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Wan Kei Group Holdings Limited

宏基集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1718)

DISCLOSEABLE TRANSACTION

THE ACQUISITION

The Board is pleased to announce that on 10 December 2019 (after trading hours), the Company (as purchaser), the Vendors and the Vendor Guarantors entered into the Sale and Purchase Agreement, pursuant to which the Company conditionally agreed to purchase, and the Vendors conditionally agreed to sell, the Sale Interests for a total consideration of HK\$76,500,000.

IMPLICATION UNDER THE LISTING RULES

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

Shareholders and potential investors should note that completion of the Acquisition is subject to the fulfilment of the Conditions. As the Acquisition may or may not proceed, Shareholders and potential investors should exercise extreme caution when dealing in the securities of the Company.

INTRODUCTION

Reference is made to the announcement of the Company dated 26 August 2019 in relation to a non-legally binding memorandum of understanding (the “**MOU**”) entered into between the Company, the Vendors and the Vendor Guarantors.

The Board is pleased to announce that on 10 December 2019 (after trading hours), the Company (as purchaser), the Vendors and the Vendor Guarantors entered into the Sale and Purchase Agreement, pursuant to which the Company conditionally agreed to purchase, and the Vendors conditionally agreed to sell, the Sale Interests for a total consideration of HK\$76,500,000.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are as follows:

Date

10 December 2019 (after trading hours)

Parties

- (i) The Company (as purchaser);
- (ii) The Vendors (i.e. Massive Dynamic and Shen Garden); and
- (iii) The Vendor Guarantors (i.e. Mr. Shao Chao and Mr. Shen Kan).

To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, each of the Vendors, the Vendor Guarantors and their ultimate beneficial owners is a third party independent of and not connected with the Company and its connected persons.

Acquisition

Pursuant to the Sale and Purchase Agreement, the Company conditionally agreed to purchase, and the Vendors conditionally agreed to sell, the Sale Interests for a total consideration of HK\$76,500,000. The Sale Interests represents 51% of the issued share capital of the Target Company.

Consideration

The total consideration for the Acquisition is HK\$76,500,000 (the “**Consideration**”), which shall be paid by the Company into a bank account designated by the Vendors in the following manner:

- (a) a refundable earnest money of HK\$10,000,000, which was already paid within 10 business days upon the signing of the MOU (the “**First Earnest Money**”);
- (b) a further refundable deposit of HK\$10,000,000, which is payable within 10 business days after the signing of the Sales and Purchase Agreement (the “**Second Earnest Money**”); and
- (c) the remaining balance in the amount of HK\$56,500,000, which is payable upon Completion.

The Consideration for the Acquisition was arrived at after arm’s length negotiations between the Company and the Vendors, taking into account the valuation of the Target Group in the amount not less than HK\$150,000,000 as at 31 August 2019 as assessed by an independent valuer appointed by the Company and the results of due diligence performed. After considering the above, the Directors consider that the entering into of the Acquisition and the transactions contemplated thereunder (including the terms and conditions of the Sale and Purchase Agreement, in particular the Consideration and the payment terms) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Guaranteed Profits and the Guaranteed IP Rights

Under the terms of the Sale and Purchase Agreement, the Vendors and the Vendor Guarantors unconditionally and irrevocably guaranteed and warranted to the Company for each of the two years ending 31 March 2021 and 2022 (the “**Guaranteed Period(s)**”) that: (a) the audited consolidated net profits after tax but before deduction of non-recurring income and expenses of the Target Group according to the Hong Kong Financial Reporting Standards (the “**Actual Profit**”) shall be meet the minimum profit (the “**Guaranteed Profit**”); and (b) the Target Group acquires at least one intellectual property (the “**IP**”) right (the “**IP Rights**”) as designated by the Company to be used in relation the Target Group’s business(es) (the “**Guaranteed IP Right**”).

