subject to independent shareholders' approval requirement in addition to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

An extraordinary general meeting of the Company will be convened to seek the approval of the independent Shareholders in this regard. Mr. Zhao and his associates will abstain from voting in respect of the relevant resolution at the extraordinary general meeting.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the independent Shareholders in relation to the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement, as well as the respective proposed annual caps for the continuing connected transactions contemplated thereunder, and an independent financial adviser has been appointed to advise the Independent Board Committee and the independent Shareholders in this regard.

A circular containing, among others, details of the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement, as well as the respective proposed annual caps for the continuing connected transactions contemplated thereunder, a letter from the Independent Board Committee and a letter of advice from the independent financial adviser to the Independent Board Committee and independent Shareholders, together with a notice convening the extraordinary general meeting of the Company, will be dispatched to the Shareholders on or before 17 November 2014.

I. BACKGROUND

Reference is made to the announcements of the Company dated 28 March 2011, 27 September 2011 and 12 July 2012 (the “**Announcements**”), as well as the circular of the Company dated 2 August 2012 (the “**Circular**”) in relation to the continuing connected transactions between Beijing Outsell, a wholly-owned subsidiary of the Company, and Pincha under the Structure Contracts, the Distribution Agreements and the Lease Agreements.

As disclosed in the Announcements and the Circular, since the relevant rules and regulations in the PRC require that the equity interest of a company providing value-added telecommunications services (including e-commerce) held by foreign investors shall not exceed 50% and the foreign investors shall have operation experiences in the area of value-added telecommunications, on 28 March 2011, Beijing Outsell, a wholly-owned subsidiary of the Company, entered into the Structure Contracts with Mr. Zhao and Pincha, a company incorporated in the PRC and wholly-owned by Mr. Zhao, which obtained a Telecom and Information Service Operation License (電信與信息服務業務經營許可證) from Beijing Communications Administration (北京市通信管理局) in September 2010, for the purpose of using Pincha as a vehicle to conduct e-commerce activities in the PRC for the Group through the Contractual Arrangements between Beijing Outsell and Pincha. Upon entering into the Structure Contracts, Pincha became a wholly-owned subsidiary of the Company.

As Pincha is wholly-owned by Mr. Zhao, the controlling shareholder and an executive Director of the Company, Beijing Outsell and Pincha also entered into the Distribution Agreements and the Lease Agreements on 28 March 2011 for regulating the continuing connected transactions between the Group and Pincha in respect of the distribution of the Products through the e-commerce platform of Pincha and the lease of properties by Beijing Outsell to Pincha.

II. RENEWAL OF THE STRUCTURE CONTRACTS

As the term of the existing Structure Contracts will expire on 31 December 2014, Beijing Outsell, Mr. Zhao and Pincha entered into the New Structure Contracts, which comprises the Exclusive Business Cooperation Agreement, the Equity Interests Pledge Agreement, the Exclusive Purchase Agreement and the Power of Attorney, on 27 October 2014 for the purpose of the renewal of the Contractual Arrangements between the Group and Pincha as well as the continuing connected transactions between the parties thereunder. Subject to the approval by the independent Shareholders, the New Structure Contracts shall supersede the existing Structure Contracts from 1 January 2015 onwards. Details of the New Structure Contracts and the underlying Contractual Arrangements are as follows:

1. The New Structure Contracts

A. *Exclusive Business Cooperation Agreement*

Beijing Outsell and Pincha entered into the Exclusive Business Cooperation Agreement on 27 October 2014, pursuant to which the parties agreed that, during the term of the agreement, Beijing Outsell (or any party designated by Beijing Outsell) shall provide to Pincha, on an exclusive basis, technical consulting and management services including but not limited to technical services, network support, business consulting, intellectual property license, equipment leasing, marketing consulting, system integration, products research and development, systematic maintenance and other services as permitted by the laws of the PRC at the request of Pincha from time to time; and Pincha shall only utilize such services provided by Beijing Outsell, and unless obtaining prior written consent from Beijing Outsell, shall not utilize any of the aforesaid services provided by any third parties or cooperate with any third parties other than Beijing Outsell.

The parties agreed that Pincha shall pay the service fees to Beijing Outsell, which will be determined based on the amount and business value of the services provided by Beijing Outsell to it, and Beijing Outsell has the right to adjust the rate of the service fees at any time according to the amount and scope of the services.

Since Pincha will be treated as a wholly-owned subsidiary of the Company by the Contractual Arrangements under the New Structure Contracts, the Directors consider that the above pricing terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The above-mentioned service fees shall be paid in cash by Pincha to Beijing Outsell on a quarterly basis and within the deadline as stated in the specific bill issued by Beijing Outsell.

B. Equity Interests Pledge Agreement

On 27 October 2014, Beijing Outsell, Mr. Zhao and Pincha entered into the Equity Interests Pledge Agreement, pursuant to which Mr. Zhao agreed to pledge all his equity interests in Pincha to Beijing Outsell as security for, among others, the performance of all the obligations of Pincha under the Exclusive Business Cooperation Agreement.

Under the Equity Interests Pledge Agreement, Mr. Zhao has represented and warranted to Beijing Outsell that appropriate arrangements have been made to protect Beijing Outsell's interests in the event of his death or divorce to avoid any practical difficulties in enforcing the Equity Interests Pledge Agreement, and unless prior written consent of Beijing Outsell is obtained, any will, divorce agreement, debts arrangements or any other legal arrangements made by Mr. Zhao shall not contravene the provisions of the Equity Interests Pledge Agreement. If Pincha declares any dividend during the term of the pledge, Beijing Outsell is entitled to receive all such dividends arising from the pledged equity interests, if any. If any of Mr. Zhao or Pincha breaches or fails to fulfill the obligations as stated in the Equity Interests Pledge Agreement, Beijing Outsell, as the pledgee, will be entitled to acquire or dispose of the pledged equity interests within the scope of the applicable laws. In addition, pursuant to the Equity Interests Pledge Agreement, Mr. Zhao and Pincha have severally and jointly undertaken to Beijing Outsell, except for the performance of the Exclusive Purchase Agreement entered into between Beijing Outsell, Mr. Zhao and Pincha, not to transfer Mr. Zhao's equity interests in Pincha, or create or allow any pledge or security thereon that may affect the rights and interest of Beijing Outsell without the prior written consent of Beijing Outsell.

