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WINTO GROUP (HOLDINGS) LIMITED

惠陶集團(控股)有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 8238)

INSIDE INFORMATION ANNOUNCEMENT MEMORANDUM OF UNDERSTANDING IN RELATION TO THE POSSIBLE ACQUISITION

This announcement is made by the Company pursuant to Rule 17.10 of the GEM Listing Rules and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong).

The Board announces that on 11 October 2018 (after trading hours), the Company, as purchaser, entered into an MOU with the Vendors, pursuant to which the Vendors proposed to sell and the Purchaser proposed to acquire 51% of the issued share capital of the SPV, which shall in turn hold the entire equity interest in the Target Company upon completion of the Restructuring. The parties agree that the MOU shall be legally binding with effect from the date of the MOU.

The Board wishes to emphasise that the MOU may be terminated and the parties may or may not enter into the Formal Agreement. Completion of the Possible Acquisition under the Formal Agreement, if signed, would also be subject to a number of conditions precedents which may or may not be fulfilled. As such, the Possible Acquisition may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

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MEMORANDUM OF UNDERSTANDING IN RESPECT OF THE POSSIBLE ACQUISITION

Date: 11 October 2018 (after trading hours)

Parties:

The Purchaser: The Company, as the proposed purchaser

The Vendors: all the existing shareholders of Target Company

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Vendors is not connected person of the Company and is third party independent of the Company and its connected persons.

Major terms of the MOU

Subject matter

Pursuant to the MOU, as part of the Restructuring, the Vendors agreed to procure the entire equity interest of the Target Company to be transferred to the SPV. Upon completion of the Restructuring, the Company intends to acquire 51% of the issued share capital in the SPV, which in turn holds the entire equity interest in the Target Company.

Consideration

The consideration for the Possible Acquisition shall be HK\$201,960,000. The consideration shall be settled in the following manner:

- (i) HK\$75,460,000 in cash;
- (ii) HK\$60,000,000 by issue of Notes with a maturity of one year after the completion of the Possible Acquisition. The Notes shall be repaid by the Company in cash or by way of issue and allotment of not more than 857,142,857 Consideration Shares at Issue Price; and
- (iii) HK\$66,500,000 by issue of 950,000,000 Consideration Shares at the Issue Price.

The schedule for settlement of the above consideration shall be further determined and agreed by the parties in the Formal Agreement.

As at the date of this announcement, the Company has 8,640,000,000 Shares in issue. Assuming the issue and allotment of 857,142,857 Consideration Shares as repayment of the Notes upon maturity, together with the 950,000,000 Consideration Shares, on an aggregate basis, the 1,807,142,857 Consideration Shares represent approximately 20.92% of the existing issued share capital of the Company and approximately 17.30% of the issued share capital of the Company as enlarged by the allotment and issuance of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company). The Consideration Shares shall be allotted and issued pursuant to a specific mandate to be granted by Shareholders at the extraordinary general meeting of the Company.

Profit Guarantee

Pursuant to the MOU, based on the audit report prepared by the qualified auditing firm approved by the Company, in the event that the net profit after taxation of the Target Company for the financial year 2018 falls below HK\$30,000,000, the Vendors shall, jointly and severally, within 10 business days of such audit report, make an one-off compensation (“**Compensation Sum**”) to the Company (or its designated nominee). The Compensation Sum is calculated based on the following formula:

Compensation Sum = 12 x (HK\$30,000,000 – the actual audited net profit for the financial year 2018)

The parties agrees that the Compensation Sum shall be offset against the outstanding principal amount of the Notes issued by the Company. In the event that the Compensation Sum exceeds the outstanding principal amount of the Notes, the Vendors shall compensate the Company (or its designated nominee) for such shortfall amount in cash.

Conditions precedent

It is intended that the Possible Acquisition will be conditional upon, including but not limited to, the following conditions precedent:

- (i) the Company being satisfied with the results of the due diligence review of the business, legal status and financial position of the Target Company;
- (ii) the completion of the Restructuring and the Company being satisfied with the restructuring results;
- (iii) the passing by the shareholders of the Company in an extraordinary general meeting approving the Formal Agreement, the issue and allotment of the Consideration Shares and the transactions contemplated thereunder; and
- (iv) the Company obtaining the approval of the listing of, and permission to deal in, the Consideration Shares granted by the Listing Committee of the Stock Exchange.

Exclusivity

Each of the Vendors and the Target Company, jointly and severally, undertakes that from the date of the MOU to 30 November 2018, the Vendors and the Target Company shall not directly or indirectly, through any representative or in any way encourage, discuss, accept or consider any third party's proposal to acquire, in whole or in part, any interest in the equity interest of the Target Company or its assets or business.

Legal effect of the MOU

The MOU shall become effective upon the date of execution and be terminated (i) automatically upon the execution of Formal Agreement; (ii) by way of a written termination agreement entered into between the parties; or (iii) on 30 November 2018 if the parties are unable to enter into a Formal Agreement.

Due diligence review

After the signing of the MOU, the Company shall be entitled to carry out due diligence on the Target Company and its business. The Vendors and the Target Company shall provide assistance in connection with the due diligence review, including but not limited to, providing the information and documents as required by the Company.

