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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)

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RESPECT OF THE ACQUISITION OF
THE ENTIRE EQUITY INTEREST
AND SHAREHOLDER'S LOAN IN
DIGISMART (GROUP) LIMITED**

Financial adviser to the Company



INCUB Corporate Finance Limited

THE ACQUISITION

The Board is pleased to announce that on 16 October 2014 (after trading hours), the Purchaser, being a direct wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendors and the Vendors' Guarantors, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares and the Sale Loan at the Initial Consideration of HK\$200 million and an Earn-out Consideration of up to HK\$80 million. The Sale Shares represent the entire issued share capital of the Target Company.

The Consideration shall be satisfied by the Purchaser in cash and by procuring the Company to allot and issue an aggregate of 79,467,353 Consideration Shares and up to 34,364,261 Earn-out Consideration Shares at the Issue Price and credited as fully paid to the Vendors.

IMPLICATIONS UNDER THE LISTING RULES

The entire issued share capital of the First Vendor is legally and beneficially owned by Mr. Lau, who is the brother-in-law of Mr. Tsang, a former executive Director who resigned on 31 July 2014. Accordingly, the First Vendor and Mr. Lau are connected persons of the Company in accordance with Rule 14A.21(1) of the Listing Rules and the Acquisition constitutes a connected transaction of the Company under the Listing Rules. Save as disclosed, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendors, the Vendors' Guarantors and their respective associates are Independent Third Parties.

As the relevant applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition exceeds 5% but less than 25%, the Acquisition constitutes a discloseable and connected transaction on the part of the Company and is subject to the reporting and announcement requirements, and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee will be established to advise the Independent Shareholders in respect of the Acquisition. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in the same regard.

A circular containing, among other things, (i) further details of the Acquisition; (ii) a letter from the Independent Board Committee containing its advice to the Independent Shareholders in respect of the Acquisition; (iii) a letter from an independent financial adviser containing its advice to the Independent Board Committee and Independent Shareholders in respect of the Acquisition; and (iv) a notice convening the EGM, will be despatched to the Shareholders in accordance with the Listing Rules.

To allow the Company to have sufficient time to collate and review certain financial information necessary for the preparation of the circular, the circular is expected to be despatched to the Shareholders on or before 7 November 2014.

The Vendors, the Vendors' Guarantors and their respective associates are regarded as having material interest in the Acquisition and therefore they are required to abstain from voting on the resolution(s) proposed to be passed at the EGM for approving the Acquisition and the transactions contemplated under the Acquisition Agreement.

As the Acquisition Agreement is subject to a number of conditions precedent, the Acquisition Agreement may or may not become unconditional or be completed and the Consideration Shares and the Earn-out Consideration Shares (if any) may or may not be issued. Shareholders and potential investors should exercise caution when dealing in the Shares.

INTRODUCTION

Reference is made to the announcement of the Company dated 15 August 2014 in relation to the preliminary negotiation for several potential acquisitions.

The Board is pleased to announce that on 16 October 2014 (after trading hours), the Purchaser, being a direct wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendors and the Vendors' Guarantors, pursuant to which the Purchaser conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares and the Sale Loan at the Initial Consideration of HK\$200 million and an Earn-out Consideration of up to HK\$80 million. The Sale Shares represent the entire issued share capital of the Target Company. Details of the Acquisition Agreement are set out below.

THE ACQUISITION AGREEMENT

| | |
|----------------------|--|
| Date: | 16 October 2014 (after trading hours) |
| Purchaser: | Virtual Garden Investments Limited, a direct wholly-owned subsidiary of the Company |
| Vendors: | the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor |
| Vendors' Guarantors: | the First Vendor's Guarantor, the Second Vendor's Guarantor and the Third Vendor's Guarantor |

The entire issued share capital of the First Vendor is beneficially and legally owned by Mr. Lau, who is the brother-in-law of Mr. Tsang, a former executive Director who resigned on 31 July 2014. Accordingly, the First Vendor and Mr. Lau are connected persons of the Company in accordance with Rule 14A.21(1) of the Listing Rules and the Acquisition constitutes connected transaction for the Company under the Listing Rules. Save as disclosed above, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendors and their respective ultimate beneficial owners are Independent Third Parties.