C. Exclusive Purchase Agreement

On 27 October 2014, Beijing Outsell, Mr. Zhao and Pincha entered into the Exclusive Purchase Agreement, pursuant to which Mr. Zhao irrevocably granted to Beijing Outsell an option to acquire (or authorize one or more persons to acquire) at any time, to the extent permitted by applicable PRC laws and regulations, his equity interests in Pincha, entirely or partially and one-off or by several times as solely decided by Beijing Outsell, at the lowest price permitted by the PRC laws at that time unless appraisal is required or other restrictions on purchase price apply under PRC laws; and Pincha also agreed on the grant of such option by Mr. Zhao to Beijing Outsell. It is also agreed that when the relevant PRC law permits Beijing Outsell to operate value-added telecommunications business directly, or the equity interests of Pincha to be directly held by Beijing Outsell while it continues to operate its value-added telecommunications business, the parties will carry out all necessary actions to give effect to the obtaining of the entire equity interest in Pincha by Beijing Outsell or third party designated by Beijing Outsell which must be a subsidiary of the Company pursuant to the provisions of the Exclusive Purchase Agreement, as well as unwind the contracts, agreements and other legal documents in connection with the Contractual Arrangements, including but not limited to the Exclusive Business Cooperation Agreement, the Equity Interests Pledge Agreement, the Exclusive Purchase Agreement and the Power of Attorney.

Pursuant to the Exclusive Purchase Agreement, Pincha and Mr. Zhao (as the sole shareholder of Pincha) have severally and jointly undertaken to perform certain acts or refrain from performing certain other acts unless prior written consent from Beijing Outsell is obtained, including but not limited to:

- a) not alter the constitutional documents or the registered capital of Pincha;
- b) prudently and effectively operate its business and transactions in accordance with the good financial and business standards, and obtain and maintain all government permits and licenses for the operation of business of Pincha;
- c) not sell, transfer, pledge or otherwise dispose of any assets, business, legal or beneficial interest of its income or allow any guarantee or security to be created on the assets of Pincha;
- d) not incur, take up, guarantee or allow any indebtedness other than those incurred in the ordinary and usual course of business of Pincha and having been disclosed to and consented by Beijing Outsell in writing;
- e) operate its business in order to maintain its asset value, and not allow any acts or omission which adversely affects the business or assets value of Pincha;
- f) not enter into any material contracts with an amount of over RMB 100,000 other than those entered into in the ordinary and usual course of business of Pincha;

- g) not engage in any mergers or acquisitions or make investment in any entities;
- h) immediately inform Beijing Outsell if the assets or business of Pincha is involved in any disputes, litigations, arbitrations or administrative proceedings, and not reach any settlement with the other party without the prior consent of Beijing Outsell;
- i) not distribute any dividend to the shareholder of Pincha; and
- j) not dissolve or wind-up Pincha unless required by the laws of the PRC or for the enforcement of the decision of the arbitral body.

In addition, Mr. Zhao has undertaken under the Exclusive Purchase Agreement that, to the extent permitted by applicable PRC laws and regulations, he will return to Beijing Outsell or third party designated by Beijing Outsell any consideration he receives upon the transfer of the equity interest in Pincha pursuant to the Exclusive Purchase Agreement. And Pincha has also undertaken under the Exclusive Purchase Agreement that in the event of a mandatory liquidation required by the laws of the PRC, it shall transfer all its assets and any residual interest to Beijing Outsell or third party designated by Beijing Outsell at the lowest selling price permitted by applicable laws of the PRC, and shall waive any obligation and responsibility (if any) for Beijing Outsell or third party designated by Beijing Outsell to pay Pincha as a result of the aforesaid transfer of assets or interest. Accordingly, in a winding up of Pincha, a liquidator shall seize the assets of Pincha through Beijing Outsell pursuant to the aforesaid arrangements for the benefit of the Company's creditors/ Shareholders.

D. Power of Attorney

On 27 October 2014, Mr. Zhao executed a power of attorney, which shall remain in full force and effect within the term of the New Structure Contracts, and pursuant to which he irrevocably authorized the board of directors or executive director or the legal representative of Beijing Outsell, or any person appointed by any of the aforesaid persons or its successor (the “**Authorized Person**”) to exercise all his rights and powers as the sole shareholder of Pincha. The Authorized Person must be a PRC citizen and must not be Mr. Zhao or any of his associates.

Such rights and powers authorized by Mr. Zhao include but not limited to:

- a) convene and attend shareholders' meetings of Pincha;
- b) exercise all rights of the shareholders of Pincha as stipulated in the laws and the articles of association of Pincha including but not limited to voting rights, the rights to sell, transfer, pledge or dispose of all or any of the equity interests in Pincha, execute meeting minutes and conduct filings with the relevant government or regulatory authority;
- c) appoint or remove the legal representative, directors, supervisors, general manager and other senior management personnel of Pincha;
- d) manage or dispose of all the assets of Pincha;
- e) exercise control over and management of, at its sole discretion, the financial and accounting matters and daily operation of Pincha; and
- f) receive all the dividends, bonus issue or other income arising from the pledged equity interests, if any.

