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)

SUPPLEMENTAL ANNOUNCEMENT UPDATE ON THE DISCLOSEABLE AND CONNECTED TRANSACTION SETTLEMENT AGREEMENT IN RELATION TO 51% OF THE ISSUED SHARE CAPITAL IN CLEAR INDUSTRY COMPANY LIMITED

Reference is made to the announcements (the "**Announcements**") of the Company dated 2 November 2016, 29 June 2017, 29 March 2018, 24 June 2019, 22 November 2019 and 28 May 2020. 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 of the Vendor 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) 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) by cash and 18,982,992 consideration shares (the "**Consideration Shares**") issued by the Company at HK$2.66 each. As at the date of this announcement, an amount of RMB7,987,500 of the said cash consideration was still outstanding (the "**Outstanding Consideration**").

On the other hand, the Vendor undertook that the audited net profits after tax and attributable to shareholders of Suzhou Clear Industry (a subsidiary of the Target Company) for each of the financial years ended 31 March 2017, 2018 and 2019 (the "**Profit Guarantee Period**") should meet the respective target amount (the "**Profit Guarantee**"), failing which 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). Since the Profit Guarantee for each of the financial years 31 March 2019 could not be met, the Compensation payable by the Vendor and the Warrantor was RMB87,975,000, being the total consideration under the Acquisition Agreement.

On 28 May 2020, the Purchaser, the Vendor, the Warrantor and the Target Company entered into the Settlement Agreement, pursuant to which the parties agreed to resolve the aforesaid dispute over the Outstanding Consideration and the Compensation by, among others, the Purchaser returning the Sale Shares to the Vendor, while the Vendor paying the Purchaser a cash refund of RMB36,000,000 and the cash proceeds from the disposal of the Consideration Shares.

CLASSIFICATION OF THE TRANSACTION UNDER THE SETTLEMENT AGREEMENT

After publication of the announcement in relation to the Settlement Agreement on 28 May 2020, it has come to the Company's awareness that the arrangement under the Settlement Agreement, apart from variating the original terms of the Acquisition Agreement, constitutes a discloseable disposal transaction under Chapter 14 of the Listing Rules taking into account the Sale Shares would be transferred from the Group to the Vendor, and the percentage ratios applicable to such transfer.

SUPPLEMENTAL INFORMATION TO THE DISCLOSEABLE TRANSACTION

As the arrangement under the Settlement Agreement constitutes a discloseable disposal transaction, the Company hereby restates and supplements information in relation to the Settlement Agreement pursuant to the requirements under Chapter 14 of the Listing Rules as follows:

THE 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.

Purchaser's Obligations:

(I) 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.

Vendor's Obligations:

(I) 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.

(II) Cash Refund:

The cash refund of 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.

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.

As at the date of this announcement, the Vendor has already paid the 1st instalment of RMB5,000,000 to the Purchaser.

Basis of the Return of the Sale Shares by the Purchaser, and the Disposal of the Consideration Shares and the Cash Refund by the Vendor

Due to non-fulfillment of the Profit Guarantee, the Vendor and the Warrantor are obliged to pay to the Purchaser the Compensation equivalent to the total consideration of RMB87,975,000 payable by the Purchaser under the Acquisition Agreement, which comprise (i) cash consideration of RMB43,987,500; and (ii) the Consideration Shares in the value of RMB43,987,500.

In respect of the settlement of (i) the cash consideration of RMB43,987,500, since the Purchaser has not yet paid the Outstanding Consideration of RMB7,987,500, such amount was deducted from the settlement of the cash consideration and therefore the Vendor shall pay a cash refund of RMB36,000,000 (being RMB43,987,500 minus RMB7,987,500) to the Purchaser.

In respect of the settlement of (ii) the Consideration Shares, as stipulated in the section headed "*9. Performance Commitment*" in the announcement dated 2 November 2016, if the Compensation is paid by the Consideration Shares, such returned Consideration Shares shall be calculated at the issue price of HK$2.66 each (regardless of the subsequent market Share price movement). As such, the Vendor would have fully settled (ii) the Consideration Shares in the amount of RMB43,987,500 by returning all the Consideration Shares to the Company. However, having considered the Group's needs of enhancing its liquidity for the reasons as set out in the section headed "*Reasons for and Benefits of the Settlement Agreement*" below, the Company believes the arrangement of requiring the Vendor to dispose the Consideration Shares and return the proceeds to the Group will be comparatively beneficial than returning the Consideration Shares to the Company for cancellation.

In respect of the return of the Sale Shares, since the Target Company recorded a net liabilities as at 31 March 2020 and the Company was unable to seek for independent buyer to acquire the Sale Shares despite various attempts due to the poor financial performance of the Target Company and downturn of economic environment under the pandemic, the fair value of the Sale Shares was minimal or almost nil. On the other hand, the return of the Sale Shares has in effect exchanged for the Vendor's waiver of its right to counter-claim against the Group for the Outstanding Consideration of RMB7,987,500 under the Acquisition Agreement. As such, the Company is of the view that the return of the Sale Shares is in the benefit of the Company and the Shareholders as a whole.