Guarantee

The First Vendor's Guarantor, the Second Vendor's Guarantor and the Third Vendor's Guarantor agreed to irrevocably and unconditionally guarantee in favour of the Purchaser the due and punctual performance of the First Vendor, the Second Vendor and the Third Vendor respectively of all their obligations under the Acquisition Agreement and to indemnify the Purchaser against all losses, damages, costs and expenses arising from any failure by the First Vendor, the Second Vendor and the Third Vendor respectively to perform and/or observe any of its respective obligations under the Acquisition Agreement.

Assets to be acquired

Pursuant to the Acquisition Agreement, the assets to be acquired by the Purchaser are the Sale Shares and the Sale Loan.

The 11,000 Sale Shares represent the entire issued share capital of the Target Company, which were owned as to 8,550 Sale Shares, 1,400 Sale Shares, 800 Sale Shares and 250 Sale Shares by the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor respectively as at the date of this announcement, representing approximately 77.73%, 12.73%, 7.27% and 2.27% interests of the Target Company.

The Sale Loan represents the shareholder's loan owing by the Target Group to the First Vendor at Completion. As at the date of the Acquisition Agreement, the Sale Loan amounted to approximately HK\$5.17 million.

Consideration

Pursuant to the Acquisition Agreement, the Consideration comprises the Initial Consideration of HK\$200 million and the Earn-out Consideration of HK\$80 million, and shall be determined and settled in the following manner:

The Initial Consideration

The Initial Consideration of HK\$200 million shall be settled by the Purchaser (or the Company) (i) as to HK\$15 million in cash as a refundable deposit and part payment of the Initial Consideration payable to the First Vendor (or its nominee(s)) upon the signing of the Acquisition Agreement (the "**Deposit**"); and (ii) as to the remaining of HK\$185 million by procuring the Company to allot and issue an aggregate of 79,467,353 Consideration Shares at the Issue Price upon Completion, in which 60,332,708 Consideration Shares, 10,934,083 Consideration Shares, 6,248,047 Consideration Shares and 1,952,515 Consideration Shares will be issued to the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor respectively (or their respective nominee(s)) to settle the balance of the Initial Consideration

in the amount of approximately HK\$140.45 million, HK\$25.45 million, HK\$14.55 million and HK\$4.55 million respectively. The Initial Consideration represents approximately 20 price-earnings multiple of the Profit Guarantee (as disclosed in the paragraph headed “**Profit Guarantee**”) which is within the range of prevailing price-earnings multiples of listed companies in Hong Kong and the United States which are engaged in the similar business as the Target Group (“**Comparables PE**”) i.e. digital technology business and education business. The Comparables PE for digital technology business ranges from approximately 3.28 times to approximately 77.27 times and the Comparables PE for education business ranges from approximately 0.37 times to approximately 38.83 times.

The payment of the HK\$15 million cash consideration will be financed by internal resources of the Group.

The Earn-out Consideration

Pursuant to the Acquisition Agreement, in the event the Actual Net Profit exceeds the Profit Guarantee, the Company shall pay the Earn-out Consideration to the Vendors equal to the following formula:

$$(\text{Actual Net Profit} - \text{Profit Guarantee}) \times 20$$

Provided that such maximum amount of the Earn-out Consideration shall not, in any event, exceed HK\$80 million. The Earn-out Consideration shall be paid by the Purchaser by procuring the Company to allot and issue an aggregate of the Earn-out Consideration Shares to the Vendors (or their respective nominee(s)) at the Issue Price in the following proportion which is pro-rata to their respective shareholding in the Target Company:

| Vendors | Percentage of the Earn-out Consideration to be received by the Vendors | Maximum amount of the Earn-out Consideration HK\$ | Maximum amount of the Earn-out Consideration Shares |
|----------------|---|--|--|
| First Vendor | 77.73% | 62,184,000 | 26,711,340 |
| Second Vendor | 12.73% | 10,184,000 | 4,374,570 |
| Third Vendor | 7.27% | 5,816,000 | 2,498,282 |
| Fourth Vendor | 2.27% | 1,816,000 | 780,069 |
| | | 80,000,000 | 34,364,261 |

The Consideration was determined after arm's length negotiation among the Purchaser, the Vendors and the Vendors' Guarantors. Having considered (i) the business development and prospects of the Target Group in the medium to long term; (ii) the Profit Guarantee with price adjustment mechanism; (iii) the price-earnings multiple of the Target Group with reference to the Comparables PE; and (iv) the Consideration will be satisfied substantially by the issue and allotment of the Consideration Shares at Completion, the Directors (excluding the independent non-executive Directors whose view will be included in the circular after taken into account the advice from the independent financial adviser) consider that the Consideration is fair and reasonable and the terms and conditions of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Company will publish announcement to disclose the Actual Net Profit and the status of the Earn-out Consideration when appropriate.