2. Term of the New Structure Contracts

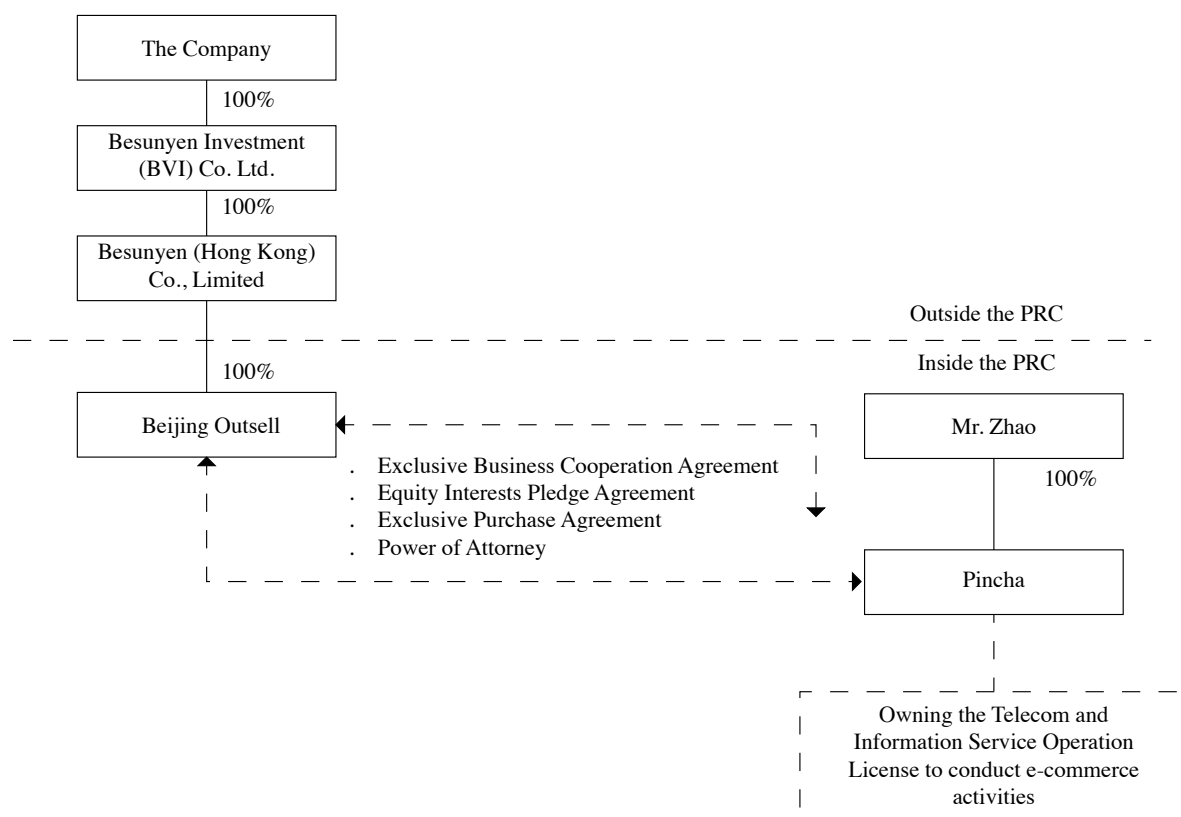
Each of the above-mentioned agreements underlying the New Structure Contracts, as well as the Power of Attorney, is for a term of 24 years from 1 January 2015 to 31 December 2038, subject to the approval of the independent Shareholders at the extraordinary general meeting of the Company.

The Directors are of the view that since the Contractual Arrangements under the New Structure Contracts are fundamental to the Group's e-commerce business operation, it is in the interests of the Company and the Shareholders as a whole to have the term of such agreement to be a longer period. The independent financial adviser will explain reasons for the term of the New Structure Contracts and confirm that it is normal business practice for contracts of such type to be of such duration in the circular to be dispatched to the Shareholders on or before 17 November 2014.

3. Contractual Arrangements between the Group and Pincha

A. Diagram of the Contractual Arrangements

The following simplified diagram illustrates the Contractual Arrangements between Beijing Outsell and Pincha under the New Structure Contracts:



B. Confirmation and undertaking from Mr. Zhao and the spouse of Mr. Zhao

Mr. Zhao, the owner of the entire equity interest in Pincha, has provided a written confirmation, confirming that appropriate arrangements have been made to ensure that none of his successor, guardian, creditor, spouse or any other person who may be entitled to assume rights and interests in his equity interest in Pincha upon his death, incapacity, divorce or any other circumstances that may affect his ability to exercise his shareholder's rights in Pincha, will carry out any act that may affect or hinder the fulfillment of his obligations (if any) under each of the agreements underlying the New Structure Contracts.

In addition, Mr. Zhao's spouse has also provided a written undertaking, confirming that she gives up her joint ownership, as the spouse of Mr. Zhao, of the equity interest in Pincha owned by Mr. Zhao, and will not claim such interests either during her marriage with Mr. Zhao or in the event of divorce, or carry out any act that may affect or hinder the fulfillment of Mr. Zhao's obligations (if any) under each of the agreements underlying the New Structure Contracts.

C. Effect and legality of the New Structure Contracts

The New Structure Contracts would ensure that:

- a) the Group is able to continue to exercise significant control over Pincha pursuant to the provisions contained in the agreements or document underlying the New Structure Contracts, which also confer the economic benefits from Pincha to the Group based on the entitlement of Beijing Outsell to the dividends of Pincha under the Equity Interests Pledge Agreement and the Power of Attorney as mentioned above;
- b) the Group would have the right to continue to govern the management of Pincha;
- c) the Group would have the right to acquire the entire equity interest in Pincha (as and when the PRC relevant rules and regulations allow it to do so); and
- d) the Company is able to continue to consolidate the financial results of Pincha into the Group's results under the IFRS upon entering into the New Structure Contracts.

Upon entering into the New Structure Contracts, Mr. Zhao will not obtain or receive any financial or commercial benefits from his interest in Pincha despite holding direct equity interests in Pincha.

