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**SinoMedia**<sup>®</sup>

**SINOMEDIA HOLDING LIMITED**

**中視金橋國際傳媒控股有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 00623)**

## **SUPPLEMENTAL ANNOUNCEMENT**

### **DISCLOSABLE TRANSACTION**

### **SUBSCRIPTION OF EQUITY INTEREST IN TARGET COMPANY**

Reference is made to the Announcement of the Company in relation to the discloseable transaction under subscription of equity interest in the Target Company. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

The Company would like to provide further information in relation to the Investment Agreement and the Target Company.

### **BASIS OF DETERMINING THE CAPITAL CONTRIBUTION AMOUNT**

Before entering into the Investment Agreement, the Company had searched for an indication of value from the prices of similar companies or equity interests in such companies which were transacted recently. However, there was insufficient financial information of companies engaging in similar principal business as the Target Company with market segments including toy design and marketing, animation content creation and production and children education programme development available in the public domain, as the financial information of most of such companies is not publicly available.

As such, in evaluating whether the Capital Contribution Amount is fair and reasonable, the Company has considered the overall valuation of the Target Company after the previous round of capital injection as its starting point.

The Company has considered the contribution amount for the May 2019 Injection, in which Jinyi Weidu and Shanghai Junjin injected an aggregate of RMB120 million to the Target Company to acquire an aggregate of 2.91% equity interest in the Target Company. Based on the May 2019 Injection, the valuation of Target Company immediately after completion of the May 2019 Injection was RMB120 million divided by 2.91%, which was approximately RMB4,120 million.

Pursuant to the Investment Agreement, the Group agreed to contribute RMB122 million to acquire approximately 2.85% of the total equity interest in the Target Company, the valuation of Target Company is close to that of the May 2019 Injection, which was RMB122 million divided by 2.85%, which was approximately RMB4,282 million.

The following principal assumptions were also adopted by the Group in assessing the value of the Target Company:-

- (a) there would be no material change in the existing political, taxation, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Company;
- (b) the conditions in which the business was being operated and which were material to revenue and costs of businesses would have no material change;
- (c) the management of the Target Company had taken all reasonable steps to ensure that the information and representations provided were true, accurate, complete and not misleading, and that no material information or facts had been omitted or withheld;
- (d) competent management, key personnel and technical staff would be maintained to support the ongoing operation and development of the Target Company;
- (e) all licenses and permits that were essential for the operation of the Target Company could be obtained and would be renewable upon expiry;
- (f) there would be no material changes in relevant market return, market risk and exchange rates that would impact the Target Company's business operation; and
- (g) there were no hidden or unexpected conditions associated with the businesses valued that might adversely affect the value of the Target Company.

Further, Shanghai Junjin is a subsidiary of Shanghai Junzhi. Shanghai Junzhi Group is one of the leading strategic business consultancy service providers in the PRC and has expertise in the area of business management and investment, in particular in start-up enterprise investment and pre-IPO investment and has previously been engaged by major players in the different industries in the PRC which are household names, including a milk powder producer, a down clothing company, a ramen restaurant and a snacks producer, etc.

The Directors consider that the strategic investment by Shanghai Junzhi Group in the Target Company is beneficial to the Target Company since Shanghai Junzhi Group possesses invaluable expertise in business management and investment and therefore can bring in strategic insights to the future growth of the Target Company and it is expected that shareholders of the Target Company can have higher investment yields. Further, the recent capital contribution by Shanghai Junzhi Group and Jinyi Weidu, sophisticated institutional investors, also provides a benchmark for the Group to assess whether the Capital Contribution Amount is fair and reasonable so far as the Company is concerned.

In addition to the above, the Company has also taken into account of the prospects and business operation of the Target Company in determining the Capital Contribution Amount, in particular, the prospect of a possible initial public offering of the shares of the Target Company on stock exchange in the PRC. However, as at the date hereof, the possible initial public offering is still in a very preliminary stage and no proposal or application has been submitted to the relevant regulatory authorities in this regard.

## **DUE DILIGENCE ON THE TARGET COMPANY**

The Company has conducted financial due diligence and legal due diligence on the Target Group before entering into the Investment Agreement.

The aspects of the Target Group examined for the purpose of financial due diligence included:-

- (a) the historical financial information, including the accountants report of the Target Company for the year ended 31 December 2018 and the management accounts of the Target Company for the six months ended 30 June 2019;
- (b) financial and management systems;
- (c) taxation;
- (d) foreign exchange;
- (e) economic analysis and positioning; and
- (f) indebtedness, liquidity, financial resources and capital structure.

