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C.banner International Holdings Limited

千百度國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1028)

SUPPLEMENTAL ANNOUNCEMENT ON THE DISCLOSABLE TRANSACTION IN RELATION TO ACQUISITION OF INTEREST IN A COMPANY ENGAGED IN OPERATING KINDERGARTENS IN THE PRC

The Target Group is engaged in the business of operating kindergartens in the PRC and adopted the VIE Structure. The main reason for the Target Group to adopt the VIE Structure was because the laws and regulations in the PRC at the time did not allow a foreign investor (not being a foreign educational institution with relevant qualification and high quality of education) to directly engage in the business of operating kindergartens in the PRC. In light of such foreign ownership restriction, the Target Company, through the WFOE, entered into a series of VIE Agreements with the Operating Company and the Registered Shareholders. By entering into the VIE Agreements, the VIE Structure has allowed the Target Group to exercise full control over the Operating Company and consolidate the financial results of the Operating Company into the accounts of the Target Group as if it were a subsidiary of the Target Company. The VIE Structure has been subsisting since it was originally set up due to the above-mentioned foreign ownership restriction in the PRC.

As advised by our PRC Legal Adviser, the Target Company, as a foreign investor investing in the business of operating kindergartens in the PRC, is subject to the Qualification Requirement and the Foreign Ownership Restriction (as defined below). The Target Company is not a qualified education institution nor does it fulfill the Qualification Requirement, and therefore it is not feasible for the Target Company to set up a sino-foreign joint venture to directly engage in the business of operating kindergartens in the PRC.

Based on the reasons set out below in this announcement and as confirmed by our PRC Legal Adviser, in order to achieve the business purpose of the Target Group and gain the relevant education experience with a view to complying with the Qualification Requirement, the VIE Agreements have been utilized to minimise the potential conflict with relevant PRC laws and regulations.

Upon Completion, the Company will not obtain a majority control of the Target Company and as such, it is not in a position to require the Target Company to reorganize its existing VIE Structure. However, the Company intends to monitor the development of the relevant PRC laws and regulations on the Foreign Ownership Restriction and work closely with the Target Group to take all reasonable steps to comply with the other requirements or unwind the VIE Agreements to the extent possible and practicable under the relevant PRC laws and regulations.

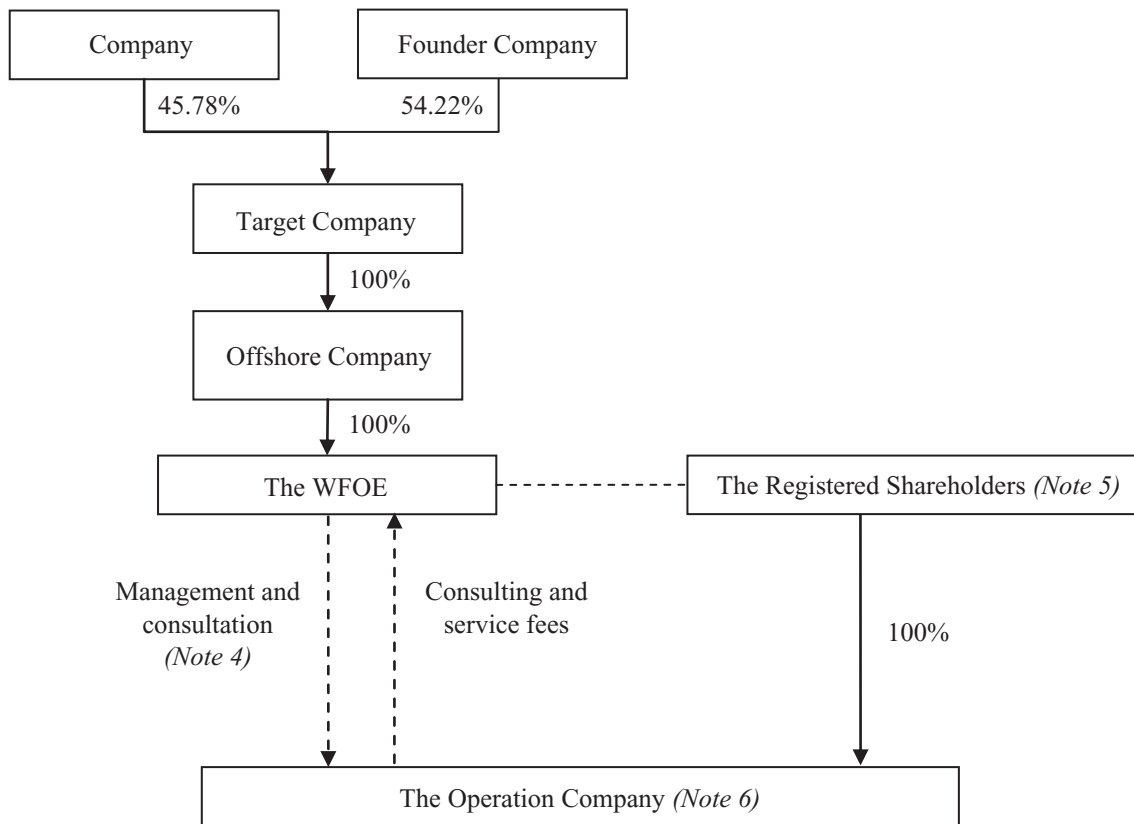
Reference is made to the announcements of the Company dated July 21, 2017, July 28, 2017 and August 11, 2017 (the “**Announcements**”) in respect of the acquisition of 45.78% equity interest in the Target Company. Unless otherwise defined hereunder, the capitalized terms used herein shall have the same meanings as those defined in the Announcements.

