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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)

2ND SUPPLEMENTAL AGREEMENT, ESCROW AGREEMENT AND COMPLETION OF THE DISCLOSEABLE TRANSACTION

Reference is made to the announcement (the “**Announcement**”) of Wan Kei Group Holdings Limited (the “**Company**”) dated 10 December 2019 in relation to the proposed acquisition of 51% of the issued share capital of Matsu Gami IP Development Limited (the “**51% Shares Interest**”); and the announcement of the Company dated 9 June 2020 extending the Long Stop Date for fulfilling the Conditions of the acquisition of the 51% Shares Interest. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

The Board wishes to announce that on 4 September 2020 (after trading hours), (a) the Company, the Vendors and the Vendor Guarantors entered into a supplemental agreement (the “**2nd Supplemental Agreement**”) to supplement and amend the terms of the Sale and Purchase Agreement; and (b) the Company, the Vendors and DL Securities (HK) Limited (“**DL Securities**”) entered into an escrow agreement (the “**Escrow Agreement**”) to appoint DL Securities as the escrow agent (the “**Escrow Agent**”) to hold and disburse the remaining balance of the Consideration payable by the Company upon Completion under the Sale and Purchase Agreement (the “**Escrow Amount**”) pursuant to the Escrow Agreement.

2ND SUPPLEMENTAL AGREEMENT

The principal terms of the 2nd Supplemental Agreement are as follows:

Date

4 September 2020 (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).

The Acquisition

Pursuant to the 2nd Supplemental Agreement, the Company conditionally agreed to purchase, and the Vendors conditionally agreed to sell, 35% of the issued share capital of the Target Company (the “**35% Shares Interest**”) for a total consideration of HK\$41,475,000.

Consideration

Pursuant to the 2nd Supplemental Agreement, the total consideration for the Acquisition is HK\$41,475,000 (the “**Consideration**”), which shall be paid by the Company 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 was already paid within 10 business days after the signing of the Sale and Purchase Agreement (the “**Second Earnest Money**”); and
- (c) the remaining balance in the amount of HK\$21,475,000, which is payable upon Completion to the escrow account maintained by the Escrow Agent pursuant to the terms and conditions of the Escrow Agreement.

The Consideration for the Acquisition pursuant to the 2nd Supplemental Agreement was arrived at after arm’s length negotiations between the Company and the Vendors, taking into account (i) the valuation of the Target Group of approximately HK\$151,000,000 as at 31 August 2019 as assessed by LCH (Asia-Pacific) Surveyors Limited (the “**Independent Valuer**”); (ii) the 35% Shares Interest to be acquired by the Company upon Completion; (iii) the amount of HK\$11,025,000, being the discount on lack of control of approximately 21% (which was determined having taken into account the control premium as the 12-month median referenced in the Control Premium Study (2nd Quarter 2019) published by Factset Mergerstat LLC); and (iv) the results of due diligence performed.

The Guaranteed Profits and the Guaranteed IP Rights

The relevant provisions of the Guaranteed Profits and the Guaranteed IP Rights (as amended and supplemented by the 2nd Supplemental Agreement) are set in the following table:

Guaranteed Periods	Guaranteed Profits	Guaranteed IP Rights	Determination Dates
1 April 2020 to 31 March 2021 (“ 2020-2021 Guaranteed Period ”)	HK\$10,000,000	At least one IP Right as designated by the Company	31 July 2021 (instead of 31 August 2021) (“ 1st Determination Date ”)
1 April 2021 to 31 March 2022 (“ 2021-2022 Guaranteed Period ”)	HK\$20,000,000	At least one IP Right as designated by the Company	31 July 2022 (instead of 31 August 2022) (“ 2nd Determination Date ”)

Put Option and Call Option

In addition to the Put Option granted to the Company, the Vendors granted the Company a call option (the “**Call Option**”) under the 2nd Supplemental Agreement conferring the right to the Company to require the Vendors to sell the 16% of the issued share capital of the Target Company, which the Company may exercise within the periods either (i) beginning on the date of the 1st Determination Date and ending on the 30th business day thereafter; or (ii) beginning on the date of the 2nd Determination Date and ending on the 30th business day thereafter, if:

- (a) the Target Group having achieved the Guaranteed Profits of HK\$10,000,000 and obtained at least one Guaranteed IP Right for the 2020-2021 Guaranteed Period as determined on the 1st Determination Date; or
- (b) if condition (a) is not fulfilled, the Target Group having achieved the Guaranteed Profits of HK\$20,000,000 and obtained at least one Guaranteed IP Right for the 2021-2022 Guaranteed Period as determined on the 2nd Determination Date.

