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Newtree Group Holdings Limited

友川集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1323)

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF THE REMAINING 80% OF THE ISSUED SHARE CAPITAL OF ALPHA YOUTH LIMITED

Joint Financial Adviser to the Company


Optima Capital Limited

MESSIS  **大有融資**

THE ACQUISITION

On 27 September 2019 (after trading hours of the Stock Exchange), the Purchaser, a wholly-owned subsidiary of the Company, issued an Option Notice to the Vendor to exercise the Call Option to acquire the remaining 80% of the issued share capital of the Target. Upon the exercise of the Call Option, the Purchaser and the Vendor entered into the Acquisition Agreement, pursuant to which, among other things, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to procure South Sunrise to sell, the Sale Shares, which represent 80% of the issued share capital of the Target as at the Completion Date, at the Consideration of RMB368,074,400 (equivalent to HK\$408,562,584) (subject to adjustment).

The Consideration shall be satisfied as follows: (i) as to HK\$20,000,000 shall be payable by the Purchaser (or its designated corporation) to the Vendor (or its nominee(s)) in cash as the Deposit within ten (10) Business Days upon signing of the Acquisition Agreement; (ii) as to HK\$50,000,000 shall be payable by the Purchaser (or its designated corporation) to the Vendor (or its nominee(s)) in cash upon Completion; (iii) as to HK\$160,000,000 shall be payable by the allotment and issue of 320,000,000 Consideration Shares at the issue price of HK\$0.50 per Share by the Company to the Vendor (or its nominee(s)) upon Completion; (iv) as to HK\$70,000,000 shall be payable by the issue of the Consideration CB at the Conversion Price of HK\$0.53 per Conversion Share by the Company to the Vendor (or its nominee(s)) upon Completion; and (v) as to the remaining balance of HK\$108,562,584 (subject to adjustment) shall be payable by the issue of three Promissory Notes in the respective principal amount of HK\$36,000,000, HK\$36,000,000 and HK\$36,562,584 by the Company to the Vendor (or its nominee(s)) upon Completion.

The Target Group is principally engaged in the production and sale of ready-mixed commercial concrete in Hainan Province, the PRC. Upon Completion, the Target will become an indirect wholly-owned subsidiary of the Company and the financial statements of the Target Group will be consolidated into the financial statements of the Enlarged Group.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company and is therefore subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules. The Consideration Shares and the Conversion Shares will be issued under the Specific Mandate.

LISTING COMMITTEE'S DECISION

The Listing Committee has determined that the Acquisition is an extreme very substantial acquisition which is **NOT** subject to reverse takeover rules. Enhanced disclosure comparable to the standard for listing documents for new listing applicants will be required in the Circular and Messis Capital Limited has been appointed as the financial adviser of the Company to conduct due diligence with reference to Practice Note 21 of the Listing Rules on the Target Group.

GENERAL

The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve among other matters, the Acquisition Agreement, the Acquisition and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares and the Conversion Shares. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition which is different from other Shareholders, and thus no Shareholder is required to abstain from voting at the EGM.

The Circular containing, among other things, (i) details of the Acquisition Agreement and the transactions contemplated thereunder; (ii) the financial information and other information of the Group; (iii) the financial information and other information of the Target Group and the PRC Group; (iv) the unaudited pro forma financial information of the Enlarged Group; (v) the valuation report of the Target Group; and (vi) a notice of the EGM and a form of proxy is expected to be despatched to the Shareholders on or before 31 December 2019 as additional time is required for preparing the information to be included in the Circular.

Completion is subject to fulfillment of the conditions precedent set out in the Acquisition Agreement, and the Acquisition may or may not proceed to Completion. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

INTRODUCTION

Reference is made to the circular of the Company dated 25 January 2018 (the “**2018 Circular**”) in relation to the Previous Acquisition. Upon completion of the Previous Acquisition on 15 February 2018, the Purchaser (a wholly-owned subsidiary of the Company) and the Vendor entered into an Option Deed, pursuant to which the Vendor granted the Call Option to the Purchaser.

Pursuant to the sale and purchase agreement in relation to the Previous Acquisition, the Vendor has irrevocably warranted and guaranteed to the Purchaser that:

- (i) the audited net profit after tax (excluding items which are one-off, non-operating in nature and not incur in the ordinary and usual courses of business) of the PRC Subsidiary for the year ended 31 December 2017, shall not be less than RMB42,000,000 (equivalent to approximately HK\$46,620,000) (the “**2017 Guaranteed Profit**”); and

- (ii) the audited net profit after tax (excluding items which are one-off, non-operating in nature and not incur in the ordinary and usual courses of business) of the PRC Subsidiary for the year ended 31 December 2018 shall not be less than RMB47,000,000 (equivalent to approximately HK\$52,170,000) (the “**2018 Guaranteed Profit**”).

As disclosed in the announcement of the Company dated 18 April 2018, it was confirmed that the amount of the audited net profit after tax of the PRC Subsidiary for the year ended 31 December 2017 exceeded the 2017 Guaranteed Profit. It was further disclosed in the announcement of the Company dated 18 April 2019 that the amount of the audited net profit after tax of the PRC Subsidiary for the year ended 31 December 2018 exceeded the 2018 Guaranteed Profit.