The Board wishes to provide potential investors and Shareholders with further information in relation to the VIE arrangements within the Target Group.

VIE structure adopted by the Target Group

The Target Group is engaged in the business of operating kindergartens in the PRC. The Target Group adopted the VIE Structure due to the foreign ownership restriction on the kindergarten education industry in the PRC, the further details of which are set out in the section headed “Reasons for use of the VIE Arrangements” in this announcement. Set out below are the VIE Agreements entered into under the VIE arrangements, the simplified VIE Structure and the flow of economic benefits from the Operating Company to the WFOE according to the VIE Agreements upon Completion:

- (1) Power of attorney to exercise all shareholders’ rights in the Operating Company (*Note 1*)
- (2) Exclusive option to acquire all or part of the equity interest in and/or assets of the Operating Company (*Note 2*)
- (3) First priority security interest over the entire equity interest in the Operating Company (*Note 3*)
- (4) Exclusive business cooperation agreement between the WFOE and the Operating Company (*Note 4*)



Notes:

- (1) Please refer to “Power of Attorney” for details.
- (2) Please refer to “Exclusive Option Agreements” for details.
- (3) Please refer to “Share Pledge Agreement” for details.
- (4) Please refer to “Exclusive Business Cooperation Agreement” for details.
- (5) The Registered Shareholders are Ms. Wang Ruina and Ms. Zhao Lihong, each a PRC national, holding 99.9993% and 0.0007% equity interest in the Operating Company respectively.
- (6) The Operating Company has subsidiary undertakings which operate kindergartens in the PRC.

“—” denotes direct legal and beneficial ownership in the equity interest.

“- - ->” denotes contractual relationships under the VIE Agreements.

“- - - -” denotes the control by WFOE over the Registered Shareholders through (i) powers of attorney to exercise all shareholders’ rights in the Operating Company, (ii) exclusive options to acquire all or part of the equity interests in the Operating Company, and (iii) equity pledges over the equity interests in the Operating Company.

Reasons for use of the VIE Arrangements

The main reason for the Target Group to adopt the VIE Structure was because the laws and regulations in the PRC at the time of establishment of the Operating Company did not allow a foreign investor (not being a foreign educational institution with relevant qualification and high quality of education) to directly engage in the business of operating kindergartens in the PRC. In light of such foreign ownership restriction, the Target Company, through the WFOE, entered into a series of VIE Agreements with the Operating Company and the Registered Shareholders. By entering into the VIE Agreements, the VIE Structure has allowed the Target Group to exercise full control over the Operating Company and consolidate the financial results of the Operating Company into the accounts of the Target Group as if it were a subsidiary of the Target Company. The VIE Structure has been subsisting since it was originally set up due to the above-mentioned foreign ownership restriction in the PRC.

