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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 PROVISION OF FINANCIAL ASSISTANCE IN 2020

Reference is made to the announcements of the Company on 10 December 2019, 9 June 2020 and 4 September 2020 in relation to the Company's acquisition of the issued share capital of the Target Company (the "**Announcements**"). Unless otherwise defined, capitalised terms used herein shall bear the same meanings as those defined in the Announcements.

Pursuant to the 2nd Supplemental Agreement, HK\$21,475,000 (the "**Escrow Amount**"), being part of the Consideration for the acquisition of the 35% Shares Interest, shall be held by DL Securities as the Escrow Agent in the escrow accounts maintained by DL Securities (the "**Escrow Accounts**") and released by DL Securities 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.

On 27 November 2020, Mr. Yan Shuai, the Chairman and executive Director of the Company ("**Mr. Yan**") acting on behalf of the Company, and the Vendors signed joint instructions for early release of the Escrow Amount to the Vendors to subscribe for the Promissory Notes (as defined below).

The early release of the Escrow Amount to the Vendors constitutes financial assistance to the Vendors ("**Financial Assistance**") and therefore constitutes a discloseable transaction under Rule 14.06(2) of the Listing Rules, as one or more of the applicable percentage ratios of the Financial Assistance exceeds 5% but all are less than 25%. The Financial Assistance is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

BACKGROUND

On 10 December 2019, the Company, the Vendors (i.e. Massive Dynamic and Shen Garden), the Vendor Guarantors (i.e. Mr. Shao Chao and Mr. Shen Kan) entered into the Sale and Purchase Agreement (the “**Sale and Purchase Agreement**”), pursuant to which the Company agreed to acquire 51% of the issued share capital of the Target Company from the Vendors at a total consideration of HK\$76,500,000. The same parties then entered into the 1st Supplemental Agreement and the 2nd Supplemental Agreement on 9 June 2020 and 4 September 2020, respectively, to vary and supplement certain terms of the Sale and Purchase Agreement, which includes, amongst others, the reduction of the percentage of sale interest to be acquired by the Company from 51% of the total issued share capital of the Target Company to 35%; and the Consideration was reduced from HK\$76,500,000 to HK\$41,475,000 accordingly.

Pursuant to the 2nd Supplemental Agreement, the Escrow Amount, being part of the Consideration, shall be held by DL Securities in the Escrow Accounts and released by DL Securities 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.

EARLY RELEASE OF THE ESCROW AMOUNT AND FINANCIAL ASSISTANCE TO THE VENDORS

In or around late April 2021, in the course of the Group’s financial auditing, it was discovered that the Escrow Amount was replaced by two promissory notes issued by Moon Ace Limited (“**Moon Ace**”), a company incorporated in the British Virgin Islands, in the principal amount of HK\$12,885,000 and HK\$8,590,000, respectively (the “**Promissory Notes**”).

Upon enquiry with Mr. Yan, the Vendors and the Vendor Guarantors, it was discovered that:

- (1) On 18 November 2020, each of the Vendors subscribed for the Promissory Notes. Pursuant to the terms and conditions of the relevant subscription agreements and the Promissory Notes, Moon Ace shall pay interest accruing for the period from the issue date of the Promissory Notes to the maturity date at 2% per annum of the principal amount. The Promissory Notes are redeemable on request by delivery of a redemption notice (the “**Redemption Notice**”) by the noteholders;
- (2) On 27 November 2020, the Vendors and Mr. Yan (purportedly for and on behalf of the Company) signed the joint instructions (the “**Joint Instructions**”) for DL Securities to release the Escrow Amount to purchase the Promissory Notes;
- (3) The Promissory Notes were issued by Moon Ace to the Vendors on 27 November 2020. The Promissory Notes were then deposited into the Escrow Accounts;

- (4) No written agreement (other than the Joint Instructions) was entered into in relation to the Financial Assistance provided to the Vendors;
- (5) Mr. Yan has not informed the board of directors of the Company (the “**Board of Directors**”) of either the early release of Escrow Amount or the Financial Assistance to the Vendors, until being enquired by the Company in late April 2021; and
- (6) Upon enquiry by the Company, Mr. Yan explained that prior to the release of the Escrow Amount, he received legal advice to the effect that the Promissory Notes are cash equivalent, as the Promissory Notes are redeemable on demand and therefore readily convertible into cash. Accordingly, Mr. Yan firmly believed that the release of the Escrow Amount to purchase the Promissory Notes (for the purpose of replacing the cash in the Escrow Accounts) was in the interests of the Company and its shareholders as a whole by utilising the idle cash in the Escrow Accounts which may enable the Group to earn interest accrued under the Promissory Notes.

