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LUK HING ENTERTAINMENT GROUP

LUK HING ENTERTAINMENT GROUP HOLDINGS LIMITED

陸慶娛樂集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8052)

**(1) DISCLOSEABLE TRANSACTION
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
THE TARGET COMPANY INVOLVING THE ISSUE OF
CONSIDERATION SHARES UNDER GENERAL MANDATE;
(2) APPOINTMENT OF EXECUTIVE DIRECTOR;
AND
(3) APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR
AND CHANGE OF COMPOSITION OF AUDIT COMMITTEE**

INTRODUCTION

The board of directors of Luk Hing Entertainment Group Holdings Limited (the “**Board**”) is pleased to announce that on 13 June 2022 (after trading hours), the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell, the Sale Shares, at the Consideration of HK\$34,560,000, which will be satisfied by the allotment and issue of the 432,000,000 Consideration Shares at the Issue Price of HK\$0.08 per Consideration Share.

As part of the Acquisition, the Board is also pleased to announce the appointment of Mr. Jonathan Cheng as an executive Director of the Company with effect from the Completion Date.

The Board is pleased to announce the appointment of Mr. Chan Wai as an independent non-executive Director and chairman of the Audit Committee (the “**Audit Committee**”) of the Company with effect from 20 June 2022.

GEM LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 13 June 2022 (after trading hours), the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell, the Sale Shares, at the Consideration of HK\$34,560,000, which will be satisfied by the allotment and issue of the 432,000,000 Consideration Shares at the Issue Price of HK\$0.08 per Consideration Share.

THE AGREEMENT

Date: 13 June 2022

Parties: (i) the Company as purchaser
(ii) Infinity Entertainment Group Limited as vendor
(iii) LC Capital Limited as guarantor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendor and the Guarantor and their respective ultimate beneficial owners are Independent Third Parties.

Assets to be acquired

The Sale Shares, represent 100% of the issued share capital of the Target Company.

Consideration

The Consideration of HK\$34,560,000 shall be paid and satisfied upon Completion by the allotment and issue of 432,000,000 Consideration Shares at the Issue Price of HK\$0.08 per Consideration Share by the Company to the Vendor.

The Consideration was arrived based on normal commercial terms after arm's length negotiations between the Company and the Vendor and was determined with reference to the following factors:

- (i) the independent valuation of 100% equity interests of the Target Company (the "**Valuation**") prepared by an independent valuer based on the market approach;
- (ii) the financial and operating performance of the Target Company and latest financial position of the Target Company as shown in its management accounts for the year ended 31 December 2021;
- (iii) the business development and future prospects of the Target Company;

- (iv) the Guaranteed Profits (as defined below) as set out under the sub-section headed “Profit Guarantee and Compensation” below; and
- (v) the reasons for and benefits of the Acquisition as stated under the section headed “Reasons for and benefits of the Acquisition” below.

The Consideration represents a discount of approximately 5% to the Valuation.

In view of the above, the Directors consider that the Consideration is fair and reasonable.

Post Completion Profit Guarantee and Compensation

Pursuant to the Agreement, the Vendor has irrevocably and unconditionally guaranteed to the Company that the net profit after tax of the Target Company one year after Completion shall be no less than HK\$4,800,000 (the “**Guaranteed Profit**”).

If the actual net profit after tax of the Target Company one year after Completion (the “**Actual Profit**”) is less than the Guaranteed Profit, the Vendor shall compensate the Company the shortfall to be calculated based on the following formula:

Compensation Sum = Guaranteed Profit – Actual Profit

In the event that the Target Company has a net loss after taxation one year after Completion (the “**Actual Loss**”), the Vendor shall pay the Buyer the Guaranteed Profit and the Actual Loss as the compensation sum.

The compensation sum in relation to the profit guarantee shall be settled in cash to be paid by the Vendor to the Company. The Vendor shall settle and pay all relevant amounts that is payable within 14 Business Days upon the issuance of the audit report of the Target Company covering the period one year after Completion.

