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**Jiyi Holdings Limited**  
**集一控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1495)**

## **UPDATES ON PROFIT GUARANTEE IN RELATION TO THE ACQUISITION OF 51% ISSUED SHARE CAPITAL OF THE TARGET COMPANY**

Reference is made to the announcement of Ji Yi Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 19 February 2019 (the “**Announcement**”) in respect of the discloseable transaction of the acquisition (the “**Acquisition**”) of 51% issued share capital of Xinfeng Culture Media Limited (信豐文化傳媒有限公司) (the “**Target Company**”). Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement unless the context otherwise requires.

This announcement is made by the Company pursuant to Rule 14.36B(1) and Rule 14.36B(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) to inform the shareholders and potential investors of the Company about the latest status and updates of the Acquisition and the profit guarantee thereunder.

## **DUE DILIGENCE AND REPAYMENT ABILITY OF THE GUARANTORS**

Prior to entering into the Agreement for the Acquisition, the Company had conducted the following key due diligence work, inter alia, to ascertain the repayment ability of the Guarantors in case of occurrence of any shortfall of the Profit Guarantee:

- i) Scrutinized the Vendor's and the Target Company's legal and statutory documents, including their business licenses, certificates of incorporation, business registration certificates, annual returns, memorandums and articles of association, capital verification reports, registers of directors and members, etc.;
- ii) Reviewed legal agreements signed between the movie producer, the Vendor and the Target Company, such as the investment agreement and the supplementary investment agreement between the Vendor and the Movie's production company, the deed of assignment of income rights to transfer income rights from the Vendor to the Target Company, service and performance contracts with film production crew and actors, etc.;
- iii) Obtained understanding on the China's film industry value chain and the specific operational flows and cash flows of the Movie project;
- iv) Examined experience and track records, qualifications, business licenses, and competence of the directors of the Vendor, the Target Company, and the Agent to ensure they have sufficient knowledge and experience in managing movie distribution businesses and projects;
- v) Reviewed project proposal and other information of the Movie, including the Movie project introduction materials, international and PRC promotion and distribution plan, project timetable, release plan by location, details of the production team, etc.;
- vi) Conducted market analysis by examining the entertainment market environment, historical box office results and track record of movies with comparable themes and scale to assess investment profitability;
- vii) Reviewed financial projection of box office revenue and the relevant assumptions prepared by the Vendor and the Target Company;
- viii) Reviewed historical accounting records of the Vendor and the Target Company;

- ix) Performed on-site inspection of filming locations and interviews with actors, film production crew, the Vendor and the Guarantors;
- x) Conducted background checking and litigation search of the Vendor and the Guarantors to ensure full compliance with relevant rules and regulations, and to confirm there are no actual, hidden, or potential fraud, court cases or litigations that would be detrimental to the Company; and
- xi) Reviewed personal identification details, personal financial information, and assets proof of the Guarantors to assess their capability to perform their obligations and liabilities under the Agreement and the Deed of Personal Guarantee.

## **PERFORMANCE OF THE PROFIT GUARANTEE**

As disclosed in the Announcement, prior to the Completion and during the period of the Net Movie Income, the Vendor warranted and guaranteed to the Company that the total audited net profit after tax and net cash inflows before dividend paid for the two years ended 31 December 2019 and 2020 of the Target Company should be no less than HK\$180.0 million (“**Guaranteed Profit and Cashflow**”) and in the event less than **Guaranteed Profit and Cashflow**, the Vendor shall compensate the Purchaser such sum calculated as follows within thirty (30) days after the production of the audited financial statement for the year ending 31 December 2020 of the Target Company: “(Guaranteed Profit and Cashflow – total audited net profit after tax and net cash inflow before dividend paid for the two years ended 31 December 2019 and 2020)\*51%” (the “**Profit Guarantee**”). The achievement of the **Guaranteed Profit and Cashflow** was one of the conditions precedent of the Completion of the Acquisition.

The Movie was planned to be released in the PRC, Hong Kong and Taiwan in around March 2019 and in other areas around the world thereafter. However, according to the Vendor, which was also one of the issuers of the Movie, the release time of the Movie had been severely delayed due to the negative impacts brought by the COVID-19 epidemic in obtaining the relevant government approvals. The Movie was finally released on 15 January 2021 in the PRC, 16 January 2021 in Taiwan and 26 August 2021 in Hong Kong.