Currently, foreign investment activities in the PRC are mainly governed by the Guidance Catalogue of Industries for Foreign Investment which was promulgated and is amended from time to time jointly by the NDRC and the MOFCOM. On June 28, 2017, the NDRC and MOFCOM jointly released the 2017 version of the Foreign Investment Industrial Guidance Catalogue (“**2017 Catalogue**”) which came into effect from July 28, 2017. The 2017 Catalogue divides industries into four categories in the context of foreign investment, namely, “encouraged”, “restricted” and “prohibited” and those industries which are not listed are “permitted”.

As confirmed by our PRC Legal Adviser, the provision of kindergartens in the PRC falls within the “restricted” category. In particular, foreign investors may only operate kindergartens through joint ventures with PRC incorporated entities that are in compliance with (i) the Regulation on Sino-Foreign Cooperation in Operating Schools (《中華人民共和國中外合作辦學條例》), promulgated by the State Council on March 1, 2003 and amended on July 18, 2013 (the “**Sino-Foreign Regulation**”); and (ii) the Implementation Measures for Regulation on Sino-Foreign Cooperation in Operating Schools (《中華人民共和國中外合作辦學條例實施辦法》), promulgated by the MOE on June 2, 2004 (the “**Implementation Measures**”).

As advised by our PRC Legal Adviser, pursuant to the Sino-Foreign Regulation and the Implementation Measures, the foreign investor in a Sino-foreign joint venture school for PRC students at a kindergarten (a “**Sino-Foreign Joint Venture Private School**”) shall be a foreign educational institution with relevant qualification and high quality of education (the “**Qualification Requirement**”). Furthermore, pursuant to the Implementation Opinions on Encouraging and Guiding Private Fund’s Entry into the Education Sector and Promoting Healthy Development of Private Education (《關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》) promulgated by the MOE on June 18, 2012 (the “**Implementation Opinions**”), the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the “**Foreign Ownership Restriction**”).

As advised by our PRC Legal Adviser, the principal business of the Operating Company falls within the aforesaid industry, and the Target Company, as a foreign investor investing in the business of operating kindergartens in the PRC, is subject to the Qualification Requirement and the Foreign Ownership Restriction. The Target Company is not a qualified education institution nor does it fulfill the Qualification Requirement, and therefore it is not feasible for the Target Company to set up a sino-foreign joint venture to directly engage in the business of operating kindergartens in the PRC.

Based on the above and as confirmed by our PRC Legal Adviser, in order to achieve the business purpose of the Target Group and gain the relevant education experience with a view to complying with the Qualification Requirement, the VIE Agreements, through which the Target Group is able to exercise full control over the Operating Company and consolidate the financial results of the Operating Company into the accounts of the Target Group, have been utilized to minimise the potential conflict with relevant PRC laws and regulations.

Upon Completion, the Company will not obtain a majority control of the Target Company and as such, it is not in a position to require the Target Company to reorganize its existing VIE Structure. However, the Company intends to monitor the development of the relevant PRC laws and regulations on the Foreign Ownership Restriction and work closely with the Target Group to take all reasonable steps to comply with the other requirements or unwind the VIE Agreements to the extent possible and practicable under the relevant PRC laws and regulations.