According to the consultation by the Company's PRC legal advisor, Jia Yuan Law Offices, with Beijing Communications Administration, the industry regulatory authority in respect of the business of value-added telecommunications operated by Pincha, it is not an administrative function of Beijing Communications Administration to issue formal confirmations regarding the New Structure Contracts that do not require examination by and approval from it under the PRC laws and regulations. Therefore, the Company has not formally filed a request with any authority in the PRC for confirmation on the legality of the New Structure Contracts.

Based on the above and after taking all reasonable actions or steps to enable it to reach its legal conclusions, the Company's PRC legal advisor, Jia Yuan Law Offices, is of the opinion that:

- a) As at the date of this announcement, the execution, delivery and performance of the agreements or document underlying the New Structure Contracts by Beijing Outsell, Pincha and Mr. Zhao (as the case may be), severally and jointly, are (i) legal and valid and do not violate relevant PRC laws, administrative regulations and regulatory rules of the industry administrative authorities, including but not limited to the General Principles of the Civil Law of the PRC and the PRC Contract Law; and (ii) are legally binding on and enforceable against each party of such agreement or document under the PRC laws, except for relevant provisions in respect of remedies over the shares of Pincha or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) and/or interim remedies to discontinue the business operation of Pincha awarded by the arbitral body, or interim remedies granted by courts with competent jurisdiction (including but not limited to courts in Hong Kong and the Cayman Islands) in support of the arbitration pending the formation, or opening of the session, of an arbitral tribunal under the Exclusive Business Cooperation Agreement, the Equity Interests Pledge Agreement and the Exclusive Purchase Agreement;
- b) The New Structure Contracts entered into by Beijing Outsell, Pincha and Mr. Zhao (as the case may be) do not fall within any of the circumstances (including, without limitation, "concealing illegal intentions with a lawful form") under Article 52 of the PRC Contract Law pursuant to which the contracts would be determined to be invalid;
- c) The execution, delivery and performance of the agreements or document underlying the New Structure Contracts do not violate the articles of association of each of Beijing Outsell and Pincha; and
- d) The execution, delivery, effectiveness and performance of each agreement or document underlying the New Structure Contracts do not require any approvals, permits or consents from relevant PRC governmental authorities, except that any transfer of equity interests in Pincha, entirely or partially, from Mr. Zhao to Beijing Outsell or third party authorized by Beijing Outsell pursuant to the terms of the Exclusive Purchase Agreement, to the extent permitted under the PRC laws, will have to be approved by the relevant government authorities and be filed with relevant registration authority in the PRC.

As advised by our PRC legal advisor, (i) there are no statutory obligations imposed on the Group or Beijing Outsell to provide financial assistance or additional funds to offset or cover any losses incurred by Pincha as a result of its business operations; and (ii) under the current Contractual Arrangements, there are no mandatory contractual obligations imposed on the Group or Beijing Outsell to provide financial assistance or to provide additional funds to offset or cover any losses incurred by Pincha as a result of its business operations. As Pincha is treated as a wholly-owned subsidiary of the Group, the adverse economic consequence of any losses incurred by Pincha is that the Group will record the losses of Pincha in the Group's consolidated financial statements.

The Group has complied in good faith in all material respects with relevant PRC laws and regulations. As at the date of this announcement, the Group has not encountered any interference or encumbrance from any PRC governmental authority in operating the business pursuant to the Contractual Arrangements between Beijing Outsell and Pincha as mentioned in this announcement. However, our PRC legal advisor has advised us that there can be no assurance that the relevant PRC governmental authorities will not take views contrary to the above in the future.

D. Risks relating to the Contractual Arrangements

- a) If the PRC government finds that the New Structure Contracts that establish the structure for conducting the Group's e-commerce activities in the PRC do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the New Structure Contracts and the relinquishment of the Group's interest in Pincha.

On July 13, 2006, the MIIT issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (關於加強外商投資經營增值電信業務管理的通知), or the MIIT Circular, which reiterated restrictions on foreign investment in telecommunications businesses. Under the MIIT Circular, a domestic company that holds an ICP License is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to provide ICP services illegally in China. Due to a lack of interpretative materials from the authorities, the Group cannot assure that the MIIT will not consider our corporate structure and the Contractual Arrangements under the New Structure Contracts as a kind of foreign investment in telecommunication services, in which case the Group may be found in violation of the MIIT Circular.

Our PRC legal advisor is of the opinion that (i) the ownership structure of Beijing Outsell and Pincha does not violate prevailing PRC laws and regulations, (ii) except for certain dispute resolution clauses contained in the agreements underlying the New Structure Contracts regarding the remedies that may be awarded by the arbitral body and the power of courts in Hong Kong and the Cayman Islands to grant interim remedies in support of the arbitration as mentioned above, the agreements underlying the New Structure Contracts, taken individually or collectively, are valid and legally binding, and (iii) each agreement underlying the New Structure Contracts entered into between Beijing Outsell, Pincha and Mr. Zhao (as the case may be) does not fall within any of the circumstances (including, without limitation, “concealing illegal intentions with a lawful form”) under Article 52 of the PRC Contract Law, pursuant to which the contract would be determined to be invalid. However, there can be no assurance that the PRC government authorities will take a view in the future that is not contrary to or otherwise different from the opinion of our PRC legal advisor stated above, and there is also the possibility that the PRC government authorities may adopt new laws and regulations in the future which may invalidate the New Structure Contracts.

If the PRC government or judicial authorities determine that we do not comply with applicable laws and regulations, it could have broad discretion in dealing with such incompliance and taking relevant regulatory or enforcement actions, including but not limited to requiring the nullification of the Contractual Arrangements, levying fines or confiscating the proceeds generated from the operations under the New Structure Contracts or discontinuing the business operations of Beijing Outsell or Pincha. In addition, if the imposition of any of these regulatory or enforcement actions causes the Group to lose the rights to direct the activities of Pincha or its right to receive the economic benefits of Pincha, the Company would no longer be able to consolidate the financial results of Pincha;

- b) The Contractual Arrangements under the New Structure Contracts may not be as effective in providing operational control as direct ownership. Pincha or its sole shareholder, Mr. Zhao, may fail to perform their obligations under the New Structure Contracts;
- c) Mr. Zhao may have conflicts of interest with the Group, which may materially and adversely affect the business of the Group.