As the movie was not released until January 2021, the Target Company was not able to recognise any income or profits from the Target Asset for the two years ended 31 December 2019 and 31 December 2020. The Company received a copy of the audited financial statements for the years ended 31 December 2019 and 2020 of the Target Company from the Vendor, of which the Target Company recorded an aggregate net loss of approximately HK\$79,080 for the two years ended 31 December 2019 and 2020. Therefore, the Guaranteed Profit and Cashflow has not been achieved and hence the Conditions Precedent as stated in the Agreement have not been fulfilled.

As the Conditions Precedent of the Agreement have not been fulfilled and the Company would not proceed to Completion, the Company negotiated and delivered written notices during September and October 2021 to the Vendor and the Guarantors, being Mr. Tsang Hiu Yeung (“**Mr. Tsang**”) and Mr. Lu Yiting (“**Mr. Lu**”), and requested for the compensation of the shortfall in the Guaranteed Profit and Cashflows in accordance with the Agreement. Based on the calculation of 51% interest in the Target Company, the Company is entitled to a compensation of the shortfall in the sum of HK\$91,879,080 (the “**Shortfall**”).

Based on the on-going communication with the Vendor and the Guarantors, the Vendor and the Guarantors told the Company that they both suffered significant losses from their investments into the Movie, and their other businesses were also negatively impacted by the COVID-19 epidemic, which led them to financial difficulties and inability to fulfil the Profit Guarantee and their obligations to compensate the Company on the Shortfall. However, the Guarantors were willing to refund the first consideration of HK\$21.32 million (the “**First Consideration**”) to the Company by instalments.

## REPAYMENT ABILITY OF THE GUARANTORS

The Company performed background checking on the financial health of the Guarantors, based on the public information collated from the National Enterprise Credit Information Publicity maintained by the State Administration for Market Regulation and from the public search platform Tianyancha (“天眼查”), etc. Based on the background checking, the Company has identified at least 15 litigations records, including litigations commenced and court orders made against either of the Guarantors and/or the companies controlled by the Guarantors. According to the litigation search results, the litigations involved contractual dispute, winding-up, real property dispute, the amount of dispute ranged from RMB8,000 to RMB6,000,000, with time frame spanning from 4 January 2021 to 24 August 2022. In particular, Mr. Lu, one of the Guarantors, has been listed as a judgment debtor (被執行人) in several cases and was ordered to be restricted from high consumption (限制高消費) under the laws of the PRC.

While any freeze of assets could not be shown from public litigation search records, the Company was informed by Mr. Lu that his assets had been frozen (or preserved under the laws of the PRC) for fulfilment of the judgment debt. The Company also noted from the litigation search results that certain part of the judgment debts of Mr. Lu has been satisfied and others remained outstanding.

The Board considered that the Vendor and the Guarantors had failed to fulfil their obligations under the Profit Guarantee and the Agreement, and it was highly likely that the Vendor would not be able to compensate the Company on the Shortfall and refund the First Consideration to the Company on a lump-sum basis in accordance with the Agreement.

After considering the financial situation of the Guarantors, and after seeking advice from the Company’s legal counsel, in particular on the Company’s priority as a creditor, the time required and the estimated cost of taking legal actions against the Guarantors on the enforcement of the Profit Guarantee, the Board considered that against the probability that the Vendor and/or the Guarantors would make default to the refund of the First Consideration altogether, it would be fair and reasonable and in the interests of the shareholders of the Company to negotiate an interest-bearing repayment agreement with the Vendor and/or the Guarantors, such that the First Consideration could be refunded within a reasonable time period and with a reasonable return.

## REPAYMENT AGREEMENT

As such, the Company entered into a repayment agreement (the “**Repayment Agreement**”) with the Vendor and the Guarantors on 1 November 2021, pursuant to which the Guarantors agreed to refund the First Consideration of HK\$21.32 million, with a maturity date of 30 April 2024 and a 20% annual interest rate, to allow for refund of the First Consideration over a reasonable period of time and with a reasonable return.

The principal terms of the Repayment Agreement are set out as follows:

- i) The First Consideration will be deemed the initial principal of the loan amount (the “**Loan Amount**”) provided by the Company to the Vendor (i.e. the Borrower), the Loan Amount is jointly guaranteed by the Guarantors (i.e. Mr. Lu and Mr. Tsang).
- ii) The annual interest rate is 20% of the loan amount and will be calculated daily based on 365 days per year. The interest component shall be paid at least every three (3) months in accordance with the repayment schedule of the Repayment Agreement.
- iii) The Vendor or the Guarantors shall settle the principal and interest in 10 instalments in accordance with the repayment schedule of the Repayment Agreement every three (3) months. Any overdue or unpaid instalments (the “**Overdue Amount**”) will be added up to the total outstanding principal and interest payables, with an additional annual interest of 20% calculated on the Overdue Amount.
- iv) The Company has the priority and rights to receive any cash inflows from the Movie received by the Target Company.