Profit Guarantee

Pursuant to the Acquisition Agreement, each of the Vendors and the Vendors' Guarantors have jointly and severally warranted and guaranteed to the Purchaser that the audited consolidated net profit after taxation and before all non-cash items of the Target Group (based on the consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standards and to be audited by auditors appointed by the Company) for the financial year ending 31 December 2015 shall not be less than HK\$10 million.

In the event the Actual Net Profit is less than the Profit Guarantee, the Vendors shall compensate the Purchaser in cash on a joint and several basis, calculated as follows:

$$(\text{Profit Guarantee} - \text{Actual Net Profit}) \times 20$$

For the avoidance of doubt, if there is a consolidated net loss after tax and before all non-cash items for the Target Group for the financial year ending 31 December 2015, the Actual Net Profit shall be deemed as zero and the maximum amount of compensation will be HK\$200 million.

The Profit Guarantee was arrived at after arm's length negotiation between the Purchaser, the Vendors and the Vendors' Guarantors with reference to the business prospects and business development of the Target Group.

Conditions Precedent

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

- (a) the Purchaser being reasonably satisfied with the results of the due diligence review of the assets, liabilities, operations and affairs of the Target Group to be conducted as it may reasonably consider appropriate;

- (b) all necessary consents, licences and approvals required to be obtained on the part of the Purchaser and the Company in respect of the Acquisition Agreement and the transactions contemplated thereby having been obtained and remain in full force and effect;
- (c) the passing by the Independent Shareholders at the EGM approving the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares and the Earn-out Consideration Shares (if any);
- (d) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares and the Earn-out Consideration Shares (if any);
- (e) the warranties provided by the Vendors and the Vendors' Guarantors under the Acquisition Agreement remaining true, accurate and complete in all respects; and
- (f) the Purchaser being satisfied that there has not been any material adverse change in respect of any member of the Target Group since the date of the Acquisition Agreement.

Conditions (a), (e) and (f) above are waivable by the Purchaser (to the extent it is capable of being waived) under the Acquisition Agreement while all the other conditions are incapable of being waived. The Purchaser has no current intention to waive such conditions as at the date of this announcement.

If any of the above conditions is not fulfilled or waived (as the case may be) on or before 31 December 2014 (the "**Long Stop Date**") or such later date as the parties to the Acquisition Agreement may agree in writing, the Acquisition Agreement shall terminate, none of the parties to the Acquisition Agreement shall have any further obligations towards the other thereunder except for antecedent breaches (if any) and the First Vendor shall refund the Deposit (without interest) to the Purchaser (or its nominee(s)) within ten (10) Business Days from such date.

Completion

Completion shall take place within five (5) Business Days after all the conditions of the Acquisition Agreement have been fulfilled or waived or such later date as may be agreed between the Vendors and the Purchaser.

Upon Completion, the Company will be interested in the entire equity interests in the Target Company and the Target Group will be accounted for as wholly-owned subsidiaries of the Company.

ISSUE OF THE CONSIDERATION SHARES AND THE EARN-OUT CONSIDERATION SHARES

The Consideration Shares and the Earn-out Consideration Shares will be allotted and issued at HK\$2.328 per Share, credited as fully paid. The Issue Price was determined by the Board after taking into consideration of the prevailing Share prices and represents (i) a discount of approximately 9.77% to the closing price of HK\$2.58 per Share as quoted on the Stock Exchange on 16 October 2014, being the date of the Acquisition Agreement; and (ii) a discount of approximately 9.70% to the average of the closing prices of HK\$2.578 per Share as quoted on the Stock Exchange for the five (5) trading days immediately prior to the date of the Acquisition Agreement. The Directors (excluding the independent non-executive Directors whose view will be included in the circular after taken into account the advice from the independent financial adviser) consider that the Issue Price is fair and reasonable.