As a result of the achievement of the 2017 Guaranteed Profit and the 2018 Guaranteed Profit by the PRC Subsidiary and the factors as stated in the paragraph headed “Reasons for the Acquisition” below, the Board is pleased to announce that, on 27 September 2019 (after trading hours of the Stock Exchange), the Purchaser issued an Option Notice to the Vendor to exercise the Call Option to acquire the remaining 80% of the issued share capital of the Target.

Upon the exercise of the Call Option, the Purchaser and the Vendor entered into the Acquisition Agreement, pursuant to which, among other things, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to procure South Sunrise to sell, the Sale Shares, which represent 80% of the issued share capital of the Target as at the Completion Date, at the Consideration of RMB368,074,400 (equivalent to HK\$408,562,584). The Consideration will be subject to adjustment based on 80% of the final valuation of the Target Group which will be disclosed in the Circular.

Details of the terms and conditions of the Acquisition Agreement are set out below.

THE ACQUISITION AGREEMENT

Date: 27 September 2019 (after trading hours of the Stock Exchange)

Parties:

- (i) the Purchaser: Bright World Investment Limited (a wholly-owned subsidiary of the Company); and
- (ii) the Vendor: Mr. Zhou Feng Tang, who shall procure South Sunrise (a company wholly owned by the Vendor) to sell the Sale Shares to the Purchaser at Completion.

South Sunrise is an investment holding company and the principal assets of which is the 80% of the issued share capital of the Target.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Vendor and South Sunrise is an Independent Third Party.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to procure South Sunrise to sell, the Sale Shares. The Sale Shares shall represent 80% of the issued share capital of the Target as at the Completion Date.

Details of the Target Group are set out in the section headed "Information on the Target Group" below.

Consideration

As disclosed in the 2018 Circular, the exercise price of the Call Option shall be determined with reference to 80% of the valuation of the entire equity interest of the Target Group to be prepared by an independent professional valuer jointly appointed by the Purchaser and the Vendor at the time of the exercise of the Call Option (the "**Updated Valuation**").

In the event the Updated Valuation is more than 120% of the previous valuation of the entire equity interest of the Target Group as set out in Appendix V to the 2018 Circular (the "**Valuation Cap**"), being RMB601,332,000 (equivalent to approximately HK\$667,479,000), the exercise price of the Call Option should be capped to 80% of the Valuation Cap, being RMB481,065,600 (equivalent to approximately HK\$533,983,000).

In the event the Updated Valuation is less than 80% of the previous valuation of the entire equity interest of the Target Group as set out in Appendix V to the 2018 Circular (the "**Valuation Floor**"), being RMB400,888,000 (equivalent to approximately HK\$444,986,000), the Purchaser is entitled to serve the notice to the Vendor that it intends to exercise the Call Option at the exercise price equal to 80% of the Updated Valuation. However, the Vendor has the right to refuse the exercise of the Call Option by the Purchaser within five (5) Business Days after receiving such written notice. In the event the Updated Valuation is equal to the Valuation Floor, the exercise price of the Call Option should be 80% of the Valuation Floor, being RMB320,710,400 (equivalent to approximately HK\$355,989,000).

When the Purchaser and the Vendor entered into the Acquisition Agreement, it is further agreed that the Consideration will be subject to adjustment based on 80% of the final valuation of the Target Group which will be disclosed in the Circular.

As at the date of this announcement, based on a preliminary valuation of the entire equity interest of the Target Group prepared by Grant Sherman under market approach by using the Guideline Publicly Traded Company method, the Updated Valuation is RMB460,093,000 (equivalent to HK\$510,703,230) as at 30 June 2019. As such, the exercise price of the Call Option is RMB368,074,400 (equivalent to HK\$408,562,584).

The Consideration of RMB368,074,400 (which has been agreed by the Vendor and the Purchaser to be equivalent to HK\$408,562,584 based on the agreed RMB to HK\$ exchange rate of 1:1.11) (subject to adjustment based on 80% of the final valuation of the Target Group which will be disclosed in the Circular) shall be satisfied by the Purchaser in the following manner:

- (i) as to HK\$20,000,000 shall be payable by the Purchaser (or its designated corporation) to the Vendor (or its nominee(s)) in cash as a refundable deposit (the “**Deposit**”) within ten (10) Business Days upon signing of the Acquisition Agreement;
- (ii) as to HK\$50,000,000 shall be payable by the Purchaser (or its designated corporation) to the Vendor (or its nominee(s)) in cash upon Completion;
- (iii) as to HK\$160,000,000 shall be payable by the allotment and issue of 320,000,000 Consideration Shares at the issue price of HK\$0.50 per Share by the Company to the Vendor (or its nominee(s)) upon Completion;
- (iv) as to HK\$70,000,000 shall be payable by the issue of the Consideration CB at the Conversion Price of HK\$0.53 per Conversion Share by the Company to the Vendor (or its nominee(s)) upon Completion; and
- (v) as to the remaining balance of HK\$108,562,584 (subject to adjustment) shall be payable by the issue of three Promissory Notes in the respective principal amount of HK\$36,000,000, HK\$36,000,000 and HK\$36,562,584 by the Company to the Vendor (or its nominee(s)) upon Completion.