The relevant provisions of the Guaranteed Profits and the Guaranteed IP Rights are set in the following table:

Guaranteed Periods	Guaranteed Profits	Guaranteed IP Rights	Determination Dates
1 April 2020 to 31 March 2021	HK\$10,000,000	At least 1 IP Rights as designated by the Company	31 August 2021
1 April 2021 to 31 March 2022	HK\$20,000,000	At least 1 IP Rights as designated by the Company	31 August 2022

Save as to the occurrence of any force majeure events as agreed between the parties, if the Actual Profit is less than the Guaranteed Profit during a Guaranteed Period, the Vendor and the Vendor Guarantors shall compensate the Company in the amount calculated (the “**Compensation Amount**”) based on the following:

- (a) If the Target Group record Actual Profit which is less than the Guaranteed Profit during a Guaranteed Period:

$$\text{Compensation Amount} = \text{Guaranteed Profit} - \text{Actual Profit}$$

- (b) If the Target Group record audited consolidated net loss after tax but before deduction of non-recurring income and expenses (“**Actual Loss**”) during a Guaranteed Period:

$$\text{Compensation Amount} = \text{Guaranteed Profit} + \text{Actual Loss}$$

The Guaranteed Profits and the Guaranteed IP Rights provisions were arrived at after arm’s length negotiation between the Company, the Vendors and the Vendor Guarantors with reference to the business prospects of the Target Group. Further announcement(s) will be made by the Company as and when appropriate, if the Guaranteed Profit(s) and/or the Guaranteed IP Right(s) cannot be fulfilled.

Conditions Precedent

Completion of the Sales and Purchase Agreement is conditional upon, amongst other things, all of the following conditions precedent (the “**Conditions**”) being fulfilled or waived:

- (a) the Company having obtained a legal opinion from qualified PRC legal adviser, in form and substance satisfactory to the Company in its absolute discretion, to confirm, amongst other things, (i) the due incorporation, valid and continued existence of the members of the Target Group; (ii) members of the Target Group having obtained the approvals, consents, licences and/or permissions as required to conduct their business operations; (iii) the legality, validity and enforceability of all the licences, consents and permits obtained by members of the Target Group as required to conduct their business operations; (iv) the Sale Interests and the title and ownership of the assets of the Target Group from encumbrances; (v) members of the Target Group having obtained all necessary approvals and filings in respect of the Acquisition and the transactions contemplated thereunder; (vi) the Restructuring being legally completed and freed from encumbrances;
- (b) the Company having completed its due diligence over the business, assets, financial results material contracts, licenses, legal aspects and corporate structure of the Target Group, and being satisfied with the results of the due diligence in its absolute discretion;
- (c) no events having occurred which may result in any material adverse effect on the financial performance, business or assets, operating results or business prospects the Target Group between the date of latest audited accounts of the Target Company and Completion;
- (d) all warranties given by the Vendor being true, accurate and not misleading at all time between the date of the Acquisition Agreement and Completion;
- (e) the Company having obtained a valuation report from an independent valuer, in form and substance satisfactory to the Company in its absolute discretion, showing that the fair value of the Target Group is not less than HK\$150,000,000;
- (f) the Company having paid the First Earnest Money and the Second Earnest Money; and
- (g) the parties having complied with all applicable requirements under the Listing Rules, and/or having completed, obtained and fulfilled all necessary approvals, notices and clearances of any relevant regulatory authorities or other relevant third parties as required in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder, if applicable.

The Company and the Vendors shall use its reasonable endeavours to procure that all Conditions above are satisfied on or before 9 June 2020 (the “**Long Stop Date**”). The Company may at its sole discretion waive any of the above Conditions (a) to (e) and Condition (g) at any time by written notice to the Vendors; whilst the vendors may at their sole discretion waive the above Condition (f).

If the Conditions are not fulfilled or waived before the Long Stop Date (or such other date as the parties may agree in writing), the Sale and Purchase Agreement shall lapse and become null and void and the parties shall be released from all obligations thereunder save for liabilities for any antecedent breaches thereof.