The Vendor agrees to provide to the Company the audited accounts of the Target Company for the financial year ended 31 December 2020 and 2021 within one month after the Completion Date. In the event that the actual net profit after tax of the Target Company as per the audited accounts for the financial year ended 31 December 2021 is less than the unaudited net profit after tax of the Target Company as per the unaudited management accounts of the Target Company for the corresponding financial period by 5% or more, for every HK\$1 shortfall, the Vendor and the Guarantor shall compensate the Company by HK\$8.

The Guaranteed Profit was arrived at after arm’s length negotiations between the Parties with reference to (i) historical financial performance of the Target Company with profit-making record; (ii) the business development and future prospect of the Target Company; and (iii) prospect of the nightlife and clubbing business in Hong Kong.

Conditions Precedent

Completion shall be conditional upon and subject to:

- (a) the Listing Committee of the Stock Exchange having granted approval for the listing of, and permission to deal in, the Consideration Shares;
- (b) all necessary consents, authorisations, approval, licence, permission, order (or, as the case may be, relevant waiver or exemption) in connection with the Agreement and the transactions contemplated thereby having been obtained by the respective Parties (including but not limited to, the necessary consent from the Stock Exchange and banks);
- (c) the representations, warranties and undertakings provided by the Vendor set out in the Agreement remaining true, accurate and not misleading in any respect at Completion as if repeated at Completion and at all times between the date of the Agreement and Completion.

As at the date of this announcement, no condition precedent has been fulfilled or waived. The Company may waive the conditions precedent (c) at its discretion. If the conditions precedent have not been satisfied (or, as the case may be, waived by the Company) on or before the Long Stop Date, the Company shall not be bound to proceed with the purchase of the Sale Shares and the Agreement (other than the survival clause(s)) shall from the Long Stop Date, become void and of no further effect and, save in respect of any antecedent breaches, all liabilities and obligations of the Parties shall cease and determine provided that such termination shall be without prejudice to any rights or remedies of the parties thereto which shall have accrued prior to such termination.

The Guarantor irrevocably and unconditionally agrees to guarantee the due and punctual performance of the Vendor's obligations under this Agreement.

Completion

Completion shall take place on the Completion Date which is the third business days after the date that the conditions precedent of the Agreement have been fulfilled (or waived as the case may be) or such date as the Vendor and the Company may agree in writing.

On the Completion Date, subject to the performance of the obligations of the Vendor on or before the Completion Date, the Company shall allot and issue the Consideration Shares to the Vendor. The Company shall appoint one director to be nominated by the Seller to the Board as executive director with effect from Completion. The Board is pleased to announce the appointment of Mr. Jonathan Cheng as executive Director of the Company with effect from the Completion Date.

Upon Completion, the Target Company will become a direct wholly-owned subsidiary of the Company and accordingly, the financial results of the Target Company will be consolidated into the accounts of the Company.

THE CONSIDERATION SHARES

The Consideration Shares will be allotted and issued at the Issue Price of HK\$0.08 each, credited as fully paid. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such allotment and issue.

The Issue Price represents:

- (i) a discount of approximately 12.09% over the closing price per Share of HK\$0.091 as quoted on the Stock Exchange on 13 June 2022, being the date of the Agreement; and
- (ii) a discount of approximately 10.11% over the average closing price per Share of HK\$0.089 as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the date of the Agreement.

The Issue Price was arrived at after arm's length negotiations between the Company and the Vendor with reference to the prevailing market price of the Shares and the current market conditions. The Directors consider the Issue Price is fair and reasonable.

The Consideration Shares represent 19.16% of the number of issued Shares as at the date of this announcement and represent 16.08% of the number of issued Shares as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares will be allotted and issued pursuant to the General Mandate and will be allotted and issued on the date of Completion. As at the date of this announcement, no Share has been issued and allotted under the General Mandate. Accordingly, the issue of the Consideration Shares will fall within the limit of the General Mandate and will not be subject to approval by the Shareholders.

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

INFORMATION OF PARTIES TO THE AGREEMENT

Information of the Purchaser

The purchaser is a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the GEM.

Information of the Vendor

The Vendor is a company incorporated in the Cayman Islands with limited liability and is an investment holding company. The Vendor is a wholly-owned subsidiary of the Guarantor.