The Company intends to settle the cash portion of the Consideration and the settlement of the Promissory Notes when they fall due by internal resources and debt or equity fund raising such as issue of straight bonds, convertible bonds or placing of Shares. The Company intends not to conduct any equity fund raising which will result in a change of control of the Company or a change in the single largest shareholder of the Company. In the event any debt or equity fund raising activity materialises, the Company will make further announcement as and when appropriate.

The Promissory Notes in the principal amount of HK\$108,562,584 will be adjusted by the difference of the final Consideration and the Consideration of HK\$408,562,584 as disclosed in this announcement and the respective principal amount of the Promissory Notes will be adjusted accordingly.

Having considered the above factors and reasons as stated under the section headed “Reasons for the Acquisition”, the Directors consider that the Consideration is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

The Consideration Shares

The Consideration Shares represent:

- (i) approximately 12.75% of the issued share capital of the Company as at the date of this announcement; and
- (ii) approximately 11.31% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Vendor undertakes to the Purchaser that the Vendor will and will procure his agent and the companies controlled by him not to deal with or dispose of any of the Consideration Shares or create any encumbrances on any of the Consideration Shares during the six months since the Consideration Shares are allotted and issued.

The issue price of the Consideration Shares

The issue price of the Consideration Shares of HK\$0.50 each was determined with reference to the prevailing market price of the Shares and it represents:

- (i) a discount of approximately 3.8% to the closing price of HK\$0.52 per Share as quoted on the Stock Exchange as at the date of this announcement; and
- (ii) a discount of approximately 3.8% to the average closing price of HK\$0.52 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of this announcement.

The Consideration CB

Upon Completion, the Company will issue the Consideration CB to the Vendor (or its nominee(s)) to settle part of the Consideration.

Set out below is a summary of the principal terms of the Consideration CB:

| | |
|-------------------|--|
| Issuer: | The Company |
| Issue price: | 100% of the principal amount |
| Interest rate: | The Consideration CB shall bear no interest |
| Maturity date: | The date falling on the third anniversary of the date of issue of the Consideration CB |
| Principal amount: | HK\$70,000,000 |
| Security: | The obligations of the Company under the Consideration CB are unsecured |

| | |
|-------------------------------------|--|
| Conversion Price: | HK\$0.53 per Conversion Share, subject to adjustments for, among other matters, (i) consolidation or sub-division of Shares; (ii) capitalisation of profits or reserves; (iii) capital distribution; (iv) rights issues or grant of options or warrants to Shareholders to subscribe for Shares at a price which is less than the then market price of the Shares; (v) issue of new Shares or convertible or exchangeable securities at less than 90% of the then market price of the Shares; or (vi) issue of new Shares for the acquisition of asset at less than 90% of the then market price of the Shares |
| Conversion Shares: | Based on the principal amount of the Consideration CB of HK\$70,000,000, the Consideration CB is convertible to 132,075,471 Conversion Shares at the initial conversion price of HK\$0.53 (subject to adjustments) |
| Conversion Period: | The period commencing from the date of issue of the Consideration CB up to 4:00 p.m. (Hong Kong time) on the day immediately prior to and exclusive of the maturity date of the Consideration CB |
| Conversion rights and restrictions: | The holder of the Consideration CB shall, subject to compliance with the procedures set out in the terms and conditions thereunder, have the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the Consideration CB registered in its name into the Conversion Shares provided further that (i) any conversion shall be made in amounts of not less than a whole multiple of HK\$1,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Consideration CB is less than HK\$1,000,000, the whole (but not part only) of the outstanding principal amount of the Consideration CB may be converted; and (ii) the exercise of the conversion right attached to the Consideration CB will not cause the Company to be unable to meet the public float requirement under the Listing Rules |

- Ranking: The Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares in issue on the relevant conversion date including the right to all dividends or other distributions, paid or made on or after the relevant conversion date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be on or before the relevant conversion date
- Transferability: Subject to compliance with the Listing Rules, the Consideration CB may be transferred or assigned in whole or in part in integral multiples of HK\$1,000,000 by the Vendor to any party, save and except that the Consideration CB shall not be transferred to a connected person of the Company unless with the prior written consent of the Company
- Early redemption at the option of the Company: The Company shall be entitled at its sole discretion, by giving not less than seven (7) days' notice to the holders of the Consideration CB, propose to the holders to redeem the outstanding Consideration CB (in multiples of HK\$1,000,000 or such lesser amount as may represent the entire principal amount thereof) an amount equivalent to 100% of the principal amount of such outstanding Consideration CB at any time after the date of issue of the Consideration CB up to and including the date falling seven days immediately before the maturity date of the Consideration CB
- Voting rights: The Consideration CB shall not carry any voting rights
- Listing: No application will be made by the Company for the listing of the Consideration CB on the Stock Exchange. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares

The Conversion Shares

Upon full conversion of the Consideration CB, a maximum of 132,075,471 Conversion Shares will be issued.

The Conversion Shares represent:

- (i) approximately 5.26% of the issued share capital of the Company as at the date of this announcement; and
- (ii) approximately 4.46% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares.

The Conversion Price of the Conversion Shares

The Conversion Price of HK\$0.53 each was determined with reference to the prevailing market price of the Shares and it represents:

- (i) a premium of approximately 1.9% over the closing price of HK\$0.52 per Share as quoted on the Stock Exchange as at the date of this announcement; and
- (ii) a premium of approximately 1.9% over the average closing price of HK\$0.52 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of this announcement.