The aspects of the Target Group examined for the purpose of legal due diligence included:-

- (a) the corporate information, including shareholders and respective equity interests and directors and senior management;
- (b) business operation, products and services and regulatory compliance;
- (c) on-site inspection including the plant and machinery, animation studios and children's education programme development centres;
- (d) liabilities and guarantees;
- (e) material assets (including intellectual property rights and patents);
- (f) taxation;
- (g) employment contracts, social insurance and housing provident fund;
- (h) insurance;
- (i) material litigation, arbitration and administrative proceedings;
- (j) internal control systems;
- (k) connected parties and transactions;
- (l) material contracts; and
- (m) investments, branch companies and associates.

## **INFORMATION OF THE TARGET COMPANY**

The Target Company was established in 2014 and is principally engaged in animation content creation and production, children toy design and marketing, and children's education programme development, targeting children aged from 3 to 12 and their parents. It distributes its products through online stores on tmall.com, JD.com, and over 3,000 other offline stores in the PRC, as well as toy retailers such as Toys“R”Us in the PRC.

The three core business segments of the Target Group comprise of:-

- (a) large block series (布魯可大顆粒積木體系): block toys targeting children aged 6 or below and the Target Company owns patent registration in respect of the block designs;

- (b) animation intellectual property rights: the Target Company has produced animation series “Magic Blocks” (《百變布魯可》), which has been broadcasted on various channels in the PRC including CCTV-Children (央視少兒頻道), Kaku (卡酷), Jinying (金鷹) and Youman (優漫); and
- (c) education programme development: includes children computer programming course and block design program.

The information in relation to the Existing Shareholders is listed below.

Name of shareholder	Relationship with or role in the Target Company and (where applicable) principal business	Registered capital in the Target Company (RMB)	Approximate percentage of equity interest in the Target Company immediately after Completion
Mr. Zhu	Founder of the Target Company	25,600,000	68.14%
Ningbo Shengteng Investment Management Partnership (Limited Partnership)* (寧波聖騰投資管理合夥企業(有限合夥))	Employee stock ownership platform for the employees of the Target Company	4,500,000	11.98%
Jinyi Weidu	Independent Third Party investor principally engaging in investment holding	1,365,162	3.63%
Sheng Xiaofeng* (盛曉峰)	Chief Operations Officer of the Target Company	1,200,000	3.19%
CTV Golden Bridge	As stated in the Announcement	1,070,451	2.85%
Lin Qi* (林奇)	Independent Third Party investor	1,000,000	2.66%
Chen Weirui* (陳偉瑞)	Independent Third Party investor	1,000,000	2.66%
Yao Rongjun* (姚榮君)	Independent Third Party investor	438,710	1.17%
Shanghai Junjin	Independent Third Party investor principally engaging in industries investment, investment management and consultation and business consultation	438,710	1.17%

Name of shareholder	Relationship with or role in the Target Company and (where applicable) principal business	Registered capital in the Target Company (RMB)	Approximate percentage of equity interest in the Target Company immediately after Completion
Xinyu Bowen Investment Management Centre (Limited Partnership)* (新余博文投資管理中心(有限合夥))	Independent Third Party investor principally engaging in investment management, asset management, project investment, investment consultation, conferencing service, trade consultation and convention and organising of exhibitions and cultural events	331,613	0.88%
Qi Dahong* (齊大宏)	Independent Third Party investor	187,742	0.50%
Jin Xudong* (金旭東)	Independent Third Party investor	175,484	0.47%
Hangzhou Jinyi Maibang Investment Partnership (Limited Partnership)* (杭州金億麥邦投資合夥企業(有限合夥))	Independent Third Party investor principally engaging in industries investment, institutional equity investment, investment management and investment consultation	175,484	0.47%
Chen Libiao* (陳禮標)	Independent Third Party investor	87,742	0.23%
<b>Total</b>		<b><u>37,571,098</u></b>	<b><u>100%</u></b>

Based on the unaudited consolidated management accounts of the Target Company, for the ten months ended 31 October 2019, the revenue recorded was approximately RMB77 million, loss before and after taxation was approximately RMB142 million, and the net asset value as at 31 October 2019 was approximately RMB39 million.