The Consideration Shares represent approximately 10.12% of the existing issued share capital of the Company and approximately 9.19% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares and the maximum number of Earn-out Consideration Shares represent approximately 14.50% of the existing issued share capital of the Company and approximately 12.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the maximum number of Earn-out Consideration Shares. The Consideration Shares and the Earn-out Consideration Shares (if any) will be allotted and issued pursuant to the specific mandate to be sought from the Independent Shareholders at the EGM. The Consideration Shares and the Earn-out 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.

Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares and the Earn-out Consideration Shares (if any).

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the date of this announcement and prior to Completion; (ii) immediately upon Completion and the allotment and issue of the Consideration Shares; and (iii) immediately upon Completion and the allotment and issue of the Consideration Shares and the maximum numbers of Earn-out Consideration Shares.

| | As at the date of this announcement | | Immediate upon Completion and the allotment and issue of the Consideration Shares | | Immediate upon Completion and the allotment and issue of the Consideration Shares and the maximum number of the Earn-out Consideration Shares | |
|--|-------------------------------------|------------------|---|------------------|---|------------------|
| | <i>Number of Shares</i> | <i>Approx. %</i> | <i>Number of Shares</i> | <i>Approx. %</i> | <i>Number of Shares</i> | <i>Approx. %</i> |
| Substantial Shareholders | | | | | | |
| Twin Star Global Limited (<i>Note 1</i>) | 147,238,000 | 18.75 | 147,238,000 | 17.03 | 147,238,000 | 16.38 |
| Mr. Wong Wai Sing | 4,100,000 | 0.52 | 4,100,000 | 0.47 | 4,100,000 | 0.46 |
| The Vendors | | | | | | |
| The First Vendor | – | – | 60,332,708 | 6.98 | 87,044,048 | 9.68 |
| The Second Vendor | – | – | 10,934,083 | 1.26 | 15,308,653 | 1.70 |
| The Third Vendor | – | – | 6,248,047 | 0.72 | 8,746,329 | 0.97 |
| The Fourth Vendor | – | – | 1,952,515 | 0.23 | 2,732,584 | 0.31 |
| Sub-total | – | – | 79,467,353 | 9.19 | 113,831,614 | 12.66 |
| Public Shareholders | | | | | | |
| | 633,943,667 | 80.73 | 633,943,667 | 73.31 | 633,943,667 | 70.50 |
| Total | 785,281,667 | 100.00 | 864,749,020 | 100.00 | 899,113,281 | 100.00 |

Note:

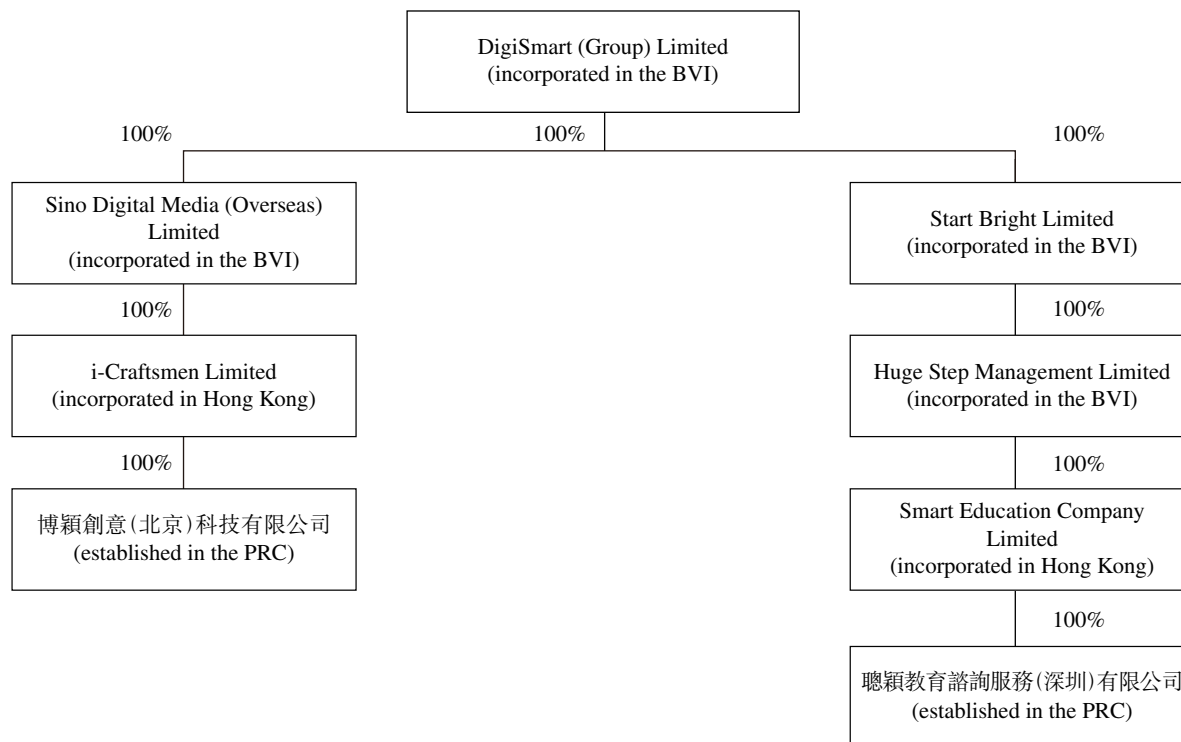
1. Twin Star Global Limited, a company incorporated in the BVI with limited liability, is owned as to 50% by Mr. Chum Hon Sing, the joint vice-chairman and an executive Director and as to 50% by Mr. Wong Wai Sing, the chairman and executive Director. Mr. Chum Hon Sing and Mr. Wong Wai Sing are deemed to be interested in 147,238,000 Shares held by Twin Star Global Limited.

