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NEW CONCEPTS HOLDINGS LIMITED

創業集團（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2221)

UPDATE ON THE DISCLOSEABLE TRANSACTION OF ACQUISITION OF 51% OF THE ISSUED SHARE CAPITAL OF CLEAR INDUSTRY COMPANY LIMITED INVOLVING ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Reference is made to the announcements (the “**Announcements**”) of the Company dated 2 November 2016, 29 June 2017, 29 March 2018, 24 June 2019 and 22 November 2019. Capitalised terms used herein shall have the same meanings as those defined in the Announcements unless the context requires otherwise.

BACKGROUND

As set out in the Announcements, the Purchaser (an indirect wholly-owned subsidiary of the Company), the Vendor and the Warrantor entered into the Acquisition Agreement in relation to, among others, the Purchaser’s acquisition of 1,275,000 ordinary shares (the “**Sale Shares**”) in Clear Industry Company Limited (the “**Target Company**”) (representing 51% equity interest therein) on 2 November 2016.

Pursuant to the Acquisition Agreement, the Purchaser should pay a total consideration of RMB87,975,000 (approximately HK\$100,990,000) which should be settled as of RMB43,987,500 by cash and as of RMB43,987,500 by 18,982,992 consideration shares (the “**Consideration Shares**”) issued by the Company. Such Consideration Shares were subject to a lock-up period (the “**Lock-up Period**”) already expired on the later of (i) the end of the financial year 2019 or (ii) the 20th business day after the issue of the audited net profit attributable to shareholders of the Target Company for the financial year of 2019 (the “**Special Audit**”). As at the date of this announcement, an amount of RMB7,987,500 of the said cash consideration was still outstanding.

Pursuant to the Acquisition Agreement, the Vendor undertook that the audited net profits after tax and attributable to shareholders of Suzhou Clear Industry and Clear Industry (Shanghai) (subsidiaries of the Target Company) for each of the financial years ended 31 March 2017, 2018 and 2019 shall be RMB20 million, RMB30 million and RMB40 million (the “**Profit Guarantee**”). In the event the Profit Guarantee could not be fulfilled, the Vendor shall compensate (the “**Compensation**”) the shortfall between the Profit Guarantee and the consideration under the Acquisition Agreement to the Purchaser (or its nominee) in the following order: (1) cash; (2) the Consideration Shares; and (3) the shares of the Target Company. The maximum amount of the Compensation shall not exceed the total consideration under the Acquisition Agreement.

Based on the Special Audit, the Target Group recorded an average loss for the three financial years ended 31 March 2019 and therefore the Profit Guarantee could not be fulfilled. Accordingly, the Compensation payable by the Vendor and the Warrantor should be RMB87,975,000 (approximately HK\$100,990,000), being the total consideration under the Acquisition Agreement.

After completion of the Special Audit, the Group has been negotiating with the Vendor and the Warrantor on the settlement of the Compensation.

On 28 May 2020, the parties have compromised on the settlement proposal on the Compensation of RMB87,975,000 and entered into the settlement agreement (the “**Settlement Agreement**”) detailed below.

SETTLEMENT AGREEMENT

The principal terms of the Settlement Agreement are set out as follows:

Date: 28 May 2020 (after trading hours of the Stock Exchange)

Parties: the Purchaser;
the Vendor;
the Warrantor; and
the Target Company.

Return of Sale Shares:

The Purchaser conditionally agreed to return the Sale Shares to the Vendor, representing 51% of the total issued share capital of the Target Company.

Disposal of Consideration Shares:

The Vendor will, within 6 months from the date of the Settlement Agreement (or other dates as agreed by the parties in writing), dispose the Consideration Shares to any transferee(s) who is not the Company, the Purchaser or any of their connected persons, and arrange the transferee(s) to deposit the relevant proceeds to the bank account designated by the Purchaser.

Cash Refund:

The cash refund of the Sale Shares is RMB36,000,000, which shall be paid by the Vendor to the Purchaser in the following manner:

- (i) 1st installment of RMB5,000,000 shall be paid within 5 business days from the date of the Settlement Agreement by bank transfer;
- (ii) 2nd installment of RMB3,000,000 shall be paid within 90 days from the date of the Settlement Agreement by bank transfer;
- (iii) 3rd installment of RMB8,000,000 shall be paid within 6 months from the date of the Settlement Agreement by bank transfer;
- (iv) 4th installment of RMB10,000,000 shall be paid within 12 months from the date of the Settlement Agreement by bank transfer and such amount shall be set off with the Consideration Shares Exceeding Balance (if any); and
- (v) 5th installment of RMB10,000,000 shall be paid within 18 months from the date of the Settlement Agreement by bank transfer, such amount shall be set off with other outstanding balance owed by the Purchaser to the Target Group, subject to verification and confirmation by the relevant parties.