Mr. Zhao, who is an executive Director, the Chairman of the Company and the controlling Shareholder, is also the sole shareholder owning 100% equity interest in Pincha. Conflicts of interest between the dual roles of Mr. Zhao in the Company and in Pincha may arise. However, the Company cannot assure that when conflicts of interest arise, Mr. Zhao will act in the best interests of the Company or that conflicts of interest will be resolved in favor of the Company;

- d) Certain terms of the agreements underlying the New Structure Contracts may not be enforceable under PRC laws.

The New Structure Contracts provide for dispute resolution by way of arbitration in accordance with the arbitration rules of the CIETAC in the PRC. The New Structure Contracts contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Pincha, injunctive relief and/or winding up of Pincha. In addition, the New Structure Contracts contain provisions to the effect that courts in Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal or in other appropriate cases. However, our PRC legal advisor has advised that the abovementioned provisions contained in the New Structure Contracts may not be enforceable.

Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in Pincha in case of disputes. Therefore, such remedies may not be available to the Group, notwithstanding the relevant contractual provisions contained in the New Structure Contracts. PRC laws allow an arbitral body to award the transfer of assets of or equity interest in Pincha in favour of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally would not grant injunctive relief or the winding-up order against Pincha as interim remedies to preserve the assets or shares in favour of any aggrieved party. Our PRC legal advisor is also of the view that, even though the New Structure Contracts provide that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies in support of arbitration, such interim remedies (even if so granted by courts in Hong Kong or the Cayman Islands in favour of an aggrieved party) may not be recognized or enforced by PRC courts. As a result, in the event that Pincha or Mr. Zhao breaches any of the Contractual Arrangements under the New Structure Contracts, the Group may not be able to obtain sufficient remedies in a timely manner.

In addition, although under the Equity Interests Pledge Agreement, Mr. Zhao will pledge all his equity interests in Pincha to Beijing Outsell to secure collateralized obligations of Pincha or Mr. Zhao arising out of any default event under the Exclusive Business Cooperation Agreement and the Exclusive Purchase Agreement, the pledge to be registered with the competent local counterparts of the SAIC is based on the standard form of the pledge agreement currently acceptable to be registered with the SAIC and which could only cover the loan repayment obligation under a loan agreement. Such pledges to secure collateralized obligations under the New Structure Contracts are neither duly established nor effective against third parties until it has been duly registered with the competent local counterparts of the SAIC. Pursuant to PRC laws, before the pledges over the equity interest of Pincha to secure other collateralized obligations under the New Structure Contracts are registered with competent local counterparts of the SAIC, Beijing Outsell may not be able to foreclose the equity pledge nor have priority over any third party in receiving payment funded from proceeds from the auction or sale of the relevant pledged interests, in the event of any breach or default of such obligations under the New Structure Contracts. Accordingly, the Group may not be able to foreclose or recover any amount in the event of any breach or default of the collateralized obligations under the New Structure Contracts, or at all, if there is any third party creditor claiming rights against the same equity interests;

- e) The Group may lose the ability to use and enjoy assets held by Pincha if Pincha declares bankruptcy or becomes subject to a dissolution or liquidation proceeding;
- f) The Contractual Arrangements between Beijing Outsell and Pincha under the New Structure Contracts may be subject to scrutiny by the PRC tax authorities, and any finding that the Group or Pincha owes additional taxes could reduce the consolidated net income of the Group; and
- g) If Beijing Outsell exercises the option to acquire equity interest of Pincha, such equity transfer may subject the Group to substantial costs.

Pursuant to the Exclusive Purchase Agreement, Beijing Outsell (or persons authorized by Beijing Outsell) has the exclusive right to acquire, at any time, to the extent permitted by applicable PRC laws and regulations, his equity interests in Pincha, entirely or partially and one-off or by several times as solely decided by Beijing Outsell, at the lowest price permitted by the PRC laws at that time unless appraisal is required or other restrictions on purchase price applies under PRC laws. In the event of such transfer, the competent tax authority may require Beijing Outsell to pay enterprise income tax for ownership transfer income with reference to the market value instead of the price as stipulated in the Exclusive Purchase Agreement mentioned above, in which case Beijing Outsell may be subject to a substantial amount of tax and the financial condition of the Group may be adversely affected.

As at the date of this announcement, the Group did not purchase any insurance to cover the risks relating to the Contractual Arrangements between Beijing Outsell and Pincha under the Structure Contracts or the New Structure Contracts. The Directors consider that the costs of insurance for the risks associated with business liability or disruption and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for the Group to have such insurance.

E. Operations in compliance with the Contractual Arrangements

The Group will adopt the following measures to ensure legal and regulatory compliance and to ensure the implementation of the Contractual Arrangements under the New Structure Contracts, as well as to ensure that Mr. Zhao, who is also an executive Director and the Chairman of the Company, will comply with the New Structure Contracts (including all the confirmations or undertakings made by Mr. Zhao and his spouse in connection with the New Structure Contracts):

- a) the Group has implemented corporate governance measures to manage any conflict of interest between the Group and Mr. Zhao or any of his associates; if required, legal advisors and/or other professionals will be retained to assist the Group to deal with specific issues arising from the New Structure Contracts and to ensure that the operation and implementation of the New Structure Contracts as a whole will comply with applicable laws and regulations;
- b) relevant business units and operation divisions of the Group will report regularly, which will be no less frequently than on a monthly basis, to the senior management of the Company in relation to compliance and performance conditions under the New Structure Contracts and other related matters;
- c) each of Mr. Zhao and any of his associates shall abstain from voting on any resolution in relation to the New Structure Contracts or any contract involving a conflict of interest with the New Structure Contracts, at any Board meeting or general meeting of the Company, in which he or any of his associates may have conflict of interest, and all such resolutions shall be passed unanimously or by the affirmative vote of a simple majority (as the case may be) of the Board or the general meeting of the Company, otherwise the relevant resolution would be considered as disapproved;
- d) the three independent non-executive Directors will continue to play an independent role in the Board by reviewing the effective implementation of the procedures and controls referred to above; and
- e) the independent non-executive Directors will also review the compliance of the Contractual Arrangements under the New Structure Contracts on an annual basis and their confirmation will be disclosed in the annual report of the Company.