INFORMATION ON THE TARGET GROUP

Background

The Target Company is a company incorporated in the BVI with limited liability and is principally engaged in investment holding. As at the date of the Acquisition Agreement, the Target Company is owned as to 77.73% by the First Vendor, 12.73% by the Second Vendor, 7.27% by the Third Vendor and 2.27% by the Fourth Vendor. The First Vendor, the Second Vendor and the Third Vendor are principally engaged in investment holding. The subsidiaries held by the Target Company are principally engaged in two major businesses, namely, the digital technology business and the education business.

The group chart of the Target Group as at the date of this announcement is as follows:



Digital Technology Business

The digital technology business is conducted through the Sino Digital Media Group, which was fully acquired by the Target Group at a consideration of HK\$70,000 on 24 December 2012.

Sino Digital Media (Overseas) Limited is interested in 100% equity interest in i-Craftsmen Limited which in turn is interested in 100% indirect equity interest in 博穎創意(北京)科技有限公司 (transliterating as DigiSmart Creations (Beijing) Technology Limited[#]). The Sino Digital Media Group focuses on provision of design and development of three-dimensional animations, augmented reality (“AR”) technology applications and e-learning web applications. Other services include the provision of digital media and content management services, mobile enterprise resources management, etc. In particular, the Sino Digital Media Group is experienced in the AR application. AR is a live, direct or indirect, view of a physical, real-world environment whose elements are supplemented by computer-generated sensory input, such as sound, video, graphics or GPS data that enriches the user’s perception of the real world. AR has been used in mobile applications for various publication and marketing campaigns, through which marketers are able to interact with their customers and attract their attentions to the products and services. The Sino Digital Media Group brainstorms, designs and develops these AR applications tailored for different marketers. Today, the Sino Digital Media Group has successfully provided services to a number of well-renowned enterprises in Hong Kong, Macau and the PRC, covering diverse business sectors, including but not limited to retails, gambling, education, and financial segments. With its original creativity and excellent design, different target audiences are attracted to the unique, creative, and impressive marketing experience through interacting with a mobile web or apps applications on palm. With the wide spread adaptation of mobility of technology, there is both a huge opportunity and audience for AR.

Education Business

The education business is conducted through the Start Bright Group, 51% interest and 49% interest of which were acquired by the Target Group on 16 July 2013 and 31 December 2013 respectively, at a total consideration of HK\$10 million.

