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KK CULTURE HOLDINGS LIMITED

KK 文化控股有限公司

(Continued in Bermuda with limited liability)

(Stock code: 550)

DISCLOSEABLE TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF FULLMOON GLOBAL LIMITED

Financial Adviser to the Company



Euto Capital Partners Limited

THE AGREEMENT

On 29 March 2019, the Company and the Purchaser entered into the Agreement, pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to acquire the Sale Share, representing the entire issued share capital of the Target Company, for an aggregate Consideration of HK\$34,750,000, which shall be satisfied by the allotment and issue of the Consideration Shares in tranches at the Issue Price of HK\$0.2 per Purchaser Share to the Company or its designated nominee(s) in accordance with the terms and conditions of the Agreement.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the Disposal exceeds 5% and all of such ratios are below 25%, the Disposal constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Shareholders and potential investors should note that the Disposal is subject to satisfaction (or if applicable, waiver) of the Conditions Precedent and it may or may not be completed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

INTRODUCTION

On 29 March 2019, the Company and the Purchaser entered into the Agreement, pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to acquire the Sale Share, representing the entire issued share capital of the Target Company, for an aggregate Consideration of HK\$34,750,000, which shall be satisfied by the allotment and issue of the Consideration Shares in tranches at the Issue Price of HK\$0.2 per Purchaser Share to the Company or its designated nominee(s) in accordance with the terms and conditions of the Agreement.

THE AGREEMENT

The principal terms of the Agreement are set out below:

Date

29 March 2019

Parties

- (i) the Company; and
- (ii) the Purchaser.

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, each of the Purchaser and its substantial shareholders (as shown on the website of the Stock Exchange as at the date of this announcement) is independent of the Company and connected persons of the Company.

Assets to be disposed

Pursuant to the terms and conditions of the Agreement, the Company conditionally agreed to sell and the Purchaser conditionally agreed to acquire the Sale Share, representing the entire issued share capital of the Target Company as at the date of the Agreement.

Consideration

Pursuant to the terms and conditions of the Agreement, the Consideration shall be HK\$34,750,000.

The Consideration shall be satisfied by the allotment and issue of the Consideration Shares in tranches at the Issue Price of HK\$0.2 per Purchaser Share by the Purchaser to the Company or its designated nominee(s) in the following manner:

- (i) as to HK\$11,583,333, representing one third of the Consideration, shall be paid by the Purchaser to the Company or its designated nominee(s) by the allotment and issue of 57,916,665 Purchaser Shares upon the Completion Date (the “**First Tranche Consideration Shares**”);
- (ii) as to HK\$11,583,333, representing one third of the Consideration, shall be paid by the Purchaser to the Company or its designated nominee(s) by the allotment and issue of 57,916,665 Purchaser Shares (the “**Second Tranche Consideration Shares**”) upon the Second Tranche Consideration Shares Issue Date, subject to Hong Kong Made and Guangzhou Shengyu having executed an agreement (in form and substance satisfactory to the Purchaser) to extend the term of the Hong Kong Made Contract for three years to 30 June 2023 (the “**Second Tranche Consideration Shares Conditions**”); and
- (iii) as to HK\$11,583,334, representing one third of the Consideration, shall be paid by the Purchaser to the Company or its designated nominee(s) by the allotment and issue of 57,916,670 Purchaser Shares (the “**Third Tranche Consideration Shares**”) upon the Third Tranche Consideration Shares Issue Date, subject to the satisfaction of the following conditions (the “**Third Tranche Consideration Shares Conditions**”):
 - (a) Hong Kong Made and Guangzhou Shengyu having executed an agreement (in form and substance satisfactory to the Purchaser) to further extend the term of the Hong Kong Made Contract for two years to 30 June 2025; and
 - (b) Ample Success and Guangzhou Shengyu having executed an agreement (in form and substance satisfactory to the Purchaser) to further extend the term of the Ample Success Contract for two years to 30 March 2024.

In the event that the Second Tranche Consideration Shares Condition and/or the Third Tranche Consideration Shares Conditions are satisfied, the Purchaser shall allot and issue the Second Tranche Consideration Shares and/or the Third Tranche Consideration Shares (as the case may be) on the Second Tranche Consideration Shares Issue Date and/or the Third Tranche Consideration Shares Issue Date (as the case may be).