The entering into the Repayment Agreement will further confirm the Group’s position as the creditor of the Vendor and the Guarantors and allow more senior priority as a creditor in case of the liquidation or bankruptcy of the Vendor and the Guarantors, than relying on the purely the Sale and Purchase Agreement entered with Vendor and the Deed of Personal Guarantee entered with the Guarantors. Further, considering the existing lawsuits against the Guarantors and their financial difficulty, even after incurring significant amount of time and legal costs to obtain a judgment against the Guarantors, the Company may not be able to successfully enforce any judgment and recover the judgment debts against the Guarantors.

Therefore, the Board considered that, since the Guarantors were willing to refund the First Consideration to the Company by instalments, the Company should try to reach a consensus with the Guarantor and try to make the Guarantor repay the Company by instalments under the conditions agreed by both parties, so as to increase the possibility to maximize the recoverable amount of the First Consideration, before taking legal action directly against the Vendor and the Guarantors.

Based on the above considerations, the Board considered that entering into the Repayment Agreement with the Guarantors was in the interest of the Company and its shareholders as a whole.

If the Guarantors fail to repay the principal and interest to the Company in accordance with the Repayment Agreement, the Company will take legal action against the Vendor and the Guarantors and enforce the Company's rights under the Agreement, where appropriate, including but not limited to, (1) enforcing the Company's right to sell the acquired 20% of the issued shares of the Target Company back to the Vendor under the terms of the Agreement at a consideration of HK\$21.32 million, (2) demanding the Guarantors to repay all the unpaid interest under the Repayment Agreement and, (3) demanding the Vendor and the Guarantors to repay all the costs and losses that the Company incurred from the Agreement and Repayment Agreement.

As at the date of the announcement, the Company has received repayment for the first two instalments, amounting to HK\$2,000,000. However, the Guarantors had defaulted in the repayment of the instalment due on 31 August 2022. The Company is in the course of seeking legal advice and will take appropriate legal actions as and when necessary. Further announcement will be made by the Company in this regard as and when required under the Listing Rules.

## **THE AGENCY AGREEMENT**

In 2018, Tourmaline Investment Holding Limited (the "**Agent**"), an investment agency company, presented the Company with investment proposals and certain pitching presentation documents of movie-making by Hong Kong and/or Taiwan creative team, with the PRC as the target market, including the Vendor and the Acquisition opportunity. The range of themes of the creative projects consisted action, military, comedy, crime and love stories. The pitching presentation documents also included certain information on the creative crew, the proposed cast and market analysis of the target audience.

The Company appointed the Agent as the project coordinator for the Acquisition, and the Agent was responsible for coordinating the sale and the purchase of the Target Company's shares for and on behalf of the Company, which included liaising the amount of acquisition price and consideration, providing summary and information of the Movie, the Vendor and the Target Company to the Company, sharing insights on the entertainment market environment and on the China's film industry value chain, as well as the specific operational flows and cash flows of the Movie project, assisting and facilitating the drafting and signing of the Sale and Purchase Agreement of the Acquisition, etc.

The Agent's investment manager (the "**Investment Manager**") was a qualified professional with more than 10 years of experience in the field of investments. He has handled merger and acquisition transactions involving a variety of industries, including the media and entertainment industries, where he manages several movie investments projects for his investors. Before joining the Agent, the Investment Manager held senior management positions (such as CEO and COO) at several sizable conglomerates and financial institutions in the PRC. He also has strong networks with famous artists, art directors, production companies, and investors in the media and entertainment industries.

On 19 February 2019, upon entering into the Agreement, the Company and the Agent entered into the investment agency agreement (the "**Agency Agreement**"), pursuant to which, a refundable partial second consideration of HK\$26.44 million (the "**Partial Second Consideration**") to the Acquisition was paid to the Agent, whereby the Agent would, from time to time, source and secure investment opportunities in the media, advertising, and entertainment industries and make proposals to the Company. If the Company decided to invest in the projects, the Agent would also offer post-investment management services to the Company if it chose to invest in the projects that the Agent proposed.