Put Option

The Vendors also granted to the Company an option (the “**Put Option**”) under the Sale and Purchase Agreement conferring the right to the Company to require the Vendors to purchase all of the Sale Interests, which the Company may exercise within the period beginning on the date of the Completion and ending on the 30th business day after the determination date of the last Guaranteed Period (or such date as determined in writing by the Board, but subject to the Listing Rules) (the “**Exercise Period**”) if:

- (a) the Actual Profit is less than half of the amount of the Guaranteed Profit or the Actual Loss is recorded in respect of the relevant Guaranteed Period, save for the occurrence of any force majeure events as agreed between the parties; or
- (b) the Guaranteed IP Right in respect of the relevant Guaranteed Period is not fulfilled, save for the occurrence of any force majeure events as agreed between the parties; or
- (c) there occur material outstanding liability(ies), breach(es) and/or non-compliance(s) in relation to the Target Group during the Exercise Period.

The consideration payable by the Vendors pursuant to the sale and purchase of the Sale Interest upon the exercise of the Put Option by the Company (the “**Option Consideration**”) shall be the aggregate of (i) the Consideration; and (ii) the premium in the amount equals to the Consideration multiplied by the 10% annualised rate of return. If the Purchaser exercises the Put Option, completion of the sale and purchase of the Sale Interest shall take place no later than 21 business days after the receipt of the exercise notice from the Company by the Vendors.

The Option Consideration was arrived at after arms’ length negotiation between the Company and the Vendors with reference to (i) the principal amount of the Consideration payable by the Company; and (ii) the amount of capital which the Company may inject into the Target Group after Completion, which the Directors consider that are fair and reasonable and in the interests of the Company and Shareholders as a whole.

Guarantee by the Vendor Guarantors

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

Non-competition Undertaking by the Vendors and Vendor Guarantors

The Vendors and the Vendor Guarantors jointly and severally undertake that, for a period of three (3) years starting from the Completion, none of them nor the main management personnel of the Target Group shall engage or invest in any business or activity which is in potential or actual competition with the business of the Target Group, and covenant to indemnify the Company as a result of any failure of the Vendors, the Vendor Guarantors or the main management personnel of the Target Group to comply with the above; save from expressly disclosed by the Vendors and Vendor Guarantors where the Vendors and/or Vendors Guarantors' business involved in the usage of certain IP Rights as designated by the Company pursuant to the Guaranteed IP Rights provisions, the Vendors and/or Vendors Guarantors should seek prior written confirmation from the Company before using such IP Rights for its business(es).

Completion

Completion shall take place within ten Business Days after the day on which the last Condition is fulfilled or waived or such other date as the parties may agree in writing.

INFORMATION ON THE VENDORS AND VENDOR GUARANTORS

Massive Dynamic and Mr. Shao Chao

Massive Dynamic is a company incorporated in the British Virgin Islands with limited liability. Based on the information provided by the Vendors, Massive Dynamic is an investment holding company with its entire issued share capital legally and beneficially owned by Mr. Shao Chao. Mr. Shao Chao is a PRC citizen and has over 5 years of experience in operating and managing intellectual properties-related businesses in the PRC.

Shen Garden and Mr. Shen Kan

Shen Garden is a company incorporated in the British Virgin Islands with limited liability. Based on the information provided by the Vendors, Shen Garden is an investment holding company with its entire issued share capital legally and beneficially owned by Mr. Shen Kan. Mr. Shen Kan is a PRC citizen and has over 5 years of experience in operating and managing intellectual properties-related businesses in the PRC.

INFORMATION OF THE TARGET GROUP

The Target Company

The Target Company is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the date of this announcement, the Target Company is owned as to 60% by Massive Dynamic and as to 40% by Shen Garden.

Matsu Gami (HK)

Matsu Gami (HK) is an investment holding company incorporated in Hong Kong with limited liability. As at the date of this announcement, Matsu Gami (HK) is wholly owned by the Target Company.

Flourish Bright

Flourish Bright is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the date of this announcement, Flourish Bright is wholly owned by the Target Company.

Wind & Wave Culture

Wind & Wave Culture is an investment holding company incorporated in Hong Kong with limited liability. As at the date of this announcement, Wind & Wave Culture is wholly owned by Flourish Bright.

Matsu Gami (Shanghai)

Matsu Gami (Shanghai) is a limited liability company established in the PRC and is principally engaged in the business of, inter alia, the provision of food and beverage corporate management services. As at the date of this announcement, Matsu Gami (Shanghai) is owned as to 80% by Matsu Gami (HK) and as to 20% by Wind & Wave Culture.