Adjustments to the Consideration

In the event that the Second Tranche Consideration Shares Condition is not satisfied, the Consideration shall be adjusted to HK\$11,583,333 and no Second Tranche Consideration Shares or Third Tranche Consideration Shares shall be allotted and issued by the Purchaser to the Company or its designated nominee(s).

In the event that the Second Tranche Consideration Shares Condition is satisfied but any or all of the Third Tranche Consideration Shares Conditions are not satisfied, the Consideration shall be adjusted to HK\$23,166,666 and no Third Tranche Consideration Shares shall be allotted and issued by the Purchaser to the Company or its designated nominee(s).

Issue Price

The Issue Price of HK\$0.2 per Purchaser Share:

- (i) represents a discount of approximately 6.98% to the closing price of HK\$0.215 per Purchaser Share as quoted on the Stock Exchange on the date of the Agreement;
- (ii) represents a discount of approximately 7.75% to the average closing price of HK\$0.2168 per Purchaser Share as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the date of the Agreement; and
- (iii) represents a discount of approximately 7.15% to the average closing price of approximately HK\$0.2154 per Purchaser Share as quoted on the Stock Exchange for the ten consecutive trading days immediately preceding the date of the Agreement.

Basis of the Consideration

The Consideration was determined on an arm's length basis under normal commercial terms pursuant to the negotiation between the Company and the Purchaser after taking into account, among others, the equity interest of Hong Kong Made and Ample Success owned by the Target Company after Capitalisation and calculated by reference to a premium over the net asset value of the Target Group as at 31 December 2018. Taking into account the above, the Directors consider that the Consideration is fair and reasonable and on normal commercial terms or better and the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

Completion is subject to the satisfaction or, if applicable, waiver of the following Conditions Precedent:

- (a) the Listing Committee having granted (either unconditionally or subject only to conventional conditions) the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange, and such grant has not been subsequently revoked or withdrawn;
- (b) (if applicable) all necessary consents, approval, authorisation, permit, waiver, order, concession and notices from the shareholders of the Purchaser or any relevant governmental or regulatory authorities or any other third parties for the entering into or the implementation or completion of the Disposal having been obtained and not having been revoked or withdrawn before Completion;
- (c) the Purchaser (including its agents and professional advisers) having been satisfied with the results of its due diligence reviews (including the business, operations, assets, financial conditions and legal aspects) of the Target Group;
- (d) the warranties given by the Company to the Purchaser in the Agreement remaining true and accurate and not misleading in all material respects and the Company having complied with its obligations under the Agreement on or before Completion;
- (e) the warranties given by the Purchaser to the Company in the Agreement remaining true and accurate and not misleading in all material respects;
- (f) Hong Kong Made having obtained a written confirmation and undertaking (in form and substance satisfactory to the Purchaser) from Guangzhou Shengyu that (i) the Hong Kong Made Contract is and remains valid and legally binding on the parties thereto; (ii) Guangzhou Shengyu has undertaken to extend the term of the Hong Kong Made Contract for three years upon the expiry of the term on 30 June 2020; and (iii) provided that there is no default on the part of Hong Kong Made, Guangzhou Shengyu shall not terminate the Hong Kong Made Contract, and such confirmation and undertaking having been delivered to the Purchaser;
- (g) Ample Success and Guangzhou Shengyu having executed an agreement (in form and substance satisfactory to the Purchaser) to extend the term of the Ample Success Contract for three years to 30 April 2022 or such other date the Purchaser may agree;
- (h) (i) the outstanding loan owing by the Target Company to the Company and the outstanding loan owing by a related party to Hong Kong Made having been fully waived by the Company and Hong Kong Made (as the case may be), and (ii) the loans owing by Hong Kong Made to its shareholders having been capitalized and the relevant documents (in form and substance satisfactory to the Purchaser) duly executed by the relevant parties having been delivered to the Purchaser;