INFORMATION OF THE COMPANY AND THE VENDORS

Information of the Company

The Company is principally engaged in (i) sales and free distribution of Chinese language lifestyle magazines, the sales of advertising space in the magazines, and outdoor advertising; (ii) organizing exhibitions, events and trade shows for the promotion of products and services, and provision of ancillary services; and (iii) mobile phone apps development, provision of apps solutions and provision of online marketing planning and production.

Information of the Vendors

The Vendors are the existing shareholders of the Target Company. As of the date of this announcement, the Target Company is held as to 51% by Li Li Ya (李立亞), 34% by Wang Jing (王晶) and 15% by another four individual shareholders.

INFORMATION OF THE TARGET GROUP

The SPV is a special purpose vehicle to be incorporated by the Vendors in Seychelles. Upon completion of the Restructuring, the SPV shall hold the entire equity interest in the Target Company.

The Target Company was established in the PRC in July 2011. The Target Company is principally engaged in online advertising, online gaming and entertainment platform specializing in the development and operation of boutique internet games. It provides a platform with creative planning, art design, technology research and development, product development, game promotion, operation and maintenance, and game peripheral industry cooperation.

REASONS FOR THE POSSIBLE ACQUISITION

The Company notices that there has been a rapid growth in the mobile online game industry in the PRC with an unprecedented growth in users of smartphones and other mobile devices. The growth is expected to continue in the coming years driven by the rapid growth of smartphone penetration and the increased demand for online entertainment.

Multimedia advertising and mobile phone apps development, provision of apps solutions and provision of online marketing planning and production have been the principal businesses of the Group. By utilising the Group's multimedia advertising and the information technology-related experiences and the well-established connections of the Target Company, the Directors are confident that synergy effect and strategic partnership could be achieved with the existing principal businesses of the Group through the Possible Acquisition.

In particular, after having considered the financial performance of the Group and the loss position of the Group for the three financial years ended 31 December 2017, the Directors believe that the Possible Acquisition, together with the profit guarantee assurance from the Vendors, the Group will be in a better position to capture the market potential in the mobile online game industry and further expand its multimedia advertising business which will lead to a positive impact on the Group's profitability.

Based on the above, the Board considers that the Possible Acquisition, if materialised, is in the interests of the Company and the Shareholders as a whole.

GENERAL

As the MOU only contains the principal terms of the Possible Acquisition, the Vendors and the Purchaser will negotiate and agree on the definitive terms of the Formal Agreement to be signed. After the signing of the Formal Agreement pursuant to the MOU, the Company will publish further announcement(s) containing definitive details of the Possible Acquisition in compliance with the requirements under the GEM Listing Rules.

The Possible Acquisition is subject to further negotiations and the MOU may or may not lead to the entering into of the Formal Agreement.

The Board wishes to emphasise that the MOU may be terminated and the parties may or may not enter into the Formal Agreement. Completion of the Possible Acquisition under the Formal Agreement, if signed, would also be subject to a number of conditions precedents which may or may not be fulfilled. As such, the Possible Acquisition may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

DEFINITIONS

Unless the context requires otherwise, the capitalised terms used in this announcement shall have the following meanings:

“Board”	the board of Directors
“Company”	Winto Group (Holdings) Limited (惠陶集團(控股)有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the GEM (stock code: 8238)
“connected person”	has the meanings as ascribed to it under the GEM Listing Rules
“Consideration Shares”	not more than 1,807,142,857 new Shares to be issued by the Company to the Vendor at the Issue Price as the part of the consideration for the Possible Acquisition
“Director(s)”	director(s) of the Company
“Formal Agreement”	the formal sale and purchase agreement which may or may not be entered into between the Company and the Vendors in relation to the Possible Acquisition
“GEM”	the Growth Enterprise Market
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Issue Price”	HK\$0.07 per Consideration Share

“MOU”	the memorandum of understanding dated 11 October 2018 entered into between the Company and the Vendors in relation to the Possible Acquisition
“Notes”	the notes to be issued by the Company in the principal amount of no less than HK\$60,000,000 to the Vendors as part of the consideration of the Possible Acquisition
“Possible Acquisition”	the possible acquisition by the Company of the 51% of the issued share capital in the SPV after Restructuring from the Vendors
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Restructuring”	the corporate restructuring of the Target Company where the Vendors, as the existing shareholders of the Target Company, will transfer all of their respective equity interest in the Target Company to the SPV. Upon completion of the corporate restructuring, (i) the Target Company will be held as to 100% by the SPV; and (ii) the SPV will be held as to 100% by Li Li Ya (李立亞) and Wang Jing (王晶).
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SPV”	a special purpose vehicle company to be incorporated by the Vendors in Seychelles with limited liability to receive the transfer of all the equity interest in the Target Company from the Vendors as part of the Restructuring
“Target Company”	眾體時代(北京)科技有限公司, a company established in PRC with limited liability

“Vendors” all the existing shareholders of Target Company. For details, please refer to section headed “Information of the Company and the Vendors” of this announcement

“%” per cent.

By order of the Board
Winto Group (Holdings) Limited
Tang Yau Sing
Executive Director

Hong Kong, 11 October 2018

As at the date of this announcement, the Board comprises Mr. Tang Yau Sing as an executive Director; and Mr. Wen Kai, Mr. Tsang Zee Ho, Paul and Mr. Tse Chi Wai as independent non-executive Directors.

This announcement, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors of the Company, 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 the “Latest Company Announcements” page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting and be posted and remains on the website of the Company at <http://www.wintogroup.hk>