Shanghai Shinobi

Shanghai Shinobi is a limited liability company established in the PRC and is principally engaged in the business of, inter alia, the provision of food and beverage catering services (through branch entities). As at the date of this announcement, Shanghai Shinobi is owned as to 90% by Matsu Gami (Shanghai) and as to 10% by Ms. Zhao Yingli.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the equity owners of the members of the Target Group and their ultimate beneficial owners is a third party independent of and not connected with the Company and its connected persons.

Financial Information of the Target Group

After the completion of the Restructuring, Matsu Gami (Shanghai) and Shanghai Shinobi shall be the operating subsidiaries of the Target Group. As Matsu Gami (Shanghai) and Shanghai Shinobi were not part of the Target Group until October and November 2019 respectively, no consolidated financial statements have been prepared by the Target Group.

Matsu Gami (Shanghai)

Set out in the below are the unaudited financial information of Matsu Gami (Shanghai) for the two financial years ended 31 March 2018 and 31 March 2019 and for the seven months ended 31 October 2019 (based on the management accounts of Matsu Gami (Shanghai)):

	For the year ended 31 March 2018	For the year ended 31 March 2019	For the seven months ended 31 October 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Approximately (unaudited)</i>	<i>Approximately (unaudited)</i>	<i>Approximately (unaudited)</i>
Revenue	5,534	3,105	616
Loss before tax	(141)	(647)	(2,023)
Loss after tax	(141)	(1,273)	(2,023)