The consideration payable by the Company upon the exercise of the Call Option by the Company (“**Call Option Consideration**”) shall be HK\$35,025,000. The Call Option Consideration was arrived after arm’s length negotiation between the Company and the Vendors by taking into account the difference between the consideration originally payable for the acquisition of 51% Shares Interest minus the Consideration payable for the acquisition of 35% Shares Interest.

If the Company exercises the Put Option or the Call Option (as the case may be), the completion of the sale and purchase of such interest (the “**Option Completion**”) shall take place no later than 21 business days after the receipt of the exercise notice from the Company by the Vendors, unless the exercise of the Put Option or the Call Option (as the case may be) by the Company and the transactions contemplated thereunder are subject to 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 (the “**Option Condition**”), in which case the Option Completion shall take place within ten (10) business days from the fulfilment of the Option Condition (or such other date as the parties may agree in writing).

The Company and the Vendors shall use its reasonable endeavours to procure that the Option Condition is satisfied within one (1) year from the date of the exercise notice issued from the Company (the “**Option Long Stop Date**”). The Option Condition is not waivable under any circumstances.

If the Option Condition is not fulfilled before the Option Long Stop Date (or such other date as the parties may agree in writing), such exercise of the Put Option or the Call Option (as the case may be) 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.

Save as disclosed above, all other principal terms and conditions of the Sale and Purchase Agreement and the 1st Supplemental Agreement as set out in the Announcement shall remain unchanged.

ESCROW AGREEMENT

The principal terms of the Escrow Agreement are as follows:

Date

4 September 2020 (after trading hours)

Parties

- (i) the Company (as purchaser);
- (ii) the Vendors (i.e. Massive Dynamic and Shen Garden); and
- (iii) the Escrow Agent (i.e. DL Securities).

Subject matter

Pursuant to the Escrow Agreement, the parties agreed to appoint DL Securities as the Escrow Agent and the Escrow Agent agreed to hold and disburse the Escrow Amount pursuant to the terms of the Escrow Agreement. The Escrow Amount will be paid into escrow account(s) maintained by the Escrow Agent and, after deducting the Compensation Amount (if any) according to the Sale and Purchase Agreement, will be released by the Escrow Agent to the Vendors in accordance with the joint instructions from the Company and the Vendors upon determination of the Guaranteed Profits and the Guaranteed IP Rights for the 2020-2021 Guaranteed Period and 2021-2022 Guaranteed Period. The Escrow Agreement shall terminate upon distribution or transfer by the Escrow Agent of the Escrow Amount held by it pursuant to the joint instructions of the Company and Vendors.

INFORMATION OF THE ESCROW AGENT

The Escrow Agent, is a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, each of the Escrow Agent and its ultimate beneficial owners is a third party independent of and not connected to the Company, the Vendors and their respective connected persons.

FINANCIAL INFORMATION OF THE TARGET GROUP

Set out in the below are the unaudited financial information of Matsu Gami (Shanghai) and Shanghai Shinobi for the year ended 31 March 2020 based on their management accounts:

	Matsu Gami (Shanghai)	Shanghai Shinobi
	For the year ended 31 March 2020	For the year ended 31 March 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Approximately (unaudited)</i>	<i>Approximately (unaudited)</i>
Revenue	1,917	14,861
Net profit/(loss) after taxation	(632)	87
	As at 31 March 2020	As at 31 March 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Approximately (unaudited)</i>	<i>Approximately (unaudited)</i>
Net asset value	1,341	3,599

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE 2ND SUPPLEMENTAL AGREEMENT AND THE ESCROW AGREEMENT

As disclosed in the Announcement, the Board considers 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.