In addition, the Group has already implemented corporate governance measures to manage any conflict of interest between the Group and the Directors.

III. RENEWAL OF THE DISTRIBUTION AGREEMENTS

As the term of the existing Distribution Agreements will expire on 31 December 2014, Beijing Outsell and Pincha entered into the New Distribution Agreement on 27 October 2014 for the purpose of renewal of the continuing connected transactions between the parties thereunder. Subject to the approval by the independent Shareholders, the New Distribution Agreement shall supersede the existing Distribution Agreements from 1 January 2015 onwards. Details of the New Distribution Agreement are as follows:

Date

27 October 2014

Parties

- (1) Vendor: Beijing Outsell
- (2) Distributor and purchaser: Pincha

Term

Three years from 1 January 2015 to 31 December 2017

Major Terms and Conditions

Pursuant to the New Distribution Agreement, Pincha agreed to distribute the Products provided by Beijing Outsell or any of its subsidiaries globally through its e-commerce platform and telemarketing network.

Pricing Principle

The prices of the Products sold by Beijing Outsell to Pincha under the New Distribution Agreement shall be determined based on the cost plus reasonable profit margin, which is between 6.16%-20.54%, and will be adjusted from time to time according to the change of the profit margin range. Based on the functions performed, risks assumed and assets used by Beijing Outsell and Pincha to the sales transaction, by searching the independent third party comparable companies through the third party database (OSIRIS of BUREAU van DIJK), to build up a set of the comparable companies of Beijing Outsell and the arm's length profit range, the range could be taken as the reference of establishing the pricing policy of the sales transaction.

Since Pincha will be treated as a wholly-owned subsidiary of the Company by the Contractual Arrangements under the New Structure Contracts, the Directors consider that the above pricing terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Payment Arrangement

Payment of the price will be specified in individual order form to be signed between Beijing Outsell (or any of its subsidiaries) and Pincha.

IV. RENEWAL OF THE LEASE AGREEMENTS

As the term of the existing Lease Agreements entered into between Beijing Outsell and Pincha will expire on 31 December 2014, the parties entered into the New Lease Agreement on 27 October 2014 for the purpose of renewal of the continuing connected transactions between the parties thereunder. Subject to the approval by the independent Shareholders, the New Lease Agreement shall supersede the existing Lease Agreements from 1 January 2015 onwards. Details of the New Lease Agreement are as follows:

Date

27 October 2014

Parties

- (1) Lessor: Beijing Outsell
- (2) Lessee: Pincha

Leased Premises and Term of the Lease

Beijing Outsell agreed to lease the Linglong Tiandi Properties with a total gross floor area of 437 sq. m. to Pincha for use as its offices for a term of three years from 1 January 2015 to 31 December 2017.

Rental and Other Fees

The aggregate rental for the Linglong Tiandi Properties to be paid by Pincha to the Group for each of the three years ending 31 December 2017 is RMB 786,600, calculated based on the fixed monthly rental of RMB 150 per sq. m. per month.

Pincha, the lessee, shall also pay other fees, being various sundry charges actually incurred (including but not limited to water, electricity, telephone tariffs, internet fees and cleaning fees, etc., where applicable) in connection with the use of the leased premises, to Beijing Outsell. However, since such fees will be paid by Beijing Outsell to various independent third party entities firstly, and then be allocated to Pincha and Beijing Outsell itself according to their actual use of such services. Hence, such other fees to be paid by Pincha to Beijing Outsell under the New Lease Agreement shall be a kind of sharing of administrative services between the listed issuer's group and a connected person and shall be exempted from the connected transaction requirements pursuant to Rule 14A.98 of the Listing Rules.

The above rental was determined with reference to the prevailing market rent for similar premises in comparable locations in Beijing (as known to the Company through consulting major real estate agents in Beijing, the prevailing market rent for similar premises in comparable locations in Beijing is in the range of RMB135 to RMB165 per sq. m. per month) and the rental charged by Beijing Outsell to other independent third parties for lease of other units of the Besunyen Building of Linglong Tiandi.

Since Pincha will be treated as a wholly-owned subsidiary of the Company by the Contractual Arrangements under the New Structure Contracts, the Directors consider that the above pricing terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Payment Arrangements

The rental shall be paid by Pincha by cash on a half-year basis.

V. PROPOSED ANNUAL CAPS

Set out below is the historical transaction amount between Beijing Outsell and Pinca under the Structure contracts, the Distribution Agreements and the Lease Agreements:

	Year ended 31 December 2012	Year ended 31 December 2013	Eight months ended 31 August 2014
Historical Transaction Amount	<i>(RMB'000)</i>		
Structure Contracts	156	388	387
Distribution Agreements	19,209	19,819	10,482
Lease Agreements	1,194	933	532
Total	20,559	21,140	11,401

The Directors estimate the respective annual caps for the continuing connected transactions contemplated under the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement for the three years ending 31 December 2017 as follows:

	Year ending 31 December 2015	Year ending 31 December 2016	Year ending 31 December 2017
Estimated Annual Caps		<i>(RMB)</i>	
New Structure Contracts	682,000	818,000	982,000
New Distribution Agreement	41,046,000	63,441,000	98,770,000
New Lease Agreement	786,600	786,600	786,600
Aggregate annual caps for the total amount to be paid by Pincha to Beijing Outsell under the above agreements	<u>42,514,600</u>	<u>65,045,600</u>	<u>100,538,600</u>