Start Bright Limited is interested in 100% equity interest in Huge Step Management Limited which in turn is interested in 100% indirect equity interest in Smart Education Company Limited and 聰穎教育諮詢服務(深圳)有限公司 (transliterating as Smart Education Consulting Services (Shenzhen) Company Limited[#]). The Start Bright Group is principally engaged in provision of educational technology solutions through online education programs to primary and secondary schools students in Hong Kong and Macau. Since its establishment in 2007, it has already built close relationships with reputable multi-national educational institutions and publishers, namely, Cambridge University Press, British Broadcasting Corporation and the Commercial Press (H.K.) Ltd, for the provision of teaching materials and contents on its online education platforms, of which currently over 450 primary and secondary schools in Hong Kong and Macau are the subscribers. In addition, the Start Bright Group is the official representative of TOEIC (the Test of English for International Communication), TOEFL Junior tests (a general assessment of middle school-level

English-language proficiency of the Test of English as a Foreign Language) and TOEFL ITP (the Institutional Testing Program of the Test of English as a Foreign Language) in Hong Kong and Macau, and also the official representative of TOEIC (the Test of English for International Communication) (the tests of listening and reading only) in 8 provinces of the PRC, namely Guangdong Province, Hainan Province, Hunan Province, Jiangxi Province, Anhui Province, Hubei Province, Fujian Province and Yunnan Province. Currently, the Start Bright Group is also the official representative of TOEFL ITP (the Institutional Testing Program of the Test of English as a Foreign Language) in the Southern China. Revenue has began to generate from the authorised territories of the PRC since the second half of 2014.

FINANCIAL INFORMATION

Set out below are the unaudited consolidated financial results of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards for the financial years ended 31 December 2012, 31 December 2013 and five months ended 31 May 2014 provided by the Vendors:

| | For the year ended 31 December 2012 (Unaudited) <i>HK\$'000</i> | For the year ended 31 December 2013 (Unaudited) <i>HK\$'000</i> | For the five months ended 31 May 2014 (Unaudited) <i>HK\$'000</i> |
|-------------------|--|--|--|
| Revenue | – | 5,179 | 4,414 |
| Profit before tax | – | 134 | 1,372 |
| Profit after tax | – | 138 | 1,372 |

The unaudited consolidated net assets of the Target Group as at 31 May 2014 were approximately HK\$6.34 million.

As the Sino Digital Media Group and the Start Bright Group were acquired by the Target Group on 24 December 2012 and 16 July 2013 respectively, the financial results of the two groups prior to acquisitions are not included in the above unaudited consolidated financial results. Set out below are the separate unaudited financial results of the Sino Digital Media Group and the Start Bright Group for the financial years ended 31 December 2012, 31 December 2013 and five months ended 31 May 2014 provided by the Vendors:

Sino Digital Media Group

| | For the year ended 31 December 2012 (Unaudited) HK\$'000 | For the year ended 31 December 2013 (Unaudited) HK\$'000 | For 5 months ended 31 May 2014 (Unaudited) HK\$'000 |
|--------------------------|---|---|--|
| Revenue | 30 | 733 | 1,285 |
| Profit/(loss) before tax | (75) | (127) | 768 |
| Profit/(loss) after tax | (75) | (127) | 768 |

Start Bright Group

| | For the year ended 31 December 2012 (Unaudited) HK\$'000 | For the year ended 31 December 2013 (Unaudited) HK\$'000 | For 5 months ended 31 May 2014 (Unaudited) HK\$'000 |
|-------------------|---|---|--|
| Revenue | 13,406 | 10,612 | 3,128 |
| Profit before tax | 3,944 | 727 | 604 |
| Profit after tax | 3,851 | 601 | 604 |

REASONS FOR AND BENEFITS OF THE ACQUISITION

The principal activities of the Group are (i) manufacturing and trading of hygienic disposable for household and clinical trading of related raw materials; (ii) trading of Methyl Tertiary Butyl Ether products; (iii) wholesale and retail of household consumables; (iv) coal trading business; and (v) sales and distribution of jewelries and watches under the brand “Cosi Moda”.

Whilst the Group remains focused on developing its existing businesses, the Directors consider that it is beneficial for the Group to seek potential investment opportunities from time to time to strengthen its existing business portfolio and engage in a new line of business with growth potential and broaden its source of income.

Due to the rising popularity of smart phones and tablet personal computers, the use of mobile advertising is becoming more important for advertisers to reach their target customers, the digital technology and mobile application industry the Target Group operates possesses great potential demand.

In addition, the Directors consider that with the increasing emphasis on education for the next generation, the demand for high quality online education programs and English language tests with international recognition in Hong Kong, Macau and the PRC, the education business is of high market potential. The Board is optimistic on the business prospect of both the digital technology business and education business of the Target Group and foresees steady market growths in the future.