Details of the VIE Agreements

Exclusive Option Agreements

The WFOE and each of the Registered Shareholders entered into the exclusive option agreements with the Operating Company (the “**Exclusive Option Agreements**”) on December 18, 2014 (as amended), pursuant to which the WFOE (or an individual, company, joint venture, partnership, enterprise, trust or non-corporate organization designated by the WFOE, the “**designee**”) is granted an irrevocable and exclusive right to, when the relevant PRC laws and regulations permits, purchase from the Registered Shareholders all or any part of their equity interests for RMB10 or the lowest price permissible under the relevant PRC laws and regulations (the “**base price**”), and to purchase from the Operating Company all or any part of its asset at the net book value unless the relevant government authorities or the PRC laws require that another amount to be used as the purchase price which is higher than the base price or the net book value (where applicable), in which case the purchase price shall be the lowest amount under such requirement. Upon the WFOE’s request, the Registered Shareholders will promptly and unconditionally transfer their equity interests in the Operating Company to the WFOE after the WFOE exercises such option to acquire. The Registered Shareholders and the Operating Company have undertaken to return to the WFOE any consideration they receive in the event that the WFOE exercises such option to acquire. The Exclusive Option Agreements are valid until the entire Operating Company’s equity interest and/or assets has been legally and duly transferred to the WFOE or its designee.

In order to prevent the flow of the assets and value of the Operating Company to the Registered Shareholders, during the term of the Exclusive Option Agreements, the Registered Shareholders irrevocably undertake, during the term of the Exclusive Option Agreements, that they will not sell, transfer, mortgage or otherwise dispose of any of their legal or benefit interests in the Operating Company or be allowed to place any encumbrances on them.

Exclusive Business Cooperation Agreement

The Operating Company entered into an exclusive cooperation agreement with the WFOE (the “**Exclusive Business Cooperation Agreement**”) on December 18, 2014 (as amended), pursuant to which the Operating Company agrees to engage the WFOE as its exclusive provider of technical support, business support and consulting services including technical services, business consulting, equipment leasing, marketing consultation and labor support related to the Operating Company’s business scope in exchange for service fees. Under these arrangements, the service fee, subject to the WFOE’s adjustment, is equal to all of the net profit of the Operating Company after deduction of necessary taxes. If the Operating Company has difficulty in operations, the WFOE has the right at its sole discretion to provide any financial support to the Operating Company. The Exclusive Business Cooperation Agreement is for an initial term of ten years subject to automatic renewal.

Share Pledge Agreement

The WFOE, the Registered Shareholders and the Operating Company entered into a share pledge agreement (the “**Share Pledge Agreement**”) on December 18, 2014 (as amended). Under the Share Pledge Agreement, the Registered Shareholders will pledge all of their respective equity interests in the Operating Company to the WFOE as collateral security to secure the indebtedness due by the Operating Company to the WFOE, including but not limited to the consulting and service fees payable by the Operating Company under the Exclusive Business Cooperation Agreement. The Share Pledge Agreement will not terminate until the final secured indebtedness incurred under the Exclusive Business Cooperation Agreement is repaid in full by the Operating Company to the WFOE. The Share Pledge Agreement has been duly registered with the competent PRC authority pursuant to the relevant PRC laws and regulations.

Power of Attorney

Each of the Registered Shareholders executed an irrevocable power of attorney (the “**Power of Attorney**”) on December 18, 2014 (as amended) appointing the WFOE (including its successor and liquidator) or an individual designated by the WFOE to act on their behalf on all matters concerning the Operating Company and to exercise all of their rights as the registered shareholders of the Operating Company. These rights include but not limited to (a) the right to attend shareholders’ meetings and sign shareholders’ resolutions and minutes; (b) the right to sell, transfer, pledge or dispose of shares; (c) the right to exercise shareholders’ voting rights; (d) the right to file documents with the relevant companies registry; and (e) the right to designate and appoint the legal representative (chairperson), the director, supervisor, the chief executive officer (or general manager) and other senior management members of the Operating Company. The WFOE is entitled to dispose of the cash dividend and non-cash benefit arising from the Registered Shareholders’ equity interest in the Operating Company.

As a result of the VIE Agreements including the Power of Attorney, the Target Company, through the WFOE, is able to exercise full control over the Operating Company including management control over the activities that may significantly impact the economic performance of the Operating Company. Furthermore, pursuant to the Exclusive Option Agreements and the Power of Attorney, the liquidator can seize the Operating Company’s assets in a winding up situation for the benefit of the WFOE’s shareholders or creditors.