The above estimated annual caps were determined with reference to the historical transaction figures as listed above as well as the fixed annual rental for the leased premises under the New Lease Agreement and after taking into consideration the following factors:

(i) As for the New Structure Contracts:

- a) the services currently provided by Beijing Outsell to Pincha under the Exclusive Business Cooperation Agreement include human resource management, information consultation, financial and asset management and storage and custody services. Fees charged by Beijing Outsell for the provision of storage and custody services to Pincha are calculated based on the actual storage areas used by Pincha multiplied by the rate of RMB 1.2 per sq. m. per day, which was determined with reference to the market rate for such storage and custody services in comparable locations in Beijing. Fees charged by Beijing Outsell for the provision of human resource management, information consultation, financial and asset management and other related services to Pincha are calculated on a cost-sharing basis, i.e. costs for providing such services, mainly labour and management costs, will be allocated to Pincha proportionally according to the amount and scope of the services provided; and
- b) the expected increase in the amount and scope of services to be provided by Beijing Outsell to Pincha in the next three years corresponding to the development and expansion of the business of Pincha, as well as the increase in the costs of Beijing Outsell for providing such services including the increase in labour costs;

- (ii) As for the New Distribution Agreement:
- a) the potential increase in the sales price of the Products under the New Distribution Agreement in the next three years due to the increase in production cost including raw materials prices and labour costs;
 - b) the expected continuous growth of internet users in the PRC in the next three years which may result in the corresponding increase in the sales volume under the New Distribution Agreement;
 - c) the expected rapid growth of the e-commerce market in the PRC in the next three years which may also result in the corresponding increase in the sales volume under the New Distribution Agreement;
 - d) as mentioned in the 2014 interim report of the Company, the Group plans to further promote its new herbal tea products and new package for such products for online sales only through the e-business channel of Pincha and launch other new products in stock on the market when appropriate, which will inevitably result in the increase in the sales volume under the New Distribution Agreement in the next three years; and
 - e) the expected increase in the sales volume and market share of the e-business operated by Pincha due to the unified sales price resulting from the enhancement of the control of the traditional sales channels of the Group which focuses on the management of the prices in the market; and
- (iii) A buffer has been included for the estimated transaction amount between the Group and Pincha under the New Structure Contracts and the New Distribution Agreement for any unexpected increase in the aforesaid amount in the next three years.

VI. REASONS FOR AND BENEFITS OF RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS

Pincha became the Company's subsidiary after the execution of the Structure Contracts, upon which the Group would obtain financial and operational control of Pincha through Beijing Outsell. Upon the execution of the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement for the purpose of the renewal of the Contractual Arrangements as well as the continuing connected transactions thereunder, Beijing Outsell will continue to expand its distribution network via the internet at a low cost and shorten the sales process by having direct access to customers. Further, through co-operation with Pincha pursuant to the terms of the New Distribution Agreement, Beijing Outsell will be able to explore the global e-commerce markets and make its distribution network more effective and cost efficient, so as to strengthen the Group's market position in the therapeutic tea industry.

The Directors (excluding the independent non-executive Directors) are of the view that (i) Mr. Zhao will not take advantage of his position as a controlling shareholder of the Company under the New Structure Contracts, and the New Structure Contracts are fundamental to the Company's e-commerce business legal structure and operations, and the terms and conditions therein are fair and reasonable and in the interests of the Company and its Shareholders as a whole; (ii) the New Distribution Agreement and the New Lease Agreement were entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms and conditions therein are fair and reasonable and in the interests of the Company and its Shareholders as a whole; and (iii) the respective proposed annual caps for the continuing connected transactions contemplated under the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Mr. Zhao, being an executive Director and the owner of 100% equity interest in Pincha, and Ms. Gao Yan, being an executive Director and spouse of Mr. Zhao, have abstained from voting on the resolution in respect of the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement, as well as the respective proposed annual caps for the continuing connected transactions contemplated thereunder. Save for Mr. Zhao and Ms. Gao, none of the Other Directors has a material interest in the aforesaid transactions and is required to abstain from voting on the relevant resolution at the Board meeting.

VII. LISTING RULES IMPLICATIONS

As at the date of this announcement, Pincha is wholly-owned by Mr. Zhao, the controlling shareholder of the Company and an executive Director. Therefore, both Mr. Zhao and Pincha are connected persons of the Company for the purpose of the Listing Rules, and the transactions contemplated among Beijing Outsell, Mr. Zhao and Pincha under each of the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios in respect of the aggregate annual caps for the continuing connected transactions contemplated under the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement exceed 5%, both the entering into of such agreements and the proposed annual caps for the continuing connected transactions contemplated thereunder are subject to independent shareholders' approval requirement in addition to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

An extraordinary general meeting of the Company will be convened to seek the approval of the independent Shareholders in this regard. Mr. Zhao and his associates will abstain from voting in respect of the relevant resolution at the extraordinary general meeting.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the independent Shareholders in relation to the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement, as well as the respective proposed annual caps for the continuing connected transactions contemplated thereunder, and an independent financial adviser has been appointed to advise the Independent Board Committee and the independent Shareholders in this regard.

A circular containing, among others, details of the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement, as well as the respective proposed annual caps for the continuing connected transactions contemplated thereunder, a letter from the Independent Board Committee and a letter of advice from the independent financial adviser to the Independent Board Committee and independent Shareholders, together with a notice convening the extraordinary general meeting of the Company, will be dispatched to the Shareholders on or before 17 November 2014.

VIII. GENERAL INFORMATION ON THE PARTIES TO THE TRANSACTIONS

Information on Beijing Outsell

Beijing Outsell, an indirect wholly-owned subsidiary and the primary operating entity of the Company, is principally engaged in the business of development, production, sales and promotion of therapeutic teas.