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.

INFORMATION OF THE TARGET COMPANY

The Target Company, Clear Industry Company Limited, is a limited company incorporated in Hong Kong which has 4 subsidiaries incorporated in the PRC. The Target Company together with its subsidiaries (the "**Target Group**") principally engages in the business of trading, EPC of kitchen waste treatment, water treatment and provision for other environmental improvement solutions systems. As at the date of this announcement, the Target Company is owned as to 51% by the Purchaser and 49% by the Vendor.

The financial information of the Target Company based on its consolidated financial statements for the three financial years ended 31 March 2020 prepared in accordance with Hong Kong Financial Reporting Standards are set out as follows:

	For the financial year ended 31 March		
	2018	**2019**	**2020**
	(audited)	**(audited)**	**(unaudited)**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	9,402	7,037	42,450
(Loss)/profit before taxation	(16,265)	(9,696)	2,054
(Loss)/profit after taxation	(14,222)	(10,016)	2,054

As at 31 March 2020, the unaudited net liabilities of the Target Company amount to approximately HK$939,000.

INFORMATION OF THE GROUP, THE VENDOR AND THE WARRANTOR

The Company is a limited company incorporated in the Cayman Islands which principally engages in investment holding. The principal activities of its subsidiaries comprise construction works in Hong Kong and environmental protections.

The Purchaser, Max Charm (Hong Kong) Limited, is a limited company incorporated in Hong Kong which is indirectly wholly-owned by the Company. It principally engages in investment holding.

The Vendor, Qingqin International Group Limited, is a limited company incorporated in Hong Kong which principally engages in investment holding. The ultimate beneficial owner of the Vendor is Mr. Qi Kai (戚愷), a PRC citizen who is also the Warrantor to the Acquisition Agreement, and is also the director of the Target Company and certain of its subsidiaries.

Save for the Vendor and the Warrantor is the substantial shareholder in the Target Company (a non wholly-owned subsidiary of the Company), each of the Vendor and the Warrantor is a party independent of the Company.

REASONS FOR AND BENEFITS OF THE SETTLEMENT AGREEMENT

The Company has taken into accounts the following factor when determining to enter into the Settlement Agreement:

(1) Financial performance of the Target Company

As depicted from the financial information of the Target Company disclosed in the section headed "*Information on the Target Company*" above, the overall financial performance of the Target Company was disappointing. For both the financial years ended 31 March 2018 and 2019, it had suffered loss of approximately RMB14 million and 10 million, respectively.

Although the Target Group's recorded a profit instead of loss in the year ended 31 March 2020, its financial performance, in substance, had not really been improved to a satisfactory level. It was only able to maintain a breakeven level and recorded a net profit of approximately RMB2.1 million for the financial year ended 31 March 2020, and such net profit may be offset by the damages payable by the Target Group to a third party customer under a judgment made by the relevant People's Court of the PRC in May 2020, according to which resulting from the quality of equipment provided by the Target Group to a third party customer, and the Court ordered the Target to pay a damages of approximately RMB2.6 million.

Moreover, notwithstanding the improvement in revenue of the Target Group for the financial year ended 31 March 2020, the net profit margin was extremely low, and its asset size has been shrinking substantially owing to the huge cumulated losses for the financial years ended 31 March 2018 and 2019. As at 31 March 2020, the Target Company recorded an unaudited consolidated net liabilities of approximately HK$939,000, which indicated a going concern problem of the Target Group as it may be difficult for it to support its own operation and business with such limited cash flow on hand. Besides, given the current market environment and the economic downturn due to Covid-19, the Company considers the prospects of the Target Group to be highly uncertain and doubtful.

Taking into account the stagnant financial performance of the Target Group as well as its net liability position, it is expected that the cessation of the Target Group as subsidiaries of the Group upon completion of the Settlement Agreement, so that the Group will no longer be required to consolidate the financial statements of the Target Group into its own accounts, would improve the financial position of the Group.

(2) Future Cooperation with the Vendor

Despite the Group owns 51% in the Target Company and controls the majority of its board, the Vendor is still the 49% owner of the Target Company. During the 3-year Profit Guarantee Period, daily operation of the Target Group was mainly delegated to the Vendor and the employees who have been working with the Vendor prior to the entering of the Acquisition Agreement.

If the Group does not enter into the Settlement Agreement and return the Sale Shares to the Vendor, but determines to continue the cooperation with the Vendor in the Target Company while at the same time pursue the full Compensation from the Vendor and the Warrantor; it can be foreseen that there may be increasing conflicts and disputes between the Group and the Vendor, and it will be further difficult for the Group to unify the existing management of to improve the Target Group's business, not to mention also that the Vendor will likely to be unwilling to provide necessary financial support to the Target Group based on its shareholding proportion in light of the net liability position of the Target Company as discussed above. All these would further increase the uncertainties on and dim the Target Group's future prospects, and will immediately and directly disturb the daily operations and business of the Target Group, and in turn creating inevitable adverse impact on the Group.