The refund is determined by the cash consideration of RMB43,987,500 under the Acquisition Agreement minus the outstanding consideration of RMB7,987,500 payable by the Purchaser to the Vendor under the Acquisition Agreement.

Upon payment of the refund in full, the Vendor and the Warrantor's obligation to pay the Compensation under the Acquisition Agreement shall be deemed as fulfilled.

Security for payment:

As security for the full payment of the refund, the shareholder of the Vendor shall pledge 51% of the Vendor's equity interest in favour of the Purchaser on the Completion Date (as defined below) of the Settlement Agreement. Such pledge shall be released within 3 business days after the full payment of the refund.

Conditions Precedent:

Completion of the Settlement Agreement and the transfer of the Sale Shares shall take place on the 3rd business day (the “**Completion Date**”) upon fulfillment of all the following conditions:

- (i) The Purchaser having received the 1st installment of the refund of RMB5,000,000;
- (ii) The board of directors of the Vendor having approved the disposal of the Consideration Shares to any transferee(s) who is not the Company, the Purchaser or any of their connected persons, and to apply all the proceeds for settlement of the Compensation;
- (iii) The board of directors of each of the Purchaser and the Vendor having approved the Settlement Agreement and the transactions contemplated thereunder;
- (iv) The Purchaser and the Vendor having signed the written confirmation on the settlement of the Purchaser’s outstanding consideration of RMB7,987,500 under the Acquisition Agreement; and
- (v) The Purchaser and/or the Company having complied with all requirements under the applicable laws, regulations and the Listing Rules, and obtained relevant consent or approval from the Shareholders, the Stock Exchange and any other regulatory authorities in respect of the Settlement Agreement and the transactions contemplated thereunder (if applicable).

None of the above conditions precedent can be waived by any party to the Settlement Agreement.

Completion:

The Purchaser shall transfer the Sale Shares to the Vendor on the Completion Date.

Upon completion of the Settlement Agreement, the Company will no longer hold any equity interest in the Target Company and the Target Company shall cease to be a subsidiary of the Company.

REASONS FOR AND BENEFITS OF THE SETTLEMENT AGREEMENT

The Settlement Agreement enables the Compensation matter comes to an end, while the return of Sales Shares allowing the management of the Group and the Target Company to focus more effectively on each of its existing business.

Having considered the various factors which have impacted the business environment, among others, the social events in Hong Kong and coronavirus in China and other global regions, the Directors are in the view that such Settlement Agreement would be of the Company’s best interest to strengthen the Group’s financial position and liquidity.

In light of the above, the Directors (including all independent non-executive Directors) consider that the terms of the Settlement Agreement are fair and reasonable, the transaction thereunder is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE SETTLEMENT AGREEMENT

After the completion of the Settlement Agreement, the Group will no longer hold any equity interest in the Target Company and the Target Company will cease to be a subsidiary of the Company. Based on the management accounts as of 31 March 2020 and assuming all the Consideration Shares to be disposed at the Company's closing price as of the date of this announcement, completion of the Settlement Agreement may result in an unaudited gain of approximately HK\$31,717,000 (before taxation) (before taking into account of professional costs and other incidental expense associated with the Settlement Agreement) and no significant change in foreign exchange fluctuating at the actual settlement date.

The actual gain or loss on the Settlement may be different from the above and will be determined based on the financial position of the Company on the date of Completion and the review by the Company's auditors upon finalisation of the consolidated financial statements of the Group.

The Company intends to apply the final proceeds (after deducting related expenses and costs) from the Settlement Agreement for general working capital.

By Order of the Board
New Concepts Holdings Limited
Cai Jianwen
Executive Director

Hong Kong, 28 May 2020

As at the date of this announcement, the executive Directors are Mr. Zhu Yongjun, Ms. Qin Shulan, Mr. Cai Jianwen and Mr. Lee Tsi Fun Nicholas; the non-executive Director is Dr. Zhang Lihui; and the independent non-executive Directors are Mr. Lo Chun Chiu, Adrian, Dr. Tong Ka Lok and Mr. Choy Wai Shek, Raymond, MH, JP.