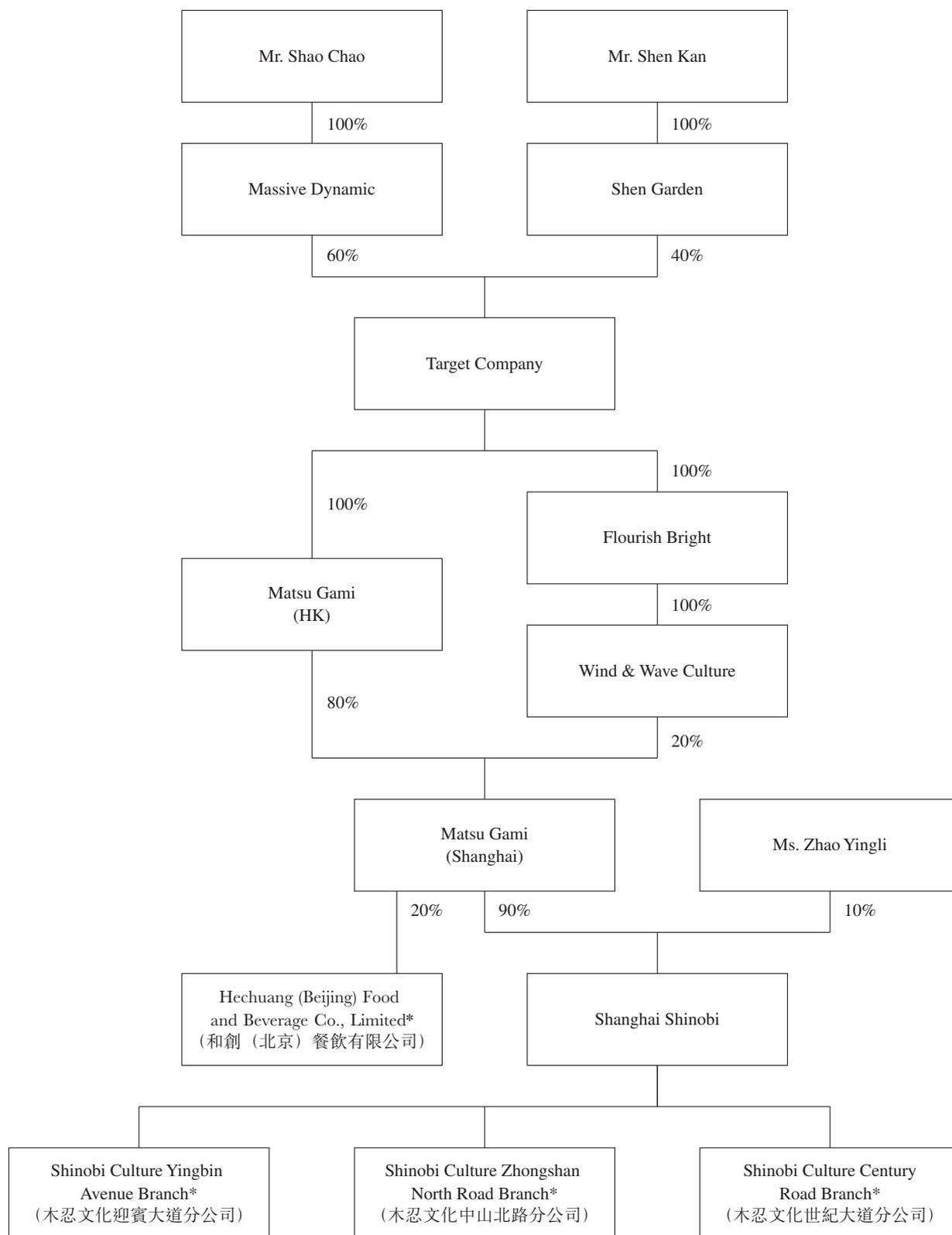
Shanghai Shinobi

Set out in the below are the unaudited financial information of Shanghai Shinobi for the period ended 31 March 2019 (starting from its date of establishment on 18 July 2018) and for the seven months ended 31 October 2019 (based on the management accounts of Shanghai Shinobi):

	For the period ended 31 March 2019	For the seven months ended 31 October 2019
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Approximately (unaudited)</i>	<i>Approximately (unaudited)</i>
Revenue	1,411	7,898
Loss before tax	(1,300)	(283)
Loss after tax	(1,300)	(283)

GROUP STRUCTURE OF THE TARGET GROUP

Upon completion of the Restructuring, the Target Group shall manage and operate restaurant(s) with themes based on certain intellectual properties in the PRC. As at the date of this Announcements, the shareholding structure of the Target Group upon the completion of the Restructuring is as follows:



REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the provision of (i) foundation construction; (ii) ground investigation services; (iii) financial services; and (iv) trading of beauty and skin care products.

As mentioned in the annual report of the Group for the year ended 31 March 2019 and the interim results of the Group for the six months ended 30 September 2019, the Group reported a net loss of approximately HK\$55 million and approximately HK\$19 million, respectively. With the view that the growth of the overall foundation industry in Hong Kong will continue to slow down in the coming years and in order to maintain a stable and sustainable development of the Group's existing businesses as well as diversify and expand the Group's businesses at the same time, the Company has been actively seeking cooperation and investment opportunities with high-potential companies in the emerging industries in the PRC.

In recent years, IP Rights licensing industry have developed rapidly in PRC. In addition to exploiting the core content of the IP Rights through movies, television series, animations and games, Chinese companies as licensees of the IP Rights maximizes the overall value by also expanding to the downstream derivative market of the IP Rights in the PRC, including manufacturing IP Rights-related toys, clothings and food and beverages, as well as operating and managing IP Rights-themed exhibitions, theme park, hotel and catering services. Accordingly, the scale of consumer demand and revenue sources generated through the commercialisation of the IP Rights have significantly expanded.

The market size of the IP Rights-related derivative products in the PRC has shown continuous growth in line with the increase in average consumption power of its people. According to the statistics of the National Bureau of Statistics, China's per capita disposable income increased from RMB18,310 in 2013 to RMB28,228 in 2018, representing a compound annual growth rate (the "CAGR") of 9.04%. At the same time, the retail sales of IP authorised goods in China has been experiencing a year-on-year increase of 14.6% and reached RMB85.6 billion in 2018, according to China Licensing Industry Report 2019* (2019中國品牌授權行業發展白皮書) issued by China Toy and Juvenile Products Association* (中國玩具和嬰童用品協會); whilst cartoon and anime themed restaurants in the PRC has also been experiencing a CAGR of 15.13% with its market size increased from RMB0.82 billion in 2014 to RMB1.44 billion in 2018 and expected to further increase by approximately 15.53% in 2019, according to Research and development trend report on China Japanese-style cartoon character-themed restaurant in 2019* (2019年中國日式卡通人物主題餐廳市場調查及發展趨勢研究報告) as prepared by Beijing Huaqi Guoxing Information Technology Co., Limited* (北京華企國興資訊科技有限公司).