On the other hand, the entering of the Settlement Agreement can help to avoid further lengthy negotiations which would just damage the working relationship and create increasing conflicts between the Group and the Vendor.

(3) Alternative Resolutions

The Company has considered and attempted to resolve the disputes arising from the Acquisition Agreement through alternative means by selling the Sale Shares to other independent buyers and commencing legal proceeding against the Vendor and the Warrantor.

Since September 2019, the Company has approached a few potential independent buyers of the Sale Shares. Nevertheless, given the Target Group's poor financial record, its existing shareholding and management structures, no buyer expressed a keen interest in purchasing the Sale Shares and proceeded with further negotiations with the Company. Given the outbreak of Covid-19 later in late 2019 and the downturn of the overall economy, it is even more difficult for the Company to solicit potential independent buyers.

Further, pursuant to the Company's PRC legal advisor, should the Company selects to commence legal proceeding against the Vendor and the Warrantor for the Compensation, the outcome would be highly uncertain since the Vendor and the Warrantor may also rebut their liability and counter-claim the Purchaser for the Outstanding Consideration which has yet paid to the Vendor pursuant to the

Acquisition Agreement. Besides, such proceedings shall require significant amount of time and resources, during which the Group would be unable to transfer any of the Sale Shares but to continue to operate the Target Group with the Vendor. Such continued cooperation is expected to further worsen the performance of the Target Group as its shareholders are opposing parties in legal proceedings.

(4) Business Environment and Financial Position of the Group

Apart from the Target Group's financial situation and the relationship with the Vendor, the Company also evaluated the business environment, the social events in Hong Kong and the Covid-19 pandemic, as well as the Group's financial position and liquidity in the decision making process of entering into the Settlement Agreement. In particular, the followings:

(i) Blockage of traffic in substantial areas from time to time during the financial year ended 31 March 2020 has caused reduction of allowable working hours and disruption of delivery of resources, leading to the increase in overall operating costs of the Group's construction business;

(ii) Progress of construction works and relevant certification work were delayed due to Covid-19 pandemic, resulting in delayed payments collection by the Group, thus the Group's overall cost management and cash control have to be further tightened;

(iii) The Group's revenue from kitchen waste treatments plunged in the first quarter of 2020 due to city lockdown, shut-down of restaurants and school resulting from the quarantine arrangements during the Covid-19 pandemic; and

(iv) Delay in convening the annual meeting of the National People's Congress due to Covid-19 pandemic has led to delay in approval of the municipal fiscal budget, and thereby affecting the receipts of kitchen waste treatment fees by the Group.

As disclosed in the Company's unaudited annual results announcement dated 29 June 2020 Group recorded an increase of around HK$200 million in the loss attributable to the Shareholders as compared to that of HK$92.6 million in the prior financial year. To revive the Group's future performance, the Company considers that its management and the Group should focus its resources on the existing businesses and other new business opportunities (if any) with development potentials. The entering of the Settlement Agreement and the return of the Sales Shares to the Vendor contemplated thereunder can allow the Group to achieve the aforesaid goal and avoid wasting further time and resources on the management of the Target Group. In addition, as mentioned above, the cessation of the Target Group as subsidiaries of the Company upon completion of the Settlement Agreement may improve the financial position of the Group.

Further, the entering of the Settlement Agreement enables the Company to enhance its short term liquidity by the receipt of the RMB36,000,000 cash refund from the Vendor within next 18 months, and approximately HK$4.8 million (assuming all the Consideration Shares are disposed at the closing Share price as of 28 May 2020, the date of the Settlement Agreement) within 6 months.

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 Target Group's 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.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Target Company, a non wholly-owned subsidiary of the Company, is owned as to 49% by the Vendor, which is in turn controlled by the Warrantor. Accordingly, the Vendor and the Warrantor are substantial shareholders of the Target Company and connected persons of the Company at subsidiary level, and the transactions under the Settlement Agreement constitutes a connected transaction. By virtue of Rule 14A.101 of the Listing Rules, since (1) the Vendor and the Warrantor are connected persons at subsidiary level, (2) the Board has approved the transaction under the Settlement Agreement; and (3) all independent non-executive Directors have confirmed that the terms of the Settlement Agreement are fair and reasonable and the Settlement Agreement is on normal commercial terms or better and in the interests of the Company and its shareholders as a whole, the transaction under the Settlement Agreement is subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the transaction under the Settlement Agreement exceeds 5% but are less than 25%, the transaction under the Settlement Agreement constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

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

Hong Kong, 29 July 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 Directors are Dr. Ge Xiaolin and 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.