- (i) no governmental order, laws, regulations, measures or action prohibiting, restricting or delaying the Disposal;
- (j) (if applicable) all necessary consents, approval, authorisation, permit, waiver, order, concession and notices from the Shareholders and the Target Group (including but not limited to the necessary consents or waiver required to be obtained under the shareholders agreement of Hong Kong Made dated 1 April 2016 entered into among its shareholders) or any relevant governmental or regulatory authorities or any other third parties for the entering into or the implementation or completion of the Disposal having been obtained and not having been revoked or withdrawn before Completion and such consents (in form and substance satisfactory to the Purchaser) having been delivered to the Purchaser;
- (k) the Purchase Shares remain listed and trading on the main board of the Stock Exchange from the date of the Agreement until the Completion Date save for any request by the Stock Exchange or the Purchaser for suspension of trading and the suspension time of which shall not exceed 20 consecutive Business Days;
- (l) the Minority Agreement having been executed and all the conditions precedent under the Minority Agreement having been fulfilled (except for the fulfilment or waiver (as the case may be) of the Conditions Precedent) and the Minority Agreement not having been terminated according to the terms therein; and
- (m) the loan owing by the Target Group to a third party in the amount of HK\$5,760,000 having been transferred to the Company or its subsidiary by way of novation, the relevant parties having duly executed a deed of novation in form and substance satisfactory to the Purchaser and such deed of novation having been delivered to the Purchaser.

The Conditions Precedent set out in paragraphs (a), (b), (i) and (j) cannot be waived. The Purchaser may waive in whole or in part and conditionally or unconditionally any of the Conditions Precedent set out in paragraphs (c), (d), (f), (g), (h), (l) and (m). The Company may waive in whole or in part and conditionally or unconditionally any of the Conditions Precedent set out in paragraphs (e) and (k).

If the Conditions Precedent (other than the Conditions Precedent set out in paragraphs (e) and (k)) are not satisfied, or, if applicable, waived on or before the Long-Stop Date, the Purchaser may terminate the Agreement by notice to the Company. If the Conditions Precedent set out in paragraphs (e) and (k) are not satisfied or waived on or before the Long-Stop Date, the Company may terminate the Agreement by notice to the Purchaser. In the event that the Agreement is terminated, the parties shall be released from the obligations under the Agreement, provided that the surviving provisions as stipulated under the Agreement shall continue in force and the termination of the Agreement shall be without prejudice to the liabilities of the parties accrued prior to such termination.

Completion

Subject to the fulfillment or waiver (as the case may be) of all the Conditions Precedent, Completion shall take place on the Completion Date.

Upon Completion, the Target Company will cease to be a wholly-owned subsidiary company of the Company and the financial results of the Target Group will cease to be consolidated into the financial results of the Company.

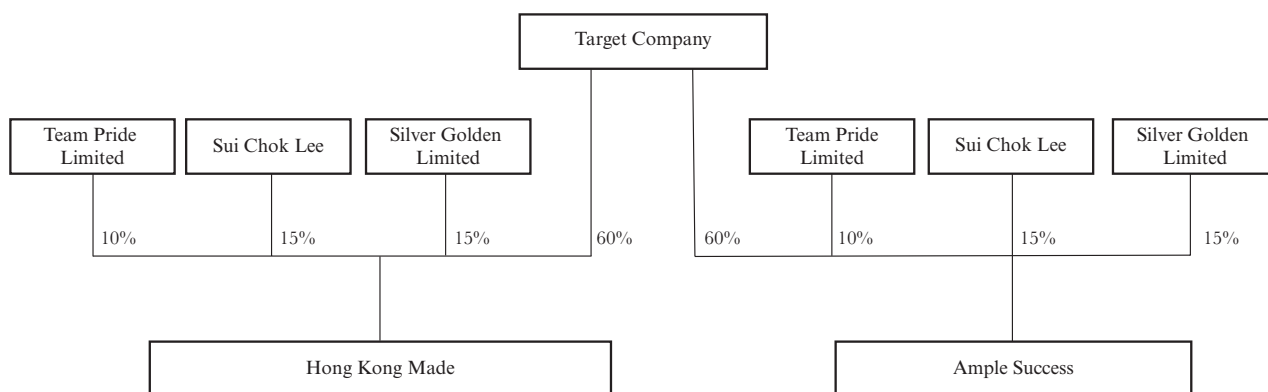
INFORMATION OF THE PURCHASER

The Purchaser is a company incorporated in Bermuda with limited liability, the issued shares of which are primary listed on the Main Board of the Stock Exchange (stock code: 164). As at the date of this announcement, the Purchaser and its subsidiaries are principally engaged in mobile technologies business, leisure-related business including tourism and hospitality, gamma ray irradiation service and securities trading and investment.