However, shortly after the signing of the Sale and Purchase Agreement, an epidemic associated with a novel coronavirus (the “**COVID-19 Outbreak**”) started to spread worldwide. In order to prevent further spreading of the COVID-19 Outbreak, the relevant PRC government authorities imposed strict quarantine measures and announced lockdowns of more than 80 cities throughout China which severely impact the food and beverage catering industry in China. Although the food and beverage catering industry in China has been showing signs of gradual recovery with the total revenue in July 2020 being 89% of the corresponding period of last year according to the National Bureau of Statistics of China, the Company continues to closely monitor the business and financial performance of the Target Group amid the COVID-19 Outbreak, and the Company has engaged in active discussions with the Vendors since the COVID-19 Outbreak to review the terms of the Acquisition in order to further safeguard the interests of the Company and its Shareholders.

The Company is of the view that the terms under the 2nd Supplemental Agreement allows the Company to (i) have additional time (at least one year and up to two years) to obtain further financial data of the Target Group, and observe the business and expansion plan as well as the operation and financial situation of the Target Group, in particular the impact of the COVID-19 Outbreak has on the business of the Target Group; and (ii) ascertain that the Target Group could reach the Guaranteed Profit and the Guaranteed IP Right before exercising the Call Option to commit to pay the amount for the 16% of the issued share capital of the Target Company and the control premium, as the Directors believe that the relevant Guaranteed Periods would be most crucial to the Target Group with its expansion plan and business suffer the most from the COVID-19 Outbreak during such period.

In addition, to guarantee the Vendors and/or the Vendor Guarantors to fulfil their payment obligations under the Sale and Purchase Agreement, the Company and the Vendors appointed the Escrow Agent to hold and disburse the Escrow Amount pursuant to the terms of the Escrow Agreement. The Escrow Amount of HK\$21,475,000, which would be released by the Escrow Agent according to the joint instruction by the Company and the Vendors, allows the Company to ensure the Vendors and/or the Vendor Guarantors have the financial resources to pay the respective Compensation Amount in the event that the Target Group does not record any Actual Profit either for the 2020-2021 Guaranteed Period or for the 2021-2022 Guaranteed Period.

Having considered the above, the Directors considered that the terms and conditions of the 2nd Supplemental Agreement (including the Consideration, the Call Option and the Call Option Consideration) and the Escrow Agreement are fair and reasonable, and the entering into of the 2nd Supplemental Agreement and the Escrow Agreement would allow the Company to further safeguard the interests of the Company and its Shareholders as the whole.

VALUATION

The Group engaged the Independent Valuer to assess the market value of the entire issued share capital of the Target Company as at 31 August 2019 (the “**Appraised Asset**”). According to the valuation report issued by the Independent Valuer dated 4 September 2020 (the “**Valuation Report**”), the Independent Valuer adopted the income-based approach using discounted cash flow method involving projections of profits, earnings and cash flows, which are regarded as profit forecasts under Rule 14.61 of the Listing Rules (the “**Profit Forecast**”). Pursuant to Rule 14.62(1) of the Listing Rules, the principal assumptions, including commercial assumptions, upon which the Profit Forecast is based, are detailed as follows:

General Assumptions

1. The legally interested party in the Appraised Asset has free and uninterrupted rights to assign the Appraised Asset (a part of or the whole of) for the whole of the unexpired terms as granted under the relevant approvals and any premiums/administrative costs payable have already been fully paid;
2. All the required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can readily be obtained or renewed on which the valuation (the “**Valuation**”) contained in the Valuation Report is based;
3. The legally interested party in the Appraised Asset has adequate working capital to operate the business of the Target Company from time to time;
4. The Appraised Asset can be sold in the market in its existing state without the benefit of a deferred terms contract, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the Appraised Asset;
5. The management of the Target Company has adopted reasonable and necessary security measures and has considered several contingency plans against any disruption (such as change of government policy and labour dispute) to the normal business of the Target Company;
6. The Appraised Asset can be freely disposed and transferred free of all encumbrances for its existing uses in the market to both local and overseas purchasers without payment of any premium to the government; and
7. The financial forecast of the Target Group can be achieved according to the projection prepared by the Target Group’s management, in particular the timely completion of the expected expansion plan of the Target Group.