## **REASONS AND BENEFITS OF THE PROPOSED INVESTMENT**

The Group anticipates that the Proposed Investment in the Target Company would create synergy effect to the Group and the Target Company as the Group plans to establish business partnership with the Target Company by leveraging on the Group's expertise in TV advertising, creative content production and digital marketing services to promote the Target Company's products. With the increased business cooperation, the Company expects that the business of the Target Company will grow through the joint efforts in advertising and brand promotion. Further, depending on the circumstances, the Group is given to understand that the Target Company will continue to explore various market opportunities to provide capital for its expansion and development. In light of the above, the Company is of the view that the Proposed Investment would bring in returns on investment by way of dividends (if declared) and potential capital gains on disposal (should any suitable opportunity arise).

Further, the following mechanisms are in place to safeguard the Group's investment in the Target Company:

- (a) The Target Articles provide protection for the minority shareholders of the Target Company, among other things, the dissenting shareholder has the right to require the Target Company to repurchase his/its equity interest in the Target Company at a reasonable price in the following circumstances:-
  - (i) for a consecutive period of five years, the Target Company has recorded profits and fulfils the conditions for declaration of dividends set out in the Target Articles each year but fails to declare dividends each year;
  - (ii) the merger, division or transfer of material assets of the Target Company; or
  - (iii) the expiry of the operation term set out in the Target Articles or the occurrence of any events for dissolution set out in the Target Articles but the shareholders of the Target Company amends the Target Articles to provide for the continual existence of the Target Company.

(b) For each board meeting of the Target Company, notice of the board meeting will be sent to all directors and shareholders of the Target Company at the same time. All shareholders of the Target Company (regardless of their respective interests in the Target Company) will be invited to appoint their representatives to attend the board meeting and therefore can gain access to the materials provided to the board, which may include the financial information of the Target Company, material business contracts and contracts not in the ordinary and usual course of business of the Target Company and investment opportunities and development strategies of the Target Company. It would allow the Company to evaluate its investment in the Target Company in a timely manner.

(c) In the event that the Target Company liquidates, dissolves or is wound-up for any reason whatsoever prior to (where applicable) its initial public offering, after satisfying the liabilities arising out of such liquidation, dissolution or winding-up, CTV Golden Bridge shall be entitled to be refunded with the Capital Contribution Amount in full and receive any corresponding undistributed profits in priority to other shareholders of the Target Company.

(d) Pre-emptive right in subscription

In the event that the Target Company further offers for subscription of its equity interest or conducts capital increase, such action shall be approved by at least two-third majority at general meetings of the Target Company and CTV Golden Bridge shall have the priority right to subscribe for such equity interest in proportion to its holding of equity interest in the Target Company on the same terms.

(e) Pre-emptive right in equity transfer and tag-along right

In the event that any Existing Shareholders proposes to sell its equity interest in the Target Company or any part thereof, CTV Golden Bridge shall have the right to, on the same terms, (a) purchase such equity interest in proportion to its holding of equity interest in the Target Company; or (b) sell its equity interest in the Target Company or any part thereof in proportion to its holding of equity interest in the Target Company to the proposed purchaser(s).

(f) Anti-dilution right

Unless with prior written consent of CTV Golden Bridge, the Target Company shall not accept any offers for subscription its equity interest at a price lower than the valuation of the Target Company as at the Proposed Investment.

In view of the above, the Directors believe that the Proposed Investment is in the interests of the Company and its Shareholders.



## FUTURE PLAN

As of the date of this announcement, the Group has no existing plan to further inject capital to the Target Company.

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

“Announcement”	the announcement of the Company published on 22 November 2019 in relation to the disclosable transaction under the subscription of equity interest in the Target Company
“Jinyi Weidu”	Hangzhou Jinyi Weidu Equity Investment Partnership (Limited Partnership)* (杭州金億緯度股權投資合夥企業(有限合夥)), one of the Existing Shareholders
“May 2019 Injection”	the previous round of capital injection of the Target Company conducted in May 2019
“Shanghai Junjin”	Shanghai Junjin Investment Management Co., Ltd.* (上海君進投資管理有限公司), one of the Existing Shareholders
“Shanghai Junzhi”	Shanghai Junzhi Investment Management Co., Ltd.* (上海君智投資管理有限公司), the holding company of Shanghai Junjin
“Shanghai Junzhi Group”	Shanghai Junzhi and its subsidiaries
“Target Articles”	the articles of association of the Target Company
“Target Group”	the Target Company and its subsidiaries

On behalf of the Board  
**SinoMedia Holding Limited**  
**Chen Xin**  
*Chairman*

Hong Kong, 13 December 2019

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

*As at the date of this announcement, the Board comprises Mr. Chen Xin, Ms. Liu Jinlan and Mr. Li Zongzhou as executive directors, and Mr. Qi Daqing, Ms. Wang Xin, Mr. He Hui David and Ms. Ip Hung as independent non-executive directors.*