Upon discovery of the early release of the Escrow Amount and the Financial Assistance, the Company immediately requested the Vendors to repay the Escrow Amount and the interest accrued into the Escrow Accounts.

On 20 May 2021, each of the Vendors issued a Redemption Notice to Moon Ace requesting for repayment of a total amount of HK\$21,679,747.95, being the aggregate outstanding principal amount and the accrued interest under the Promissory Notes up to 20 May 2021.

On 22 June 2021, the Company, the Vendors and DL Securities entered into a supplemental escrow agreement (the “**Supplemental Escrow Agreement**”), pursuant to which upon receipt of HK\$21,679,747.95, DL Securities shall hold such amount in escrow and shall only disburse such amount (or any part of it) in accordance with the joint instructions signed by two executive Directors of the Company and the Vendors, such joint instructions to be issued pursuant to the provisions of the Supplemental Escrow Agreement, under which the Company may be entitled to the interest accrued on the Promissory Notes.

On 23 June 2021, the Vendors deposited HK\$21,679,747.95 into the Escrow Accounts. Accordingly, no loss has been suffered by the Company.

REASONS AND BENEFITS FOR THE EARLY RELEASE OF THE ESCROW AMOUNT, THE FINANCIAL ASSISTANCE AND THE ENTRY INTO THE SUPPLEMENTAL ESCROW AGREEMENT

Mr. Yan firmly believed that the Promissory Notes are cash equivalent and the early release of the Escrow Amount and the Financial Assistance to the Vendors would enable the Company to have an opportunity to earn interest under the Promissory Notes, which is not available if the Escrow Amount sits as idle cash in the Escrow Accounts.

The Board of Directors consider that the entry into the Supplemental Escrow Agreement provides certainty to the circumstances in which the Company may be entitled to interest accrued under the Promissory Notes. The Board of Directors believes that the terms of the Supplemental Escrow Agreement are arrived at after arm's length negotiation, fair and reasonable and in the interests of the shareholders of the Company as a whole.

INFORMATION OF THE GROUP

The Group is principally engaged in providing (i) foundation construction; (ii) ground investigation services; (iii) financial services (this segment include investment, financing and money lending services); and (iv) trading of beauty and skin care products.

INFORMATION OF THE VENDORS AND THE ESCROW AGENT

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.

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.

DL Securities

DL Securities (i.e. 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 (Cap 571).

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of Massive Dynamic, Shen Garden and the Escrow Agent and their respective ultimate beneficial owners is a third party independent of and not connected to the Company and its connected persons.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in relation to the Financial Assistance exceeds 5% but all are less than 25%, the Financial Assistance constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Due to the failure of Mr. Yan to inform the Board of the early release of the Escrow Amount and the Financial Assistance, the Company has not complied with Rule 14.34 of the Listing Rules that the Financial Assistance has not been previously announced in a timely manner in accordance with the Listing Rules.

REMEDIAL MEASURES

At the time of the Financial Assistance, Mr. Yan was not aware that the Financial Assistance would constitute a notifiable transaction under the Listing Rules and thus did not consult any of the Company's professional advisers on a timely basis. The Company deeply regrets its delay in compliance with the Listing Rules but the Company would like to stress that the Financial Assistance was an isolated incident and the delay in compliance with the Listing Rules was inadvertent and unintentional. To prevent the re-occurrence of similar incidents in the future, the Company has engaged an internal control adviser to review the current internal control policies, to make suggestions to amend such policies and to implement a more robust internal control system. Moreover, the Company has arranged for professional advisers to provide additional training to Mr. Yan, with particular focus on the requirement in Chapters 14 and 14A of the Listing Rules.

Going forward, the Company will make appropriate disclosure in a timely manner to ensure compliance with the Listing Rules.

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

Hong Kong, 25 June 2021

As at the date of this announcement, the executive Directors are Mr. Yan Shuai, Mr. Chan Kwan and Mr. Zhu Jiayu; the non-executive Directors are Mr. Zhang Zhenyi and Mr. Chui Kwong Kau; and the independent non-executive Directors are Mr. Lo Wa Kei Roy, Mr. Leung Ka Fai Nelson and Mr. Eric, Todd.