Major inputs and parameters adopted in the Valuation

1. The adopted discount rate of 15% was referenced to the weighted average cost of capital (“WACC”) of the Target Group, in which the cost of equity was arrived by the capital asset pricing model using market and financial data of comparable companies with similar business to the Target Company that are listed in Hong Kong, and adjusted by the additional size premium and specific risk premium. The size premium was referenced to Duff & Phelps Cost of Capital Navigator.
2. The long term growth rate of 2% was referenced to the historical and forecasted change in consumer price index in China from the year 2012 to the year 2021. The cash flows beyond the forecasted period were extrapolated using the long term growth rate in the calculation of the terminal value.
3. The discount on lack of marketability of approximately 30% was sourced from the Mergerstat Review published by Factset Mergerstat LLC.

Financial Forecast Adopted

The five-year financial forecast (the “**Financial Forecast**”) is prepared by the Target Group. The Directors, the Independent Valuer, DL Securities (as financial advisor to the Company) and Zhonghui Anda CPA Limited (“**Zhonghui**”) (as reporting accountants to the Company) have reviewed the basis, assumptions and calculation adopted in the Financial Forecast including revenue, costs of goods sold, operating and administrative costs and the adjustments made to reflect the impact of the COVID-19 Outbreak. Set out below are details of key basis and assumptions used in Financial Forecast:

(A) **Revenue**

- (a) The forecasted revenue is mainly derived from:
 - (i) revenue from catering services of stores directly-operated by the Target Group, which was arrived based on the number of seats, average per capita consumption, the average turnover rate and the number of operating days of the directly-operated stores;
 - (ii) IP authorisation revenue from stores jointly-operated by the Target Group and cooperative partners and franchise stores, which was arrived based on the proposed authorisation fee from jointly-operated stores and franchise stores and the estimated number of jointly-operated stores and franchise stores to be opened according to the Target Group’s expansion plan; and

- (iii) sales of raw materials to franchise stores, which was arrived based on the historical consumption level of raw materials by existing stores, the expected profit margin from the sales and the estimated number of franchise stores to be opened according to the Target Group's expansion plan. Upon opening of the franchise stores, additional raw materials (two to three months) are expected to be used for inventory and employee training purposes.
- (b) During the year ended 31 March 2020 (“FY2020”), the Target Group has directly-operated stores and jointly-operated stores in Beijing and Shanghai. Pursuant to the Target Group's expansion plan covering FY2020 to the year ending 31 March 2024 (“FY2024”), the total estimated number of directly-operated stores, jointly-operated stores and franchise stores in relation to the Naruto IP opened by the end of 31 March 2024 are 3, 17 and 130, respectively, which is expected to expand to over ten (10) key areas in China (including Sichuan, Zhejiang and Fujian).
- (c) The estimated number of jointly-operated stores and franchise stores to be opened under the Target Group's expansion plan for the FY2020-FY2024 projection period was arrived based on:
 - (i) the number of agreements signed or to be signed with cooperative partners, regional agents (whom would procure at least five (5) franchisees to enter into franchise agreements to operate the franchise stores under the Target Group's business model) and franchisees in relation to jointly-operated stores and franchise stores; and
 - (ii) the estimated timing for the first batch of franchise stores to be opened on or around mid-September 2020, having considered the latest signing schedule with the regional agents and franchisees and the completion of the franchise operation filings to the relevant PRC authorities in mid-August 2020.
- (d) For the year ending 31 March 2022, the monthly revenue generated from directly-operated stores will be adjusted downwards by adopting an average of 15% decrease during the three (3) years subsequent to the estimated peak year ending 31 March 2021, having considered the decrease in popularity of the relevant IP Rights and stores and taken into account the fluctuations as impacted by normal economic and business cycle in the domestic and global market after such adjustment.

(B) Share of profit from associates

- (a) Share of profit from associates from jointly-operated stores, which was arrived based on the number of seats, average per capita consumption, the average turnover rate, the number of operating days, the percentage of share owned by the Target Group of the jointly-operated stores and the estimated number of jointly-operated stores to be opened according to the Target Group's expansion plan.