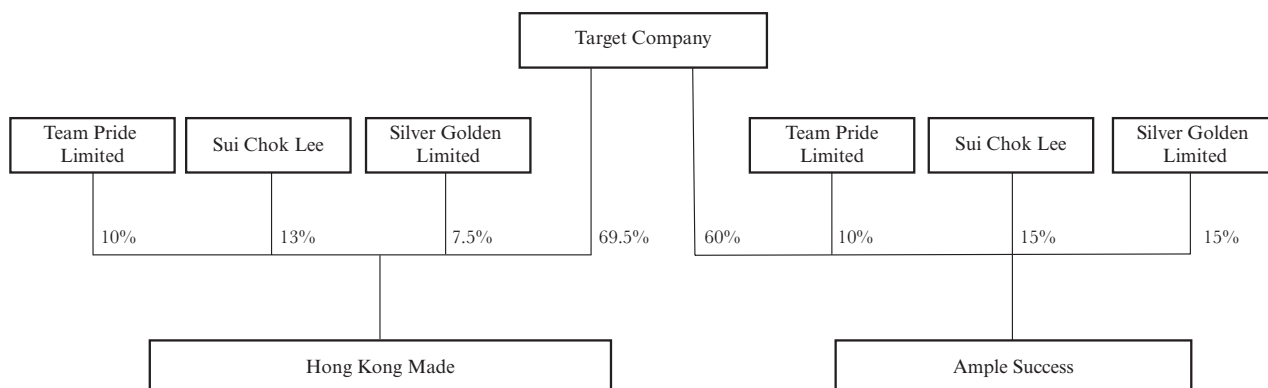
INFORMATION OF THE TARGET GROUP

The following diagram illustrates the shareholding structures of the Target Group (i) as at the date of this announcement; and (ii) immediately after Capitalisation:

Shareholding structure of the Target Group as at the date of this announcement



Shareholding structure of the Target Group immediately after the Capitalisation:



(i) The Target Company

The Target Company is a company incorporated in the British Virgin Islands with limited liability. The Target Group is principally engaged in the business of the development and operations of outdoor advertisement and media. As at the date of this announcement, the Target Company is wholly owned by the Company.

(ii) Hong Kong Made and Ample Success

Each of Hong Kong Made and Ample Success is a company incorporated in Hong Kong with limited liability. As at the date of this announcement, each of Hong Kong Made and Ample Success is owned as to 60% by the Target Company, 10% by Team Pride Limited, 15% by Sui Chok Lee and 15% by Silver Golden Limited.

As at the date of this announcement, the total issued share capital of the Hong Kong Made is 100 shares. Pursuant to the Agreement and being one of the Conditions Precedent under the Agreement, the outstanding loans owing by Hong Kong Made to the Target Company, Sui Chok Lee and Team Pride Limited in the amounts of approximately HK\$49,139,000, HK\$6,863,000 and HK\$5,700,000 respectively shall be capitalised by applying such amounts in paying up in full for allotting and issuing 79, 11 and 10 new shares of Hong Kong Made respectively. Upon completion of the Capitalisation, the total issued share capital of the Target Company shall be increased to 200 shares and the shareholding structure of the Target Company shall be revised as follows:

Name of shareholder	No of shares	Percentage of shareholdings in Hong Kong Made
Target Company	139	69.5%
Team Pride Limited	20	10.0%
Sui Chok Lee	26	13.0%
Silver Golden Limited	15	7.5%
Total	<u>200</u>	<u>100.0%</u>

As at the date of this announcement, Hong Kong Made and Ample Success, through the entering into of the Hong Kong Made Contract and the Ample Success Contract respectively, are the exclusive advertising agent of Guangzhou Shengyu in providing advertising agency services and related production services for the Guangzhou-Shenzhen China Railway High-speed Harmony Series trains (廣深線和諧號).

Financial information of the Target Group

Based on the audited consolidated financial information of the Company, as at 31 December 2018, the total assets and net liabilities of the Target Group amounted to approximately HK\$58,514,000 and HK\$98,818,000 respectively.