The Directors (excluding the independent non-executive Directors whose view will be included in the circular after taken into account the advice from the independent financial adviser) consider that the terms of the Acquisition are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

The entire issued share capital of the First Vendor is legally and beneficially owned by Mr. Lau, who is the brother-in-law of Mr. Tsang, a former executive Director who resigned on 31 July 2014. Accordingly, the First Vendor and Mr. Lau are connected persons of the Company in accordance with Rule 14A.21(1) of the Listing Rules and the Acquisition constitutes a connected transaction of the Company under the Listing Rules.

As the relevant applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition exceeds 5% but less than 25%, the Acquisition constitutes a discloseable and connected transaction on the part of the Company and is subject to the reporting and announcement requirements, and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee will be established to advise the Independent Shareholders in respect of the Acquisition. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in the same regard.

A circular containing, among other things, (i) further details of the Acquisition; (ii) a letter from the Independent Board Committee containing its advice to the Independent Shareholders in respect of the Acquisition; (iii) a letter from an independent financial adviser containing its advice to the Independent Board Committee and Independent Shareholders in respect of the Acquisition; and (iv) a notice convening the EGM, will be despatched to the Shareholders in accordance with the Listing Rules.

To allow the Company to have sufficient time to collate and review certain financial information necessary for the preparation of the circular, the circular is expected to be despatched to the Shareholders on or before 7 November 2014.

The Vendors, the Vendors' Guarantors and their respective associates are regarded as having material interest in the Acquisition and therefore they are required to abstain from voting on the resolution(s) proposed to be passed at the EGM for approving the Acquisition and the transactions contemplated under the Acquisition Agreement.

As the Acquisition Agreement is subject to a number of conditions precedent, the Acquisition Agreement may or may not become unconditional or be completed, the Consideration Shares and the Earn-out Consideration Shares (if any) may or may not be issued. Shareholders and potential investors should exercise caution when dealing in the Shares.

DEFINITIONS

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

| | |
|-------------------------|---|
| “Acquisition” | acquisition of the Sale Shares and the Sale Loan pursuant to the Acquisition Agreement |
| “Acquisition Agreement” | the conditional sale and purchase agreement dated 16 October 2014 entered into between Purchaser, the Vendors and the Vendors' Guarantors relating to the Acquisition |
| “Actual Net Profit” | the actual audited consolidated net profit after tax and before all non-cash items (as shown in the audited report prepared in accordance with Hong Kong Financial Reporting Standards and to be audited by auditors appointed by the Company) of the Target Group for the year ending 31 December 2015 |
| “Board” | board of the Directors from time to time |
| “Business Day(s)” | a day (other than a Saturday, a Sunday or a public holiday) on which licensed banks in Hong Kong are open for normal business throughout their normal business hours |
| “BVI” | the British Virgin Islands |
| “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 Stock Exchange (stock code: 1323) |

| | |
|---------------------------------|--|
| “Completion” | completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Consideration” | together, the Initial Consideration and the Earn-out Consideration |
| “Consideration Shares” | 79,467,353 new Shares to be issued by the Company to the Vendors at the Issue Price to settle the Initial Consideration |
| “Director(s)” | director(s) of the Company from time to time |
| “Earn-out Consideration” | the earn-out consideration of up to HK\$80 million to be settled by the Purchaser to the Vendors by procuring the Company to allot and issue the Earn-out Consideration Shares, as more particularly set out in the paragraph headed “Consideration” |
| “Earn-out Consideration Shares” | a maximum of 34,364,261 new shares which may fall to be issued by the Company to the Vendors to settle the Earn-out Consideration |
| “EGM” | the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder |
| “First Vendor” | Rosymount Limited, a company incorporated in the BVI with limited liability, which is legally and beneficially owned by the First Vendor’s Guarantor |
| “First Vendor’s Guarantor” | Mr. Lau, the sole shareholder of the First Vendor, being a connected person of the Company |
| “Fourth Vendor” | Mr. Chan Poon Yau Adrian, being an Independent Third Party |
| “Group” | together, the Company and its subsidiaries from time to time |
| “Hong Kong” | Hong Kong Special Administrative Region of the PRC |