Succession

Each of the Exclusive Option Agreements and the Share Pledge Agreement provides that its provisions shall be binding on the successors of the Registered Shareholders, as if the successors would be signing parties to it. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the VIE Agreements. In case of a breach, the WFOE can enforce its rights against the successors. In addition, each of the Registered Shareholders (including her spouse where applicable) executed an unconditional and irrevocable undertaking to confirm that the VIE Agreements to which she is a party shall be binding on her successors in the event of her death, divorce or marriage and the spouse undertook that he would not have any claim on the interests of the Operating Company and the performance of and/or any amendment to the VIE Agreements does not need his consent and/or authorization. In addition, the Operating Company is not allowed to transfer its rights and obligations under the Exclusive Business Cooperation Agreement without the WFOE's prior written consent.

Potential Conflicts of Interest

The Registered Shareholders may have potential conflict of interest with the Target Company. To mitigate any potential conflict of interest, the Registered Shareholders undertook in the Power of Attorney that during the period that the Registered Shareholders remain as the registered shareholders of the Operating Company, such power of attorney would continue to be granted to the WFOE.

Dispute Resolution

Each of the Exclusive Option Agreements, the Exclusive Business Cooperation Agreement and the Share Pledge Agreement stipulate that the parties shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of the provisions. In the event the parties fail to reach an agreement on the resolution of such a dispute within a specified period of time after any party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used for arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force.

The dispute resolution clause also provides that the arbitral tribunal may award remedies over the shares or land assets of the Operating Company, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the Operating Company; and the courts of Hong Kong, Bermuda (being the place of incorporation of the Company) and the PRC (being the place of incorporation of the Operating Company) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of the Operating Company.

However, our PRC Legal Adviser has advised that the tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of the Operating Company pursuant to current PRC laws. In addition, interim remedies or enforcement orders granted by overseas courts such as those of Hong Kong and Bermuda may not be recognizable or enforceable under the current PRC laws.

Internal Control

In order to have effective control over and to safeguard the assets of the Operating Company, the following internal control measures have been put in place:

- During the term of the Exclusive Option Agreements, the Registered Shareholders irrevocably undertake, during the term of the Exclusive Option Agreements, that they will not sell, transfer, mortgage or otherwise dispose of any of their legal or benefit interests in the Operating Company or be allowed to place any encumbrances on them; and
- Under the Shareholders Agreement in relation to the Acquisition, the Company shall have the right to periodically obtain the audited and unaudited financial statements and the annual budget plan and the taxation information of the Target Group and check the books and premises of the Target Group.

Termination

The Exclusive Option Agreements provide that the WFOE and the Operating Company shall terminate the Exclusive Option Agreements once the WFOE or its designee holds the entire equity interests and/or the entire assets of the Operating Company. The Exclusive Business Cooperation Agreement is for an initial term of ten years subject to automatic renewal. The Share Pledge Agreement provides that it shall terminate when the final secured indebtedness incurred under the Exclusive Business Cooperation Agreement is repaid in full by the Operating Company to the WFOE. The Power of Attorney shall remain valid until the Registered Shareholders cease to be the registered shareholders of the Operating Company.

Loss Sharing

As advised by our PRC Legal Adviser, none of the VIE Agreements provide that the Target Group is obligated to share the losses of the Operating Company or provide financial support to the Operating Company. Further, each of Target Company and its subsidiaries is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, the Target Group, as the primary beneficiary of the Operating Company, is not required to share the losses of the Operating Company or provide financial support to the Operating Company. Despite the foregoing, given that the Target Group conducts its businesses in the PRC through the Operating Company and that the Operating Company's financial results of operations are consolidated into the Target Group's consolidated financial statements and results of operations under the applicable accounting principles, the Target Group's business, financial condition and results of operations may be adversely affected if the Operating Company suffers losses.

Legality of the VIE Agreements

The WFOE's right to deal with the pledged equity interest in the Operating Company under the Share Pledge Agreement and its option to acquire the equity interest in and/or the assets of the Operating Company under the Exclusive Option Agreements are confined to be carried out in a manner as permitted by the relevant PRC laws. Further, the pledges created under the Share Pledge Agreement shall only become effective upon its due registration with the relevant Administration for Industry and Commerce of the PRC, which has been duly completed. Our PRC Legal Adviser has confirmed that it has taken all possible actions or steps necessary for it to reach its legal conclusions.