Set out below are certain audited consolidated financial information of the Target Companies for the two years ended 31 December 2018 prepared in accordance with Hong Kong Financial Reporting Standards:

	For the year ended	
	31 December	
	2017	2018
	<i>HK\$</i>	<i>HK\$</i>
	(audited)	(audited)
Net loss before taxation and extraordinary items	64,589,000	53,330,000
Net loss after taxation and extraordinary items	56,720,000	53,330,000

As a result of the Disposal, the Group expects to record an unaudited gain on the Disposal of approximately HK\$20,368,000. Such a gain is estimated by reference to the consideration receivable from the Disposal, i.e. approximately HK\$34,750,000, less the share of the carrying value of the Target Group as at 31 December 2018 attributable to the Company's equity holders, i.e. approximately HK\$14,082,000, before deducting transaction costs and expenses (which are mainly professional fees). This estimate of gain is for illustration purpose only and subject to adjustments (such as fair value of the share of net assets of the Target Group as at the Completion Date) that may be made during audit in the future.

REASONS AND BENEFITS FOR ENTERING INTO THE AGREEMENT

The Group is principally engaged in the provision of advertising services and property investment.

Financial performance of the Target Group had not been meeting expectation of the management. The Target Group recorded losses for the last few years despite the fact that the Group had been providing it with working capital with the hope that the Target Group could turn around. As competition becomes more fierce in recent years, it is decided that the Group should no longer invest in the Target Group with a hope of its recovery and to realize any resources possible to be used to generate revenue and income from the other more promising sectors.

In this connection, the Board intends to realise the investment in the Target Group rather than devoting further resources to the Target Group which is loss making. It is expected that the net proceeds from the Disposal will be recognised as an investment of the Group.

The terms of the Agreement were arrived at after arm's length negotiations between the Company and the Purchaser. The Directors consider that the transactions contemplated under the Agreement are on normal commercial terms and the terms of the Agreement are fair and reasonable and in the interest of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the Disposal exceeds 5% and all of such ratios are below 25%, the Disposal constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Shareholders and potential investors should note that the Disposal is subject to satisfaction (or if applicable, waiver) of the Conditions Precedent and it may or may not be completed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Agreement”	the share purchase agreement dated 29 March 2019 entered into between the Company and the Purchaser in relation to the Disposal (as amended and supplemented from time to time)
“Ample Success”	Ample Success Limited, a company incorporated under the laws of Hong Kong with limited liability and a subsidiary of the Target Company as at the date of this announcement
“Ample Success Contract”	the contract entered into between Ample Success and Guangzhou Shengyu dated 27 April 2016 (as amended and supplemented from time to time) in relation to the appointment of Ample Success as an exclusive advertising agent in connection with the advertising agency services and related production services for the Guangzhou-Shenzhen China Railway High-speed Harmony Series trains (廣深線和諧號)
“Board”	the board of Directors
“Business Day(s)”	any day(s) on which licensed banks in Hong Kong are open for business throughout their normal business hours except a Saturday, a Sunday, a public holiday or a day on which a tropical cyclone warning signal no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.
“Capitalisation”	capitalisation of the outstanding loans owing by Hong Kong Made to the Target Company, Sui Chok Lee and Team Pride Limited as at 28 February 2019 in the amounts of approximately HK\$49,139,000, HK\$6,863,000 and HK\$5,700,000 respectively by applying such amounts in paying up in full for allotting and issuing 79, 11 and 10 new shares of Hong Kong Made to them respectively
“Company”	KK Culture Holdings Limited, a company continued in Bermuda with limited liability, and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 550)
“Completion”	completion of the sale and purchase of the Sale Share pursuant to the Agreement

“Completion Date”	the 3rd Business Day after the satisfaction or waiver of the Conditions Precedent (except for the Conditions Precedent that shall be satisfied on the day of the Completion) or such other date agreed by the parties
“Conditions Precedent”	the conditions precedent to Completion as set out in the Agreement
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the aggregate consideration of HK\$34,750,000 to be paid by the Purchaser to the Company or its designated nominee(s) for the Sale Share pursuant to the Agreement, subject to the adjustments set out in this announcement
“Consideration Shares”	collectively, the First Tranche Consideration Shares, the Second Tranche Consideration Shares and the Third Tranche Consideration Shares
“Director(s)”	the directors of the Company
“Disposal”	the disposal of the Sale Share by the Company to the Purchaser and the transactions contemplated pursuant to and under the Agreement
“First Tranche Consideration Shares”	the allotment and issue of 57,916,665 Purchaser Shares by the Purchaser to the Company or its designated nominee(s) upon the Completion Date
“Group”	the Company and its subsidiaries
“Guangzhou Shengyu”	Guangzhou Shengyu Golden Line Advertising Company Limited* (廣州聲煜金線廣告有限公司), a company established in the PRC, which has the right to operate the placement of advertisements on the Guangzhou-Shenzhen China Railway High-speed Harmony Series trains (廣深線和諧號)
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Made”	Hong Kong Made (Media) Limited, a company incorporated under the laws of Hong Kong with limited liability and owned as to 60% by the Target Company as at the date of this announcement and 69.5% after Capitalisation