The allotment and issue of the Consideration Shares and the Conversion Shares will not result in a change of control of the Company.

The Consideration Shares and the Conversion Shares will be issued under the Specific Mandate to be sought from the Shareholders at the EGM. The Consideration Shares and the Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with the outstanding Shares in issue on the date of the allotment and issue of the Consideration Shares and the Conversion Shares.

An application for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares will be made by the Company to the Stock Exchange.

The Promissory Notes

Upon Completion, the Company will issue three Promissory Notes in the respective principal amounts of HK\$36,000,000, HK\$36,000,000 and HK\$36,562,584 to the Vendor (or its nominee(s)) to settle part of the Consideration.

Set out below is a summary of the principal terms of the Promissory Notes:

| | |
|-------------------|---|
| Issuer: | The Company |
| Principal amount: | HK\$36,000,000, HK\$36,000,000 and HK\$36,562,584 respectively (subject to adjustment) |
| Issue date: | Completion Date |
| Maturity date: | (i) Promissory Note in the principal amount of HK\$36,000,000 will mature in one year after the Completion Date; (ii) Promissory Note in the principal amount of HK\$36,000,000 will mature in two years after the Completion Date; and (iii) Promissory Note in the principal amount of HK\$36,562,584 will mature in three years after the Completion Date. |
| Interest rate: | 2% interest rate per annum, payable on the respective maturity dates |
| Security: | The obligations of the Company under the Promissory Notes are unsecured |

Early redemption: The Company may redeem all or part of the outstanding principal amount of the Promissory Notes together with the accrued but unpaid interest thereon at any time from the issue date up to the day immediately prior to the respective maturity dates by serving not less than ten (10) Business Days' prior written notice to the holders of the Promissory Notes, provided that each redemption shall be made in the principal amount of not less than HK\$1,000,000 (or the entire outstanding principal amount if the outstanding principal amount of the Promissory Notes is less than HK\$1,000,000)

Transferability: The Promissory Notes may be assigned or transferred to any persons other than a connected person of the Company

Conditions precedent

Completion is conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

- (i) the Purchaser being satisfied with the results of the due diligence review on the assets, liabilities, operations and affairs of the Target Group to be conducted by the Purchaser and/or its advisers and agents;
- (ii) all necessary consents and approvals required to be obtained on the part of the Vendor and South Sunrise in respect of the Acquisition and transactions contemplated thereunder having been obtained;
- (iii) all necessary consents and approvals required to be obtained on the part of the Purchaser in respect of the Acquisition and transactions contemplated thereunder having been obtained;
- (iv) the Listing Committee having granted the listing of and permission to deal in the Consideration Shares and the Conversion Shares;

- (v) if necessary, the passing by the Shareholders at the EGM to be convened and held to approve the Acquisition Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares and the Conversion Shares and the issue of the Promissory Notes and the Consideration CB);
- (vi) the warranties provided by the Vendor under the Acquisition Agreement remaining true and accurate and not misleading in all material respect as if repeated at Completion and at all times between the date of the Acquisition Agreement and the Completion Date;
- (vii) the Purchaser having received a PRC legal opinion to be issued by a PRC legal adviser designated by the Purchaser in such form and substance to the satisfaction of the Purchaser in respect of the affairs of the Target Group and matters relating to the Acquisition Agreement; and
- (viii) a valuation report prepared by an independent professional valuer jointly appointed by the Purchaser and the Vendor in such form and substance satisfactory to the Company which shows the valuation of the Target Group to be not less than the Valuation Floor, being RMB400,888,000 (equivalent to approximately HK\$444,986,000) having been obtained and included in the Circular.

The Purchaser shall use its best endeavour to procure the fulfilment of the conditions set out in (iii), (iv) and (v) above. The Vendor shall use its best endeavour to procure the fulfilment of the conditions set out in (i), (ii), (vi), (vii) and (viii) above.

The Purchaser may at any time at its absolute and sole discretion waive in writing the conditions set out in (i), (vi) and (vii) above. The Vendor may at any time at its absolute and sole discretion waive in writing the condition set out in (viii) above. Save for the aforementioned, none of the conditions set out in (ii), (iii), (iv) and (v) above are capable of being waived.

If any of the above conditions have not been fulfilled or waived (as the case may be) on or before the Long Stop Date, or the condition set out in (vi) above has not been fulfilled or waived on the Completion Date, the Vendor shall return the Deposit of HK\$20,000,000 to the Purchaser within ten (10) Business Days in full without interest. The Acquisition Agreement shall thereafter cease and terminate and neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

Completion

Completion shall take place on a date within three (3) Business Days after fulfillment or waiver (as the case may be) of all of the conditions precedent set out in the Acquisition Agreement or such other date as the Purchaser and the Vendor may agree in writing.

Upon Completion, the Target will become an indirect wholly-owned subsidiary of the Company and the financial statements of the Target Group will be consolidated into the financial statements of the Enlarged Group.