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|--------------------------------|--|
| “Independent Board Committee” | the independent board committee of the Company to be formed by all the independent non-executive Directors to advise the Independent Shareholders on the terms of the Acquisition Agreement and the transactions contemplated thereunder |
| “Independent Shareholder(s)” | Shareholders other than the Vendors and Vendors’ Guarantors and their respective associates, who are required by the Listing Rules to abstain from voting on the resolutions approving the Acquisition Agreement and the transactions contemplated respectively thereunder |
| “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 Listing Rules) |
| “Initial Consideration” | an initial consideration of HK\$200 million to be paid by the Purchaser (or its nominee(s)) to the Vendors, as more particularly set out in the paragraph headed “Consideration” |
| “Issue Price” | the issue price of HK\$2.328 per Consideration Share or Earn-out Consideration Share (as the case may be) |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Macau” | the Macau Special Administrative Region of the PRC |
| “Mr. Lau” | Mr. Lau Isaac Bok-man Kaleo, the sole shareholder of the First Vendor, being a connected person of the Company |
| “Mr. Tsang” | Mr. Tsang Ho Ka, Eugene, a former executive Director who resigned on 31 July 2014, being a connected person of the Company |
| “PRC” | the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan |

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| “Profit Guarantee” | the profit guarantee that the audited consolidated net profit after taxation and before all non-cash items of the Target Group for the financial year ending 31 December 2015 will not be less than HK\$10 million |
| “Purchaser” | Virtual Garden Investments Limited, a company incorporated in the BVI with limited liability, being a direct wholly-owned subsidiary of the Company |
| “Sale Loan” | the shareholder’s loan, owing by the Target Group to First Vendor in the amount of approximately HK\$5.17 million |
| “Sale Shares” | 11,000 shares with nominal value of US\$1.00 each, being the entire issued share capital of the Target Company and as at the date of the Acquisition Agreement which are legally and beneficially owned by the Vendors |
| “Second Vendor” | Bright Form Limited, a company incorporated in the BVI with limited liability, which is wholly-owned by the Second Vendor’s Guarantor |
| “Second Vendor’s Guarantor” | Mr. Chan Kai Wing, the sole shareholder of the Second Vendor, being an Independent Third Party |
| “Share(s)” | ordinary share(s) of HK\$0.01 each in the share capital of the Company |
| “Shareholder(s)” | holder(s) of the Share(s) from time to time |
| “Sino Digital Media Group” | together, Sino Digital Media (Overseas) Limited and its subsidiaries, from time to time |
| “Start Bright Group” | together, Start Bright Limited and its subsidiaries, from time to time |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Substantial Shareholder(s)” | has the meaning ascribed to it under the Listing Rules |
| “Target Company” | DigiSmart (Group) Limited, a company incorporated in the BVI with limited liability |

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| “Target Group” | together, the Target Company and its subsidiaries from time to time |
| “Third Vendor” | Smart Great International Limited, a company incorporated in the BVI with limited liability, which is wholly-owned by the Third Vendor’s Guarantor |
| “Third Vendor’s Guarantor” | Ms. Tsang Wai Man Elsa, the sole shareholder of the Third Vendor, being an Independent Third Party |
| “United States” | the United States of America |
| “Vendors” | collectively, the First Vendor, the Second Vendor, the Third Vendor and the Fourth Vendor |
| “Vendors’ Guarantors” | collectively, the First Vendor’s Guarantor, the Second Vendor’s Guarantor and the Third Vendor’s Guarantor |
| “HK\$” | Hong Kong dollar(s), the lawful currency of Hong Kong |
| “US\$” | United States dollar(s), the lawful currency of the United States |
| “%” | per cent. |

By order of the Board of
Newtree Group Holdings Limited
Mr. Wong Wai Sing
Chairman and Executive Director

Hong Kong, 16 October 2014

As at the date of this announcement, the executive Directors are Mr. Wong Wai Sing, Mr. Chum Hon Sing, Ms. Sung Ting Yee, Mr. Lee Chi Shing, Caesar, Ms. Yick Mi Ching, Dawnibilly, Ms. Yu Tak Wai, Winnie and Mr. Chan Kin Lung, the non-executive Director is Mr. Mok Tsan San, and the independent non-executive Directors are Mr. Kwok Kam Tim, Mr. Kinley Lincoln James Lloyd, Mr. Tam Chak Chi and Dr. Hui Chik Kwan.

the English translations of Chinese names or words in this announcement, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.