Information of the Guarantor

LC Capital Limited (“**LC Capital**”), is a company incorporated in Hong Kong with limited liability and the holding company of the Vendor. LC Capital was founded in 2015 as a private equity consulting and advisory firm offering lifecycle support from inception to structuring and implementing orchestrated exit strategies in the small to medium enterprise space. Since then, it has transitioned into a full corporate outfit and group of companies. Backed by a private equity fund, LC Capital now operates various businesses in the luxury real estate, entertainment and media industries across the Asia Pacific with a particular focus in Japan and Hong Kong. It continually seeks out opportunities through both lateral and vertical integration in growing its portfolio. The Vendor and the Guarantor are ultimately controlled as to 88% by Mr. Jonathan Cheng and two other individuals who are Independent Third Parties who each hold less than 10% of the shareholding of the Guarantor. Please also refer to the paragraph headed “Appointment of Executive Director” for background of Mr. Jonathan Cheng.

INFORMATION OF THE TARGET COMPANY

The Target Company is a company incorporated in Hong Kong with limited liability, which is wholly owned by the Vendor. The Target Company is a holding company and is principally engaged in the operation of nightlife and clubbing business known as “C45” located at 1st & 2nd floor of California Tower, 32 D’Aguilar Street, Central, Hong Kong. C45 operates as a restaurant/ nightclub occupying approx. 10,000 ft² and has been in operations since November 2020. Despite the pandemic, C45 has sustained its operations through the multiple industry shut downs with financial information of the Target Company set out below.

FINANCIAL INFORMATION OF THE TARGET COMPANY

Set out below is a summary of the key financial data of the Target Company extracted from its unaudited financial statements for the years ended 31 December 2020 and 31 December 2021:

	For the year ended 31 December 2020 (unaudited) HK\$'000	For the year ended 31 December 2021 (unaudited) HK\$'000
Turnover	793	31,689
Net profit before taxation	141	5,403
Net profit after taxation	130	4,676
Gross Profit	709	26,931

According to the unaudited financial statements of the Target Company, the Target Company recorded net assets of approximately HK\$4.8 million as at 31 December 2021.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the operation of clubbing business and restaurants.

Despite the impact the pandemic has had on the industry, the situation in Hong Kong has recently taken a turn for the positive. The Board believes that the existing policies and systems developed by the HKSAR government is more than equipped to deal with any future and potential outbreaks of the virus within the community and is cautiously optimistic for the future of the industry and for Hong Kong.

The Board believes the acquisition of C45 represents a good opportunity for the Group to further expand the clubbing business of the Group and will broaden the income stream of the Group and is in the interests of the Company and the shareholders as a whole.

Furthermore, as the Consideration is satisfied through the issue of the Consideration Shares, it will not impose immediate cashflow burden to the Group. In addition, the existence of the Guaranteed Profits and compensation mechanism will effectively reduce the Consideration in the event of shortfall in the Guaranteed Profit. As such, it provides extra protection to the Group regarding the risk of the Target Company not sustaining its initial performance and growth.

In view of the above, the Directors are of the view that the terms and conditions of the Acquisition are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

EFFECT ON THE SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the allotment and issue of the Consideration Shares upon Completion:

Name of Shareholders	As at the date of this announcement		Immediately upon Completion	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
Welman Investment Co. Ltd (“ Welman ”)	1,093,500,000	48.51%	1,093,500,000	40.71%
Kenbridge Limited (“ Kenbridge ”)	121,500,000	5.39%	121,500,000	4.52%
Trendy Pleasure Limited (“ Trendy ”)	300,000,000	13.31%	300,000,000	11.17%
Vendor	0	0.00%	432,000,000	16.08%
Public shareholders	<u>739,400,000</u>	<u>32.80%</u>	<u>739,400,000</u>	<u>27.52%</u>
Total	<u><u>2,254,400,000</u></u>	<u><u>100.00%</u></u>	<u><u>2,686,400,000</u></u>	<u><u>100.00%</u></u>

APPOINTMENT OF EXECUTIVE DIRECTOR

As part of the Acquisition, the Board is also pleased to announce the appointment of Mr. Jonathan Cheng (“**Mr. Cheng**”) as an executive Director of the Company with effect from the Completion Date.