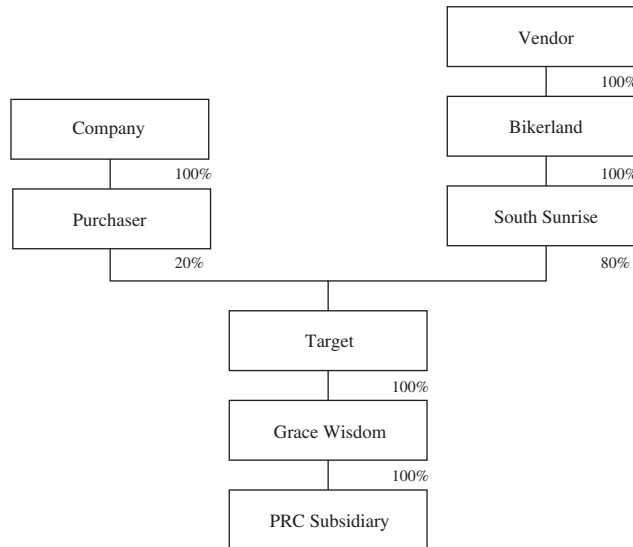
INFORMATION ON THE TARGET GROUP

The Target is a company incorporated on 10 May 2016 in the BVI with limited liability and is an investment holding company and the principal assets of which is the indirect interest in the PRC Subsidiary. The PRC Subsidiary is principally engaged in the production and sale of ready-mixed commercial concrete mainly in Haikou City and Chengmai County region in Hainan Province, the PRC. The Target Group is capable of producing commercial concrete of grade C70 and below, and mainly produces grade C60 and lower grades concrete, which are primarily used in construction of various types of buildings and structures and infrastructures by its customers. As at the date of this announcement, the Target Group had over 250 employees and operates a concrete batching plant with six production lines located in Chengmai County, Hainan Province. As at the date of this announcement, the maximum production capacity of the Target Group's concrete batching plant is approximately 1.8 million cubic metres per annum.

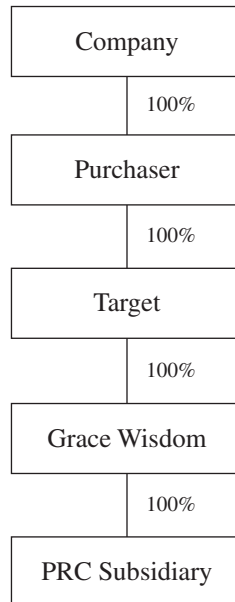
The PRC Subsidiary is managed by the senior management which comprised the general manager, the manager of Chengmai Branch Office, the head of distribution department, the head of experimental department, the head of materials department, the head of safety department and the head of finance department. The general manager oversees the entire operations and he is also responsible for the strategic planning of the PRC Subsidiary. The daily operations of production process and financial aspects of the management of the business of the PRC Subsidiary are delegated to the manager of Chengmai Branch Office and the heads of different departments. Majority of the senior management has been employed by the PRC Subsidiary for more than three years.

Group structure

Set out below is the shareholding structure of the Target Group as at the date of this announcement:



Set out below is the shareholding structure of the Target Group immediately after Completion:



Financial information of the Target Group

Set out below is a summary of the unaudited consolidated financial information of the Target Group for the two years ended 31 March 2018 and 2019 which was prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA:

| <i>(in HK\$'000)</i> | For the year ended | |
|--------------------------|---------------------------|--------------------|
| | 31 March | |
| | 2018 | 2019 |
| | (unaudited) | (unaudited) |
| Profit before income tax | 172,229 | 78,545 |
| Profit after income tax | 150,437 | 59,290 |

The profit of the Target Group for the year ended 31 March 2018 was mainly derived from the sales of concrete and a one-off gain from a bargain purchase of approximately HK\$92 million as a result of the acquisition of the PRC Subsidiary by the Target Group on 11 July 2017 from the Founders, after deducting the selling and administrative expenses incurred by the Target Group. The profit of the Target Group for the year ended 31 March 2019 was also derived from the sales of concrete net of the selling and administrative expenses incurred by the Target Group.

The unaudited consolidated net asset value of the Target Group as at 31 March 2019 amounted to approximately HK\$243,839,000.

Financial information of the PRC Group

Set out below is a summary of the audited consolidated financial information of the PRC Group for the two years ended 31 December 2017 and 2018 which was prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA:

| <i>(in RMB'000)</i> | For the year ended | |
|--------------------------|---------------------------|------------------|
| | 31 December | |
| | 2017 | 2018 |
| | (audited) | (audited) |
| Profit before income tax | 63,059 | 68,720 |
| Profit after income tax | 46,529 | 52,065 |

The profit of the PRC Group for the two years ended 31 December 2017 and 2018 was mainly derived from the sales of concrete net of the selling and distribution expenses incurred by the PRC Group.

The audited consolidated net asset value of the PRC Group as at 31 March 2019 amounted to approximately RMB221,288,000.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the Company has a total of 2,509,883,201 Shares in issue. In addition, the Company has convertible bonds due in 2019 (the “**Convertible Bonds**”) in the outstanding amount of HK\$100,000,000 entitling the holders thereof to convert them into a total of 192,307,692 new Shares at the prevailing conversion price of HK\$0.52 each. Set out below is the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after completion of the Acquisition; (iii) immediately after completion of the Acquisition and upon full conversion of the Consideration CB; and (iv) immediately after completion of the Acquisition and upon full conversion of the Consideration CB and the Convertible Bonds:

| | (i) As at the date of this announcement | | (ii) Immediately after completion of the Acquisition | | (iii) Immediately after completion of the Acquisition and upon full conversion of the Consideration CB | | (iv) Immediately after completion of the Acquisition and upon full conversion of the Consideration CB and the Convertible Bonds | |
|--|---|------------------|--|------------------|--|------------------|---|------------------|
| | <i>Number of</i> | | <i>Number of</i> | | <i>Number of</i> | | <i>Number of</i> | |
| | <i>Shares</i> | <i>Approx. %</i> | <i>Shares</i> | <i>Approx. %</i> | <i>Shares</i> | <i>Approx. %</i> | <i>Shares</i> | <i>Approx. %</i> |
| Twin Star Global Limited and | | | | | | | | |
| Mr. Wong Wai Sing (<i>Note 1&2</i>) | 483,500,000 | 19.26 | 483,500,000 | 17.09 | 483,500,000 | 16.32 | 483,500,000 | 15.33 |
| Vendor (<i>Note 3</i>) | – | – | 320,000,000 | 11.31 | 452,075,471 | 15.26 | 452,075,471 | 14.33 |
| Lead Thrive Investments Limited and | | | | | | | | |
| Mr. Fu Sze Shing (<i>Note 4</i>) | 18,000,000 | 0.72 | 18,000,000 | 0.64 | 18,000,000 | 0.61 | 210,307,692 | 6.66 |
| Mr. Chan Kin Lung (<i>Note 5</i>) | 10,000,000 | 0.40 | 10,000,000 | 0.35 | 10,000,000 | 0.34 | 10,000,000 | 0.31 |
| Mr. Lee Chi Shing, Caesar (<i>Note 5</i>) | 5,000,000 | 0.20 | 5,000,000 | 0.17 | 5,000,000 | 0.17 | 5,000,000 | 0.16 |
| Mr. Kwok Kam Tim (<i>Note 5</i>) | 800,000 | 0.03 | 800,000 | 0.03 | 800,000 | 0.03 | 800,000 | 0.03 |
| Mr. Tso Ping Cheong, Brian (<i>Note 5</i>) | 800,000 | 0.03 | 800,000 | 0.03 | 800,000 | 0.03 | 800,000 | 0.03 |
| Public Shareholders | 1,991,783,201 | 79.36 | 1,991,783,201 | 70.38 | 1,991,783,201 | 67.24 | 1,991,783,201 | 63.15 |
| Total | 2,509,883,201 | 100.00 | 2,829,883,201 | 100.00 | 2,961,958,672 | 100.00 | 3,154,266,364 | 100.00 |

Notes:

1. Mr. Wong Wai Sing (“**Mr. Wong**”) is an executive Director. Twin Star Global Limited (“**Twin Star**”) is wholly owned by Mr. Wong.
2. Before 13 January 2017, Twin Star was owned as to 50% by Mr. Wong and as to 50% by Mr. Chum Hon Sing (“**Mr. Chum**”), the then vice-chairman and an executive Director of the Company. Accordingly, both Mr. Wong and Mr. Chum were deemed to be interested in 188,942,000 Shares held by Twin Star as at 12 January 2017. On 13 January 2017, Mr. Chum disposed of his 50% interest in Twin Star to Mr. Wong and ceased to be the shareholder of Twin Star. Since then, he was no longer a substantial shareholder of the Company.
3. A maximum of 132,075,471 Conversion Shares may be issued upon full conversion of the Consideration CB to the Vendor.
4. A maximum of 192,307,692 new Shares may be issued upon full conversion of the Convertible Bonds which are held by Lead Thrive Investments Limited, the entire issued share capital of which is beneficially owned by Mr. Fu Sze Shing. As at the date of this announcement, Mr. Fu Sze Shing beneficially owns 18,000,000 Shares.
5. Mr. Chan Kin Lung and Mr. Lee Chi Shing, Caesar are executive Directors whereas Mr. Kwok Kam Tim and Mr. Tso Ping Cheong, Brian are independent non-executive Directors.
6. The Company announced an open offer on the basis of three offer shares for every two then existing Shares on 17 May 2016 (the “**Open Offer**”). Immediately before completion of the Open Offer, Mr. Wong (together with the Shares held by Twin Star) held 104,954,000 Shares, which represented approximately 11.20% of the then issued share capital of the Company. Mr. Wong was the single largest shareholder of the Company. Upon the completion of the Open Offer on 15 August 2016, Mr. Yang Jinshu (“**Mr. Yang**”), being a sub-underwriter of the Open Offer, was interested in 418,246,000 Shares, representing approximately 17.85% of the then issued share capital of the Company and he became the single largest shareholder of the Company. Mr. Wong and Twin Star collectively held 262,385,000 Shares, representing approximately 11.20% of the then issued share capital of the Company upon the completion of the Open Offer.

Mr. Wong and Twin Star subsequently disposed of part of their Shares and ceased to be a substantial shareholder of the Company on 5 September 2016. Mr. Yang disposed of part of his Shares since 6 January 2017 and ceased to be a substantial shareholder of the Company on 17 January 2017. As mentioned in note 2 above, Mr. Chum disposed of his interest in Twin Star to Mr. Wong on 13 January 2017. Subsequently, Mr. Wong and Twin Star acquired certain Shares and become a substantial shareholder of the Company since 18 January 2017 and remain as the single largest shareholder of the Company since then. Save as disclosed above, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, there is no other change in the substantial shareholders of the Company in the past three years.