Keen to leverage on the rapid expansion to the downstream derivative market in the PRC, the Board entered into negotiations with the Vendors in respect of the potential cooperation and investment opportunities in relation to the Target Group, of which its management team has strong connection with well-known IP Rights owners/licensees and its members was authorised to operate businesses using certain well-known IP Rights. As such, the Board is of the view that the entering into of the Sale and Purchase Agreement would allow the Group to utilise the expertise and business connection of the Target Group which enables the Group to access to more business and investment opportunities in the PRC and diversify its revenue stream by taking part in China's market of derivative products and services as derived from well-known IP Rights. Having considered above, the Directors are of the view that the terms and conditions of the Sale and Purchase Agreement (including the Consideration, the Guaranteed Profits and the Guaranteed IP and the Put Option) is fair and reasonable and the entering into of the Sale and Purchase Agreement is in the interest of the Group and the shareholders of the Company as a whole.

IMPLICATIONS UNDER THE LISTING RULES

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

DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Sale Interests by the Company from the Vendors pursuant to the terms and conditions of the Sale and Purchase Agreement
“Board”	the board of Directors
“Company”	Wan Kei Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Stock Exchange with stock code 1718
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
“connected person(s)”	having the meaning ascribed to it under the Listing Rules

“Directors”	the directors of the Company
“Flourish Bright”	Flourish Bright International Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by the Target Company
“Group”	the Company and its subsidiaries from time to time
“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
“Massive Dynamic”	Massive Dynamic Venture Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Shao Chao (邵超)
“Matsu Gami (HK)”	Matsu Gami Culture Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by the Target Company
“Matsu Gami (Shanghai)”	上海松神餐飲管理有限公司 (Shanghai Matsu Gami Food & Beverage Management Co., Limited*), a limited liability company established in PRC and is owned by Matsu Gami (HK) and Wind & Wave Culture
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of PRC
“Restructuring”	the restructuring of the Target Group
“Sale and Purchase Agreement”	the sale and purchase agreement entered into amongst the Company (as purchaser), the Vendors and the Vendor Guarantors dated 10 December 2019 in relation to the Acquisition
“Sale Interests”	51% of the issued share capital of the Target Company proposed to be acquired by the Company from the Vendors under the Acquisition

“Shanghai Shinobi”	上海木忍文化發展有限公司 (Shanghai Shinobi Cultural Development Co., Limited*), a limited liability company established in PRC and is owned by Matsu Gami (Shanghai) and Ms. Zhao Yingli (趙英莉)
“Share(s)”	Ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	Holder(s) of the Share(s)
“Shen Garden”	Shen Garden Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Shen Kan (沈侃)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Matsu Gami IP Development Limited, a company incorporated in the British Virgin Islands with limited liability and is owned by Massive Dynamic and Shen Garden
“Target Group”	the Target Company and its subsidiaries from time to time
“Vendors”	Massive Dynamic and Shen Garden
“Vendor Guarantors”	collectively, Mr. Shao Chao and Mr. Shen Kan
“Wind & Wave Culture”	Wind and Wave Culture Limited, a company incorporated in Hong Kong with limited liability and is wholly owned by Flourish Bright
“%”	per cent

By order of the Board
Wan Kei Group Holdings Limited
YAN SHUAI
Chairman

Hong Kong, 10 December 2019

As at the date of this announcement, the executive Directors are Mr. Yan Shuai, Mr. Zhang Zhenyi, Mr. Chan Kwan and Mr. Zhu Jiayu; the non-executive Director is Mr. Fong Hon Hung; and the independent non-executive Directors are Mr. Lo Wa Kei Roy, Mr. Leung Ka Fai Nelson and Mr. Qin Fen.

* For identification purposes.