Mr. Cheng is currently the Group Chief Executive Officer and Managing Director of LC Capital Limited. Helmed by Mr. Cheng, LC Capital Group is a private equity group of companies operating in the luxury real estate, entertainment and F&B, and media industries in Asia Pacific.

Mr. Cheng’s wealth of experience spans over two decades in starting up new enterprises with the last 17 years spent focusing on private equity and has spearheaded many successful projects, especially in the Asia-Pacific region. Mr. Cheng sits on multiple boards, across various industries from property development to venture capitalists. As at the date of this announcement, Mr. Cheng is also the Executive Chairman and Managing Director of Ultima United Limited (ASX: UUL) a listed real estate developer in Perth, Australia. He holds double master’s degrees in Business Administration and Economics from Murdoch University.

Save as disclosed above, Mr. Cheng does not hold any other positions with the Company or its subsidiaries. Mr. Cheng did not hold any directorships in other listed public companies in Hong Kong in the past three years. Mr. Cheng does not have any relationship with any of the directors, senior management, substantial or controlling shareholders (as defined in the GEM Listing Rules) of the Company; and he does not have any interests in the shares or underlying shares of the Company which are required to be disclosed pursuant to Part XV of the SFO.

Save as disclosed, as at the date of this announcement, there was no other information relating to Mr. Cheng that is required to be disclosed pursuant to any of the requirements of Rule 17.50(2)(h) to (v) of the GEM Listing Rules and there was no other matter in relation to the appointment of Mr. Cheng which needs to be brought to the attention of the shareholders of the Company.

Mr. Cheng will enter into a service contract as an executive Director of the Company for a term of three years commencing with effect from the Completion Date. The service contract can be terminated by either party by giving written notice of no less than one month. Mr. Cheng's remuneration will be discussed and approved by the Board in due course, under the recommendation from the Remuneration Committee with reference to his background, qualification, experience, duties and responsibilities within the Group and prevailing market conditions.

The Board would like to take this opportunity to extend its warmest welcome to Mr. Cheng for joining the Board.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

The Board is pleased to announce that with effect from 20 June 2022, Mr. Chan Wai has been appointed as an independent non-executive Director. The biographical details of Mr. Chan are set out as follows:

Mr. CHAN Wai, aged 52, is a member of the Hong Kong Institute of Certified Public Accountants, an associate of the Association of Chartered Certified Accountants and Institute of Chartered Accountants in England and Wales with more than 29 years of experience in accounting and financial management. He has been the company secretary and chief financial officer of Katone Holdings Limited (stock code: 1059) and Champion Technology Holdings Limited (stock code: 92) since October 2016. Prior to that, he worked as chief financial officer and company secretary at Culture Landmark Investment Limited (stock code: 674), China Media and Films Holdings Limited (stock code: 8172), Doyen International Holdings Limited (stock code: 668). Mr. Chan holds a master degree in Professional Accounting awarded by The Hong Kong Polytechnic University.

Mr. Chan has entered into a letter of appointment with the Company, for a term of one year commencing from 20 June 2022, which shall be extended automatically for a term of one year thereafter until terminated by either party by giving not less than three months' written notice to the other party. He will be subject to retirement by rotation and re-election at the general meetings of the Company in accordance with the memorandum and article of association of the Company and the GEM Listing Rules. He is entitled to receive a monthly director's fee of HK\$10,000. Mr. Chan's emolument is determined based on his qualifications, experience, level of responsibilities undertaken, the prevailing market conditions and the Company's remuneration policy.

Save as disclosed above, as at the date of this announcement, Mr. Chan (i) has not held any directorships in other listed public companies in the last three years; (ii) does not have any relationship with any director, senior management or substantial shareholder (as defined in the GEM Listing Rules) or controlling shareholder (as defined in the Listing Rules) of the Company; and (iii) does not have any interests in the securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Mr. Chan has confirmed that he has met the independence criteria as set out in Rule 5.09 of the GEM Listing Rules. Save as disclosed above, there is no other information which is discloseable pursuant to any of the requirements under Rules 17.50(2)(h) to 17.50(2)(v) of the Listing Rules, and there are no other matters relating to the appointment of Mr. Chan that need to be brought to the attention of the shareholders of the Company.