REASONS FOR THE ACQUISITION

The Group is principally engaged in (i) wholesale and retail of household consumables; (ii) digital technology business; (iii) education business; and (iv) provision of money lending services. Besides, the Group has suspended the operations of its coal trading business due to the uncertainty in the recovery of the trade receivables due from its sole customer.

For the wholesale and retail of household consumables business, there was a slight decrease in revenue for the latest financial year mainly due to decrease in sales volume resulted from loss of major customer, the slowdown of economy in the United Kingdom and Brexit-related uncertainty over the business environment. However, the Company is still optimistic in its potential growth and it aims to enhance the efficiency in the utilisation of resources to increase its profit margin. The Company will also explore to expand the sales team, new business opportunities and new product mix to increase the revenue of this business.

Revenue from the digital technology business decreased in the latest financial year mainly due to intensive competition among the industry and rapid development in information technology which resulted in decrease in sales volume. The Group has been exploring opportunities and in the process of identifying potential partners, through cooperation and collaboration of the Group's resources and the partners' expertise, to seize new markets in the industry.

Revenue from the education business also decreased which are mainly due to the decrease in revenue from the provision of English language proficiency tests in both Hong Kong and the PRC. To explore new opportunities, the Group is conducting market researches on talent education and early childhood education to analyse the feasibility and profitability in order to expand the business scale.

Money lending business continues to contribute a stable and favorable income stream to the Group. With the continual growth in the money lending business market in Hong Kong, the Board believes that money lending business will provide an excellent platform for the Group to expand, explore and capitalise this business market. The Group will continue to develop this business under prudent credit control procedures and strategies to balance between business growth and risk management.

Due to the uncertainty in the recovery of the trade receivables due from its sole customer, the Group suspended its coal trading business and no revenue was generated from coal trading business for both the years ended 31 March 2018 and 2019. The Group will take into account the recent market development, its profitability and the Group's operating and strategic position when considering its resumption.

The Group does not have any intention to scale down its existing businesses and it will continue its existing businesses after Completion. While the Group is continuing to spend effort to expand the existing businesses as mentioned above, the Group has been exploring new investment opportunities in different sectors to diversify its businesses and seeking new growth drivers to support the long term development of the Group and decided to acquire the remaining interest of the PRC Group.

The PRC Group is a well-established concrete manufacturer in Haikou City, Hainan Province, the PRC. As disclosed in the 2018 Circular, the Directors believe there would be strong demand for concrete in Hainan Province in the coming years and are optimistic about the growth and prospect of the concrete industry in Hainan Province. Based on the signed master framework agreements entered into between the PRC Subsidiary and the customers, the Company believes the demand of concrete of the PRC Group is secured. With the good relationship maintained between the PRC Group and its suppliers, the PRC Group can have a stable source of supply of raw materials for production of concrete.

In view of the above, together with the positive historical financial performance of the PRC Group and the achievement of the 2017 Guaranteed Profit and the 2018 Guaranteed Profit by the PRC Group, the Company believes that the Acquisition represents a prime opportunity to broaden the revenue base of the Group, taking into particular account the sound quality in terms of the business and profitability of the PRC Group. The Company also believes that the Acquisition would enable the Group to engage in a business and enter into an industry with promising prospects of organic growth, which may help overturning the loss-making situation of the Group in the past few years.

Having considered the above factors, the Directors consider that terms of the Acquisition Agreement are fair and reasonable and the Acquisition is in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company and is therefore subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules. The Consideration Shares and the Conversion Shares will be issued under the Specific Mandate.

LISTING COMMITTEE'S DECISION

The Listing Committee has determined that the Acquisition is an extreme very substantial acquisition which is **NOT** subject to reverse takeover rules. Enhanced disclosure comparable to the standard for listing documents for new listing applicants will be required in the Circular and Messis Capital Limited has been appointed as the financial adviser of the Company to conduct due diligence with reference to Practice Note 21 of the Listing Rules on the Target Group.

GENERAL

The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve among other matters, the Acquisition Agreement, the Acquisition and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares and the Conversion Shares. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition which is different from other Shareholders, and thus no Shareholder is required to abstain from voting at the EGM.

The Circular containing, among other things, (i) details of the Acquisition Agreement and the transactions contemplated thereunder; (ii) the financial information and other information of the Group; (iii) the financial information and other information of the Target Group and the PRC Group; (iv) the unaudited pro forma financial information of the Enlarged Group; (v) the valuation report of the Target Group; and (vi) a notice of the EGM and a form of proxy is expected to be despatched to the Shareholders on or before 31 December 2019 as additional time is required for preparing the information to be included in the Circular.