(C) Cost and expenses

- (a) For directly-operated stores, the forecasted cost and expenses mainly comprise of:
- (i) rent, cost of good sold in relation to the catering services, depreciation of fixed assets and renovation costs, which were arrived based on historical data of the directly-operated stores;
 - (ii) staff and labour costs, which were arrived based on historical data and the estimated number of employees required for the directly-operated stores; and
 - (iii) the amortisation of the IP authorisation payment to the owner of the Naruto IP Rights (the “**IP Owner**”), which were arrived based on the authorisation contract entered into with the IP Owner.
- (b) For jointly-operated stores, the forecasted cost and expenses mainly comprise of estimated travel, conference and accommodation expenses required for promoting and initiating cooperation with cooperative partners.
- (c) For franchise stores, the forecasted cost and expenses mainly comprise of (i) estimated travel, conference and accommodation expenses required for promoting and initiating cooperation with franchisees; and (ii) the estimated IP authorisation fee to the IP Owner, which was estimated based on the on-going negotiations with the IP Owner.

(D) Impact of the COVID-19 Outbreak

The management of the Target Group made the following adjustments to reflect the impact brought about by the COVID-19 Outbreak on the Target Group:

- (a) For directly-operated stores and jointly-operated stores, the historical operation and financial figures from February 2020 to April 2020 were adopted in the Financial Forecast, with a downward adjustment of the forecasted revenue thereafter with gradual recovery (which was based on the historical data of directly-operated stores); and
- (b) For the franchise stores, no adjustment(s) was made to the forecasted revenue and the expansion plan as the franchise stores would not start operation until mid-September 2020, and the impact of the COVID-19 Outbreak on the food and catering industry in China was estimated to start recovering from March 2020 based on publicly available information.

The Directors consider the Financial Forecast to be fair and reasonable based on their investigations and analysis, including independent research conducted on the expansion plan of similar Japanese fast-food chains in China and on the impact of COVID-19 Outbreak on the food and catering industry in China with publicly available information.

Zhonghui, acting as the Company's reporting accountants, has reviewed the principal accounting policies adopted in and the calculations of the discounted future estimated cash flow forecast on which the Valuation Report was based. Zhonghui has reported to the Directors that, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the assumptions adopted by the Directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group.

DL Securities, the financial adviser to the Company, has reviewed the Profit Forecast, discussed with the management of the Company regarding the bases and assumptions upon which the Profit Forecast has been made to arrive at the Valuation, and considered the report from Zhonghui dated 4 September 2020. DL Securities has confirmed that it is satisfied that the Profit Forecast has been made by the Directors after due and careful enquiry.

Pursuant to Rule 14.60A of the Listing Rules, a report from Zhonghui dated 4 September 2020 in compliance with Rule 14.62(2) of the Listing Rules and a letter from DL Securities dated 4 September 2020 in compliance with Rule 14.62(3) of the Listing Rules have been submitted to the Stock Exchange, the texts of which are included in Appendix I and Appendix II to this announcement, respectively.

The following are the qualifications of the experts who have given their opinion and advice included in this announcement:

Name	Qualification
Zhonghui Anda CPA Limited	Certified Public Accountants
DL Securities (HK) Limited	A licenced corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
LCH (Asia-Pacific) Surveyors Limited	Professional Surveyors

As at the date of this announcement, each of the above-mentioned experts does not have any shareholding, directly or indirectly, in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the above-mentioned experts has given and has not withdrawn its written consent to the publication of this announcement with inclusion of its report and all reference to its name in the form and context in which it is included.

COMPLETION

The Board is pleased to announce that all the Conditions under the Sale and Purchase Agreement have been fulfilled and the Completion took place on 4 September 2020 in accordance with the terms and conditions of the Sale and Purchase Agreement.