The Board would like to take this opportunity to welcome Mr. Chan for joining as a member of the Board.

CHANGE OF COMPOSITION OF AUDIT COMMITTEE

As a result of the appointment of Mr. Chan as independent non-executive Director, with effect from the 20 June 2022, Mr. Chan has been appointed chairman of the Audit Committee.

COMPLIANCE WITH THE LISTING RULES

Following the appointment of Mr. Chan as an independent non-executive Director and chairman of the Audit Committee, the Company shall comply with the requirement of Rules 5.05(1), 5.05(A) and 5.28 of the GEM Listing Rules.

GEM LISTING RULES IMPLICATIONS

As the highest of the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“Acquisition”	the proposed acquisition of 100% of the issued share capital of the Target Company pursuant to the terms and conditions of the Agreement
“Agreement”	the sale and purchase agreement dated 13 June 2022 entered into among the Company, the Vendor and the Guarantor in relation to the Acquisition
“Applicable Laws”	in respect of any person, any laws, rules, regulations, directives, decrees, treaties, or orders of any authority (including but not limited to the GEM Listing Rules), that are applicable to and binding on such person
“Business Day(s)”	a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Company”	Luk Hing Entertainment Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the GEM (Stock code: 8052)
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement
“Completion Date”	means the third business day after the date that the conditions precedent of this Agreement have been fulfilled (or waived as the case may be) or any other date agreed in writing by the Vendor and the Company.
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Consideration”	the consideration for the Acquisition, being HK\$34,560,000
“Consideration Shares”	432,000,000 new Shares to be issued to the Vendor at an issue price of HK\$0.08 per new Share as part of the Consideration

“Director(s)”	the director(s) of the Company
“GEM”	the Rules Governing the Listing of Securities on GEM
“General Mandate”	the general mandate granted to the Directors at the annual general meeting of the Company held on 18 June 2021. Under this general mandate, the Directors are allowed to allot and issue up to 432,000,000 Shares. As at the date of this announcement, no Shares have been issued and allotted under the General Mandate
“Group”	the Company and its subsidiaries
“Guarantor”	LC Capital Limited, a limited liability company incorporated in Hong Kong and the holding company of the Vendor
“HKFRS”	the financing reporting standards and interpretations including: (a) Hong Kong Financial Reporting Standards; (b) Hong Kong Accounting Standards; and (c) Interpretations issued by the Hong Kong Institute of Certified Public Accountants
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company and any of its connected persons (having the meaning ascribed to it under the GEM Listing Rules)
“Issue Price”	HK\$0.08 per Consideration Share
“Listing Committee”	has the meaning ascribed to it under the GEM Listing Rules
“Long Stop Date”	27 June 2022, or such later date as the Vendor and the Company may agree in writing
“Sale Shares”	10,000 fully paid ordinary shares of the Target Company, representing 100% of the issued share capital of the Target Company

“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	C45 Holdings Limited a company incorporated in Hong Kong with limited liability, which is wholly owned by the Vendor immediately prior to Completion
“Vendor”	Infinity Entertainment Group Limited, a company incorporated under the laws of the Cayman Islands
“%”	per cent

By order of the Board
Luk Hing Entertainment Group Holdings Limited
Choi Yiu Ying
Chairman and Executive Director

Hong Kong, 13 June 2022

As at the date of this announcement, the executive Directors are Mr. Choi Yiu Ying, Mr. Choi Siu Kit, Mr. Yeung Chi Shing and Mr. Zhang Rongxuan; the non-executive Director is Mr. Au Ka Wai; and the independent non-executive Directors are Mr. Tang Tsz Tung and Mr. Ip Hoi Fan.

This announcement, for which all the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on “Latest Company Announcements” page of the Stock Exchange at www.hkex.com.hk for at least 7 days from the date of its publication. This announcement will also be published on the website of the Company at www.lukhing.com.