Completion is subject to fulfillment of the conditions precedent set out in the Acquisition Agreement, and the Acquisition may or may not proceed to Completion. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, the following expressions shall, unless the context requires otherwise, have the following meanings:

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|-------------------------|---|
| “Acquisition” | the exercise of the Call Option by the Purchaser to acquire the remaining 80% of the issued share capital of the Target |
| “Acquisition Agreement” | the sale and purchase agreement dated 27 September 2019 entered into between the Purchaser and the Vendor in relation to the Acquisition |
| “Bikerland” | Bikerland Limited, a company incorporated in the BVI with limited liability, which is wholly owned by the Vendor as at the date of this announcement |
| “Board” | the board of the Directors |
| “Business Day” | any day (other than a Saturday, Sunday or public holiday or a day on which a typhoon signal number 8 or above or a “black” rainstorm signal is hoisted in Hong Kong between 9:00 a.m. to 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours |
| “BVI” | British Virgin Islands |
| “Call Option” | the right granted by the Vendor to the Purchaser to acquire all but not part of the remaining 80% of the issued share capital of the Target from South Sunrise within two years from the completion date of the Previous Acquisition |

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| “Circular” | the circular to be despatched by the Company to the Shareholders in relation to the Acquisition |
| “Company” | Newtree Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1323) |
| “Completion” | completion of the Acquisition |
| “Completion Date” | the date of Completion |
| “connected person(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Consideration” | the consideration for the Acquisition of RMB368,074,400 (equivalent to HK\$408,562,584) (subject to adjustment) |
| “Consideration CB” | the three-year zero coupon convertible bonds of an aggregate principal amount of HK\$70,000,000 to be issued by the Company for settling part of the Consideration pursuant to the Acquisition Agreement |
| “Consideration Share(s)” | 320,000,000 new Shares to be allotted and issued to the Vendor (or its nominee(s)) for settling part of the Consideration pursuant to the Acquisition Agreement |
| “Conversion Price” | HK\$0.53, being the initial price for conversion of the Consideration CB, which is subject to adjustment pursuant to the terms and conditions of the Consideration CB |
| “Conversion Share(s)” | new Shares to be allotted and issued upon exercise of the conversion rights attaching to the Consideration CB |
| “Director(s)” | the director(s) of the Company |

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| “EGM” | the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, to approve the Acquisition Agreement, the Acquisition and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares and the Conversion Shares |
| “Enlarged Group” | the Group upon Completion |
| “Founders” | Mr. Chen Yuyong and Ms. Cai Xili, being the founders of the PRC Subsidiary, who are Independent Third Parties |
| “Grace Wisdom” | Grace Wisdom Holdings Limited, a company incorporated in Hong Kong with limited liability |
| “Grant Sherman” | Grant Sherman Appraisal Limited, an independent professional valuer |
| “Group” | the Company and its subsidiaries |
| “HKICPA” | Hong Kong Institute of Certified Public Accountants |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Third Party(ies)” | any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons |

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|------------------------|---|
| “Listing Committee” | the Listing Committee of the Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Long Stop Date” | 31 January 2020, or such later date as the Purchaser and the Vendor may agree in writing |
| “Option Deed” | the option deed dated 15 February 2018 entered into between the Purchaser and the Vendor in respect of the grant of the Call Option |
| “Option Notice” | the option notice issued by the Purchaser to the Vendor dated 27 September 2019 for exercise of the Call Option in accordance with the terms and conditions of the Acquisition Agreement |
| “PRC” | the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan |
| “PRC Group” | the PRC Subsidiary and its subsidiaries at the relevant time |
| “PRC Subsidiary” | 海南華盛混凝土有限公司 (Hainan Huasheng Concrete Company Limited*), a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of Grace Wisdom |
| “Previous Acquisition” | the acquisition of 20% of the issued share capital of the Target by the Purchaser from South Sunrise (procured by the Vendor) pursuant to the terms and conditions of the acquisition agreement dated 21 September 2017 |

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| “Promissory Note(s)” | the three 2% interest rate per annum promissory notes in the respective principal amounts of HK\$36,000,000, HK\$36,000,000 and HK\$36,562,584 due on the date falling on the respective maturity dates to be issued by the Company to the Vendor (or its nominee(s)) for settling part of the Consideration pursuant to the Acquisition Agreement |
| “Purchaser” | Bright World Investment Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company |
| “Sale Shares” | 160 ordinary shares of US\$1.00 each in the share capital of the Target, representing 80% of the issued share capital of the Target as at the Completion Date |
| “Share(s)” | ordinary share(s) in the share capital of the Company |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “South Sunrise” | South Sunrise Limited, a company incorporated in the BVI with limited liability, which is wholly owned by Bikerland as at the date of this announcement |
| “Specific Mandate” | a specific mandate to allot and issue the Consideration Shares and the Conversion Shares to be granted to the Directors by the Shareholders at the EGM |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Target” | Alpha Youth Limited, a company incorporated in the BVI with limited liability |
| “Target Group” | the Target and its subsidiaries |
| “Vendor” | Mr. Zhou Feng Tang |

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| “HK\$” | Hong Kong dollar(s), the lawful currency of Hong Kong |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “US\$” | United States dollar, the lawful currency of the United States of America |
| “%” | per cent. |

* *for identification purpose only*

In this announcement, amounts in RMB are translated to HK\$ on the basis of RMB1 = HK\$1.11. The conversion is for illustration purpose only and should not be taken as a representation that RMB could actually be converted into HK\$ at that rate or at other rates or at all.

By Order of the Board
Newtree Group Holdings Limited
Wong Wai Sing
Chairman and Executive Director

Hong Kong, 27 September 2019

As at the date of this announcement, the executive Directors are Mr. Wong Wai Sing, Mr. Chan Kin Lung, Mr. Lee Chi Shing, Caesar and Mr. Wong Jeffrey; and the independent non-executive Directors are Mr. Kwok Kam Tim, Dr. Hui Chik Kwan and Mr. Tso Ping Cheong, Brian.