Information on Pincha

Pincha is a limited liability company established in the PRC on 18 June 2010 and wholly-owned by Mr. Zhao. It is principally engaged in online sales and marketing of therapeutic tea and other tea products. Following the execution of the Structure Contracts and the New Structure Contracts, Pincha became and will continue to be a wholly-owned subsidiary of the Company, and the Group would obtain financial and operational control of Pincha through Beijing Outsell.

IX. DEFINITIONS

“associate”	has the same meaning ascribed to it under the Listing Rules
“Beijing Outsell”	Beijing Outsell Health Product Development Co., Ltd. (北京澳特舒爾保健品開發有限公司), a company incorporated under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Board”	the board of Directors
“CIETAC”	China International Economic and Trade Arbitration Commission
“China” or “PRC”	the People’s Republic of China, which for the purpose of this announcement and for geographical reference only excludes Taiwan, the Macau Special Administrative Region and Hong Kong

“Company”	Besunyen Holdings Company Limited (碧生源控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Contractual Arrangements”	the Contractual Arrangements between Beijing Outsell, Pincha and Mr. Zhao under the Structure Contracts and the New Structure Contracts
“Director(s)”	the director(s) of the Company
“Distribution Agreements”	the distribution agreement entered into between Beijing Outsell and Pincha on 30 September 2010 ,supplemented by a supplemental agreement dated 28 March 2011 and further amended by an amended agreement dated 12 July 2012 for the sale and distribution of the Products
“Equity Interests Pledge Agreement”	the equity interests pledge agreement entered into between Beijing Outsell, Pincha and Mr. Zhao on 27 October 2014, pursuant to which the entire equity interest in Pincha owned by Mr. Zhao will be pledged to Beijing Outsell for the performance of the obligations of Pincha under Exclusive Business Cooperation Agreement
“Exclusive Business Cooperation Agreement”	the exclusive business cooperation agreement entered into between Beijing Outsell and Pincha on 27 October 2014 for the provision of certain technical consulting and management services by Beijing Outsell to Pincha
“Exclusive Purchase Agreement”	the exclusive purchase agreement entered into between Beijing Outsell, Pincha and Mr. Zhao on 27 October 2014 for the grant of an irrevocable option to Beijing Outsell to acquire, to the extent permitted by the PRC laws and regulations, the entire or partial equity interest in Pincha
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Regions of the PRC
“IFRS”	the International Financial Reporting Standards issued by the International Accounting Standards Board

“Independent Board Committee”	the independent Board committee comprising all independent non-executive Directors, namely Mr. Huang Jingsheng, Mr. Wang Jing and Mr. Ren Guangming, which was established to advise the independent Shareholders in relation to the New Structure Contracts, the New Distribution Agreement and the New Lease Agreement, as well as the respective proposed annual caps for the continuing connected transactions contemplated thereunder
“Lease Agreements”	the lease agreement entered into between Beijing Outsell and Pincha on 30 September 2010 and supplemented and further supplemented by four supplemental agreements dated 28 March 2011, 12 July 2012, 25 March 2013 and 1 January 2014, respectively, for the lease of certain commercial premises by Beijing Outsell to Pincha
“Linglong Tiandi Properties”	the premises located at 11th floor of the Besunyen Building, Linglong Tiandi, No. 160 West 4th Ring Road North, Haidian District, Beijing, the PRC, with a total gross floor area of 437 sq.m.
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“Mr. Zhao”	Mr. Zhao Yihong, Chairman, Chief Executive Officer and executive Director of the Company, who is the controlling Shareholder of the Company and the sole shareholder of Pincha
“New Distribution Agreement”	the distribution agreement entered into between Beijing Outsell and Pincha on 27 October 2014 for the renewal of the continuing connected transactions contemplated thereunder in respect of the sale and distribution of the Products
“New Lease Agreement”	the lease agreement entered into between Beijing Outsell and Pincha on 27 October 2014 for the renewal of the continuing connected transactions contemplated thereunder in respect of the lease of the Linglong Tiandi Properties
“New Structure Contracts”	the Exclusive Business Cooperation Agreement, the Equity Interests Pledge Agreement, the Exclusive Purchase Agreement and the Power of Attorney entered into between Beijing Outsell, Pincha and Mr. Zhao (as the case may be) on 27 October 2014, collectively

“Pincha”	Beijing Pincha Online E-Commerce Co., Ltd.* (北京品茶在綫電子商務有限公司), a company incorporated in the PRC on 18 June 2010 and wholly-owned by Mr. Zhao
“Power of Attorney”	the power of attorney dated 27 October 2014 signed by Mr. Zhao
“Products”	the products manufactured or distributed by Beijing Outsell and/or its subsidiaries, including but not limited to the products under the “Besunyen” and “VS Series” brands, which will be supplied to Pincha under the New Distribution Agreement
“RMB”	Renminbi yuan, the lawful currency of China
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“Shareholders”	the shareholders of the Company
“sq. m.”	square metre
“Structure Contracts”	the exclusive business cooperation agreement, the equity interests pledge agreement, the exclusive purchase agreement and the power of attorney entered into between Beijing Outsell, Pincha and Mr. Zhao (as the case may be) on 28 March 2011, collectively, all of which were supplemented by a supplemental contract dated 12 July 2012

By order of the Board
Besunyen Holdings Company Limited
Zhao Yihong
Chairman and Chief Executive Officer

Hong Kong, 27 October 2014

As at the date of this announcement, the executive Directors are Mr. Zhao Yihong (Chairman and Chief Executive Officer) and Ms. Gao Yan (Vice Chairman); the non-executive Director is Mr. Zhuo Fumin; and the independent non-executive Directors are Mr. Huang Jingsheng, Mr. Wang Jing and Mr. Ren Guangming.

* *For identification purpose only*