“Hong Kong Made Contract”	the contract entered into between Hong Kong Made and Guangzhou Shengyu dated 24 June 2016 (as amended and supplemented from time to time) in relation to the appointment of Hong Kong Made as an exclusive advertising agent in connection with the advertising agency services and related production services for the Guangzhou-Shenzhen China Railway High-speed Harmony Series trains (廣深線和諧號)
“Issue Price”	the issue price of HK\$0.2 per Purchaser Share (subject to the adjustment of the Purchaser Shares as a result of share subdivision, consolidation or reclassification or capital reorganization)
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange with responsibility for considering applications for listing and the granting of listing on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	28 June 2019, or such other date as may be agreed between the Company and the Purchaser in writing
“Minority Agreement”	(i) the share purchase agreements entered or to be entered into between the Purchaser and each of the shareholders of Hong Kong Made (except the Target Company), pursuant to which the Purchaser shall acquire the shares of Hong Kong Made held by its shareholders (except the Target Company) after Capitalisation; and (ii) the share purchase agreements entered or to be entered into between the Purchaser and the shareholders of Ample Success (except the Target Company), pursuant to which the Purchaser shall acquire the shares of Ample Success held by its shareholders (except the Target Company)
“Purchaser”	China Baoli Technologies Holdings Limited, a company incorporated under the laws of Bermuda with limited liability, and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 164)
“Purchaser Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Purchaser

“PRC”	the People’s Republic of China, which for the purpose of this announcement shall exclude Hong Kong, Macau and Taiwan
“Sale Share”	one ordinary share of the Target Company, representing the entire issued share capital of the Target Company
“Second Tranche Consideration Shares”	the allotment and issue of 57,916,665 Purchaser Shares by the Purchaser to the Company or its designated nominee(s) upon the Second Tranche Consideration Shares Issue Date, subject to the satisfaction of the Second Tranche Consideration Shares Condition
“Second Tranche Consideration Shares Condition”	the condition to the allotment and issue of the Second Tranche Consideration Shares pursuant to the terms and conditions of the Agreement
“Second Tranche Consideration Shares Issue Date”	subject to the satisfaction of the Second Tranche Consideration Shares Conditions, (i) the first anniversary date of the Completion Date or the 5th Business Day after the satisfaction of the Second Tranche Consideration Shares Conditions (whichever is earlier) ; or (ii) such other date as may be agreed by the Company and the Purchaser in writing
“Share(s)”	ordinary share(s) of HK\$0.20 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Fullmoon Global Limited, a company incorporated under the laws of the British Virgin Islands with limited liability
“Target Group”	the Target Company and its subsidiaries
“Third Tranche Consideration Shares”	the allotment and issue of 57,916,670 Purchaser Shares by the Purchaser to the Company or its designated nominee(s) upon the Third Tranche Consideration Shares Issue Date, subject to the satisfaction of the Third Tranche Consideration Shares Conditions
“Third Tranche Consideration Shares Conditions”	the conditions to the allotment and issue of the Third Tranche Consideration Shares pursuant to the terms and conditions of the Agreement

“Third Tranche Consideration Shares Issue Date” subject to the satisfaction of the Third Tranche Consideration Shares Conditions, (i) the second anniversary date of the Completion Date or the 5th Business Day after the satisfaction of the Third Tranche Consideration Shares Conditions (whichever is earlier); or (ii) such other date as may be agreed by the Company and the Purchaser in writing

“%” per cent.

By Order of the Board
KK Culture Holdings Limited
Tsang Hing Bun
Executive Director

Hong Kong, 29 March 2019

As at the date of this announcement, the Board comprises Mr. Tsang Hing Bun as executive Director; Mr. Yiu Yu Cheung as non-executive Director; and Mr. Chan Siu Lun, Mr. William Keith Jacobsen and Mr. Chan Chiu Hung, Alex, as independent non-executive Directors

** English name of such entity is the transliteration of its Chinese name for reference only*