Our PRC Legal Adviser is also of the opinion that:

- (i) each of the VIE Agreements is not deemed as “concealing illegal intentions with a lawful form” and void under the *PRC Contract Law*;
- (ii) each of the VIE Agreements is legal, valid and binding on the parties thereto and will be enforceable under applicable PRC laws and regulations;
- (iii) the VIE Agreements do not require any approvals from the PRC governmental authorities, except that the pledges under the Share Pledge Agreement is required to be registered with the relevant Administration of Industry and Commerce, which has been duly completed; and
- (iv) the VIE Agreements are not in violation of applicable PRC laws and regulations.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, as of the date of this announcement, the Target Group has not encountered any interference from any governing bodies in operating its business through the Operating Company under the VIE Agreements.

Board's view on the VIE Agreements

Based on the above, the Board is of the view that the VIE Agreements have been utilized to achieve the business purpose of the Target Group and minimize the potential conflicts with and are enforceable under the relevant PRC laws and regulations. By entering into the VIE Agreements, the VIE Structure has allowed the Target Group to exercise full control over the Operating Company and consolidate the financial results of the Operating Company into the accounts of the Target Group as if it were a subsidiary of the Target Company. Furthermore, the Company intends to monitor the development of the relevant PRC laws and regulations on the Foreign Ownership Restriction and work closely with the Target Group to take all reasonable steps to comply with the other requirements or unwind the VIE Agreements to the extent possible and practicable under the relevant PRC laws and regulations.

RISKS RELATING TO THE VIE AGREEMENTS

There is no assurance that the VIE Agreements could comply with future changes in the PRC foreign investment legal regime and the PRC government may determine that the VIE Agreements do not comply with applicable regulations.

On January 19, 2015, the MOFCOM circulated “*Foreign Investment Law of the People’s Republic of China* (Draft for Comment) (《中華人民共和國外國投資法(草案徵求意見稿)》) (the “**Draft Law**”), which proposed changes to the PRC foreign investment legal regime and the treatment of the variable interest entity structure, including contractual arrangement such as the VIE Agreements. The Draft Law, if finally adopted, may have a material impact on the PRC foreign investment legal regime.

According to our PRC Legal Adviser, the Draft Law is currently in consultation stage and has not yet been effective or legally binding. As there are uncertainties on the final content and interpretations of the Draft Law, there is no assurance that the VIE Agreements will comply with the Draft Law when it is adopted and becomes law. Under the MOFCOM’s notes accompanying the Draft Law (the “**Notes**”), in the event that Operating Company’s business falls within the restricted or prohibited lists of the new foreign investment law, the Target Group will have to (i) report to competent authorities: if the reporting regime is finally adopted, the existing VIE structure being permitted to continue following reporting to MOFCOM of the VIE structure being ultimately controlled by a PRC investor, but the Draft Law and the Notes have not mentioned how to deal with the existing VIE structures ultimately controlled by a foreign investor and whether the relevant entity could continue its business operations under the reporting regime; (ii) obtain verification from the competent authorities: if the verification regime is finally adopted, the existing VIE Structure being permitted to continue following verification, on the application of the investor, by MOFCOM of the VIE Structure being ultimately controlled by a PRC investor, but the Draft Law and the Notes have not mentioned how to deal with the existing VIE Structures ultimately controlled by a foreign investor and whether the relevant entity could continue its business operations under the verification regime; or (iii) obtain access permission from the competent authorities: if the access permission regime is finally adopted, the existing VIE Structure being permitted to continue following access permission by MOFCOM after taking into account a number of considerations including, without limitation, the identity (whether PRC investor or foreign investor) of the ultimate control person. However, there is no guarantee that the Target Group will be able to obtain such verification or permission. If the Target Group is unable to obtain such verification or permission, the Target Group may be required to terminate the contractual arrangements under the VIE Agreements. As a result, the Target Group will lose control of the Operating Company, which would, in turn, result in a material adverse effect on the Target Group’s business, financial condition and results of operations.