DEFINITIONS

“1st Supplemental Agreement”	the supplemental agreement dated 9 June 2020 entered into between the Company, the Vendors and the Vendor Guarantors extending the Long Stop Date for fulfilling the Conditions
“Acquisition”	the proposed acquisition of the 35% Shares Interest 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

“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
“Long Stop Date”	9 September 2020, or such other date as the parties may agree in writing
“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 (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 an indirect wholly owned subsidiary of the Target Company
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“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, as supplemented and amended by the Supplemental Agreements
“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
“Supplemental Agreements”	collectively, the 1st Supplemental Agreement and the 2nd Supplemental Agreement
“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
“%”	per cent

By order of the Board
Wan Kei Group Holdings Limited
Yan Shuai
Chairman

Hong Kong, 4 September 2020

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

* *For identification purposes*

APPENDIX I – REPORT FROM REPORTING ACCOUNTANTS

4 September 2020

The Board of Directors
Wan Kei Group Holdings Limited
Unit No. 901, 9/F., Capital Centre
No. 151 Gloucester Road,
Wanchai, Hong Kong

Dear Sirs,

We have examined the principal accounting policies adopted in and the calculations of the discounted cash flow forecast (the “Forecast”) underlying the valuation (the “Valuation”) as at 31 August 2019 prepared by LCH (Asia-Pacific) Surveyors Limited of Matsu Gami IP Development Limited (the “Target Company”) and its subsidiaries (collectively referred as to the “Target Group”) in relation to the proposed acquisition of (i) 35% of the issued share capital of the Target Company and (ii) an option to acquire additional 16% of the issued share capital of the Target Company by Wan Kei Group Holdings Limited (the “Company”) (the “Transaction”). The Valuation, based on the discounted future cash flows, is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”)

Directors’ Responsibilities

The directors of the Company are solely responsible for the preparation of the Forecast and the reasonableness and validity of the assumptions based on which the Forecast is prepared (the “Assumptions”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 14.62(2) of the Listing Rules, on the accounting policies and calculations of the Forecast based on our procedures and to report our opinion solely to you, as a body, solely for the purpose in connection with the Transaction and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Forecast in accordance with the Assumptions adopted by the directors and as to whether the Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Company and its subsidiaries (collectively referred as to the “Group”). Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

The Assumptions include hypothetical assumptions about future events and management actions that may or may not necessarily be expected to occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Accordingly we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled in accordance with the Assumptions adopted by the directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group.

Yours faithfully,

ZHONGHUI ANDA CPA Limited

Certified Public Accountants Hong Kong

APPENDIX II – LETTER FROM FINANCIAL ADVISOR

4 September 2020

The Board of Directors
Wan Kei Group Holdings Limited
Room 901, 9/F, Capital Centre
No. 151 Gloucester Road,
Wanchai, Hong Kong

Dear Sirs,

Discloseable transaction – valuation of entire equity interest of Matsu Gami IP Development Limited (the “Target Company”) and its subsidiaries (collectively, the “Target Group”) in relation to the acquisition of 35% equity interest in the Target Company

Reference is made to the announcement of the Company dated 10 December 2019 and 4 September 2020 (the “**Announcements**”) in respect of the acquisition of Matsu Gami IP Development Limited. Unless defined otherwise, capitalised terms used in this letter shall have the same meaning as ascribed to them in the Announcements.

We refer to the projection of the future cash flows of the Target Group, which were prepared preliminary on a discounted cash flow basis provided by the management of the Group, underlying the valuation prepared by LCH (Asia-Pacific) Surveyors Limited (the “**Valuer**”) in relation to the valuation of the business of the Target Group as at 31 August 2019 (the “**Valuation**”). The Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

The Valuation, for which the directors of the Company (the “**Directors**”) are solely responsible, has been prepared based on, among other things, the projection of the future cash flows of the Target Group provided by the management of the Group (the “**Profit Forecast**”).

We have reviewed the Profit Forecast upon which the Valuation has been made and discussed with you on the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 4 September 2020 addressed to you from ZHONGHUI ANDA CPA Limited (“**Zhonghui**”) regarding its opinion on the discounted future estimated cash flows of the Valuation is based which, so far as the calculations are concerned, have been properly compiled in accordance with the bases and assumptions determined by the Directors in the Valuation.

On the basis of the foregoing and on the bases and assumptions made by you and the calculations adopted by you and reviewed by Zhonghui, we have formed the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry. However, we express no opinion on whether the actual cash flows would eventually be achieved in correspondence with the Profit Forecast. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Our work in connection with the Profit Forecast has been undertaken solely for the strict compliance with Rule 14.62 of the Listing Rules and for no other purposes.

Yours faithfully,

DL Securities (HK) Limited