The Board will monitor the development of the Draft Law and discuss with our PRC Legal Adviser on a regular basis in order to assess its possible impact on the VIE Agreements and the business of the Target Company. In case there would be material impact on the Target Group or the business of the Operating Company, the Company will timely publish announcements in relation to material developments of and arising from the Draft Law.

Despite the foregoing, there is currently no indication that the VIE Agreements will be interfered or objected by any PRC regulatory authorities. Our PRC Legal Adviser has advised that the relevant PRC regulatory authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the VIE Agreements comply with the current laws, regulations or rules of the PRC, and the authorities may deny the validity, effectiveness and enforceability of the VIE Agreements. If the PRC regulatory authorities find that the VIE Agreements do not comply with the laws and regulations of the PRC, or if these regulations or their interpretations change in the future, the Target Group could be subject to severe penalties or be forced to relinquish the Target Group's interests in the Operating Company.

The Target Group may bear economic risk which may arise from difficulties in the operation of the Operating Company

Although the Target Group will not be obligated to share the losses of the Operating Company under the VIE Agreements, as the primary beneficiary of the Operating Company, the Target Group will bear economic risks which may arise from difficulties in the operation of the business of the Operating Company. In the event that Operating Company requires financial assistance from the Target Group, the Target Group may decide and resolve, at its sole and absolute discretion, to provide financial support to the Operating Company in any manner permitted by relevant laws and regulations of the PRC in order to maintain its sound operation.

The exercise of the option to acquire the ownership of the Operating Company may be subject to substantial costs.

Under the Exclusive Option Agreements, the WFOE will be granted an irrevocable and exclusive right to purchase from the Registered Shareholders all or any part of their equity interests for RMB10 or the lowest price permissible under the relevant PRC laws and regulations, and to purchase from the Operating Company all or any part of their asset for at the net book value unless the relevant government authorities or the PRC laws requires that another amount to be used as the purchase price, in which case the purchase price shall be the lowest amount under such requirement. The relevant PRC authorities may require the WFOE to pay a substantial amount of enterprise income tax for the income from the ownership transfer if the purchase price is set below the market value.

The Target Group relies on the VIE Agreements to control and obtain the economic benefits from the Operating Company, which may not be as effective in providing operational control as direct ownership

The VIE Agreements may not provide control as effective as direct ownership. Under the VIE Structure, the Target Group will have to rely on the WFOE's rights under the VIE Agreements to effect changes in the management of the Operating Company and make an impact on its business decision making, as opposed to exercising its rights directly as a shareholder. If the Operating Company or the Registered Shareholders refuse to cooperate, the Target Group will face difficulties in effecting control over the Operating Company through the VIE Structure, which may adversely affect the beneficial interests of the Target Group.

The Registered Shareholders may potentially have a conflict of interests with the Target Group

The Registered Shareholders may have potential conflicts of interest with the Target Group. Although there will be provisions under the Power of Attorney to prevent those situations, conflicts of interest may still arise when the interest of the Registered Shareholders does not align with that of the Target Group, and the Registered Shareholders may breach or cause the Operating Company to breach the VIE Agreements. If the Target Group and the Registered Shareholders fail to resolve this amicably, the Target Group may have to resort to dispute resolution. If ultimately the Registered Shareholders have to be replaced, the VIE Structure may be adversely affected and extra costs may be incurred to the Target Group.

The contractual arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed

Under the laws and regulations of PRC, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year when the transactions are conducted. The Target Group could face material adverse tax consequences if the PRC tax authorities determine that the contractual arrangements under the VIE Agreements do not represent arm's length negotiations and consequently adjust the income and expenses of the WFOE for PRC tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could adversely affect the Target Group's financial position by increasing the relevant tax liabilities of the WFOE without reducing the tax liabilities of the Operating Company. In addition, the PRC tax authorities may impose late payment fees and other penalties to the WFOE for any unpaid taxes. As a result, any transfer pricing adjustment could have a material adverse effect on the Target Group's financial position and results of operations.

The Target Company does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder

The insurance of the Target Group does not cover the risks relating to the VIE Agreements and the transactions contemplated thereunder and the Target Group has no intention to purchase any new insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the relevant agreements for the transactions contemplated thereunder and the operation of Target Group, the results of the Target Group may be adversely affected. However, the Target Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, as mentioned above, there are relevant internal control measures to reduce the operational risk.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a disclosable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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| “Acquisition” | the acquisition of the Sale Shares by the Company; |
| “Board” | the board of Directors; |
| “Company” | C.banner International Holdings Limited, a company incorporated in Bermuda with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 1028); |
| “Completion” | the completion of the sale and purchase of the Sale Shares; |
| “Director(s)” | the director(s) of the Company; |
| “Founder Company” | Clear Lead International Limited, a company incorporated in the British Virgin Islands with limited liability; |
| “Group” | the Company and its subsidiaries; |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong; |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “MOE” | the Ministry of Education of the PRC; |
| “MOFCOM” | the Ministry of Commerce of the PRC; |
| “NDRC” | the National Development and Reform Commission of the PRC; |
| “Operating Company” | Beijing EtonKids Huizhi Education Technology Limited* (北京伊頓慧智教育科技有限公司), a limited liability company being incorporated in the PRC by the Registered Shareholders; |
| “percentage ratio(s)” | the percentage ratio(s) set out in Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction; |
| “PRC” | the People’s Republic of China, for the purpose of this announcement, not including Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan; |
| “PRC Legal Adviser” | King & Wood Mallesons, the Legal Adviser to the Company as to the laws of the PRC; |

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| “Registered Shareholders” | Ms. Wang Ruina and Ms. Zhao Lihong, each a PRC national, holding 99.9993% and 0.0007% equity interest in the Operating Company respectively; |
| “RMB” | Renminbi, the lawful currency of the PRC; |
| “Sale and Purchase Agreement” | a sale and purchase agreement relating to the Sale Shares entered into between the Company and the Sellers on July 21, 2017; |
| “Sale Shares” | 5,669,931 A series preference shares of US\$0.001 each and 649,889 A-1 series preference shares of US\$0.001 each of the Target Company, all of which will be simultaneously converted into ordinary shares of US\$0.001 each of the Target Company upon Completion, and a “Sale Share” shall mean any of them; |
| “Share(s)” | ordinary share(s) of nominal value of US\$0.015 each in the share capital of the Company; |
| “Shareholder(s)” | holder(s) of the Shares; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “subsidiaries” | has the meaning ascribed to it by the Listing Rules; |
| “Target Company” | EtonKids Educational Group Limited, a company incorporated in the Cayman Islands; |
| “Target Group” | Target Company and its subsidiaries; |
| “VIE” | variable interest entity; |
| “VIE Agreements” | a series of structured contracts entered between the WFOE, the Operating Company and the Registered Shareholders that will allow the WFOE to exercise control over the operations of the Operating Company and enjoy the economic benefits generated by the Operating Company via VIE Structure, including the Exclusive Option Agreements, the Exclusive Business Cooperation Agreement, the Share Pledge Agreement and the Power of Attorney; |
| “VIE Structure” | the contractual arrangements through which the financial results of certain entities are consolidated with the financial results of other entities as “variable interest entities”; |

“WFOE” Beijing EtonKids International Kindergartens Limited* (北京伊頓國際幼兒園有限公司), a limited liability company being incorporated in the PRC and a wholly-owned subsidiary of the Target Company; and

“%” per cent.

* *The English names of these PRC entities are an informal English translation of their respective official Chinese names.*

By order of the Board
C.banner International Holdings Limited
Chen Yixi
Chairman

Hong Kong, September 4, 2017

As at the date of this announcement, the executive directors are Mr. CHEN Yixi, Mr. ZHAO Wei, Mr. HUO Li and Mr. YUAN Zhenhua; the non-executive directors are Mr. MIAO Bingwen, Mr. WU Guangze and Mr. NGAN Wing Ho; and the independent non-executive directors are Mr. KWONG Wai Sun Wilson, Mr. LI Xindan, Mr. ZHANG Zhiyong and Mr. ZHENG Hongliang.