Before entering into the Agency Agreement, the Board considered the background and industry experience, as well as the available investment proposals and investment plans of the Agent, and the terms of the Agency Agreement.

The Board considered the entering of Agency Agreement with the Agent and the provision of uninvested Partial Second Consideration as capital for the Agent's management would help maximise the return of the prepared fund of the Company in relation to the Acquisition, and that it was consistent with the Company's strategic direction of developing new business in the media, advertising, and entertainment industries as well as its intention to develop and/or invest in films and/or television drama series from 2018 to 2019, and the terms of the Agency Agreement was considered to be fair and reasonable and in the interests of the shareholders of the Company.

The principal terms of the Agency Agreement are set out as follows:

- i) Appointment of the Agent: The Company appointed the Agent to assist the Company in developing new business in the media, advertising, and entertainment industries, by providing consulting and investment referral services, through acquisition of project companies and investment in projects' income rights contracts, including but not limited to movies, television drama series, online variety shows, e-sports, mobile games, and live broadcasts.
- ii) Services to be provided by the Agent include:
  - (a) gathering and providing information on potential investment targets to the Company;
  - (b) receiving an advance payment from the Company and making investment payment to the transferor of the selected investment targets on behalf of the Company;
  - (c) securing the potential acquisition targets and facilitating the signing of a letter of intent for the Company;
  - (d) assisting and facilitating the signing of the Sale and Purchase Agreement of selected acquisition targets; and
  - (e) assisting the Company and the selected acquisition targets in submitting share transfer application to facilitate the completion of all the selected acquisition.

- iii) Security Deposit: The Agent has the right to receive a total amount of HK\$30,000,000 as security deposit, which includes: (a) the Agent's fee, and (2) Project deposit for potential entertainment investment projects.
- iv) Agent's Fee: The Company shall pay the Agent a fee equal to 4% to 8% of the total consideration for the Company's investment in and acquisition of entertainment projects. The Agent's fee must be discussed and determined separately for each project, taking into account factors such as the total consideration, the complexity of the investment and acquisition, the anticipated performance, the market environment for the entertainment industry, the level of market competition, the regulations of the local governments and authorities, etc.
- v) The Company and the Agent agreed that within the validity period of the Agency Agreement, both parties shall settle the specific project deposit advance receipts and prepayments before December 31 each year. If the specific project acquisition is unsuccessful, the Agent shall return the security deposit paid by the Company as soon as possible within the time agreed by both parties.

According to the Agency Agreement, The Company and the Agent may from time to time set out investment criteria, with reference to the size and the projected return of the investment or acquisition projects. In general, the major investment criteria set by the Company are as follows:

- i) The total consideration of each potential investment project shall not less than or equal to HK\$10 million.
- ii) The potential investment projects shall yield a return on investments of not less than 20% per annum.
- iii) The Company shall hold more than 51% of the shares of the potential investment target company.
- iv) The potential investment project shall be media, advertising and entertainment projects with positive public image.
- v) The potential investment projects shall satisfy the due diligence checking performed by the Company.

To the best of the knowledge, and information and belief of the Directors, the Agent and its ultimate beneficial owner(s) were independent third parties of, and not connected with, the Vendor, its ultimate beneficial owner(s) and their connected persons.

## **USE OF PROCEEDS FROM FUND RAISED FOR THE ACQUISITION**

On 27 December 2018, the Company completed a placing of up to 86,400,000 new ordinary shares under general mandate at a placing price of HK\$0.70 per Share, and raised net proceeds of HK\$59.7 million, of which HK\$53.7 million (the “**Proceeds**”) was intended to be used for funding the Acquisition (the “**Intended Use**”), which was in line with the Company’s strategic direction of developing new business in the media, advertising, and entertainment industries as well as its intention to develop and/or invest in films and/or television drama series.

Given the Acquisition consisted of a two-step purchase and sales, which includes the purchase and sale of (i) 200 issued shares of the Target Company at the First Consideration of HK\$21,320,000; and (ii) 310 issued shares of the Target Company at the second consideration of HK\$33,046,000 when the Conditions Precedent as stated in the Agreement have been fulfilled, the Company intended to utilise a part of the idle second consideration of HK\$33,046,000 as capital to invest into other entertainment projects and try to maximise the return of the idle funds, which was also consistent with the Company’s strategic direction stated above. Therefore, the Company entered into the Agency Agreement with the Agent and appointed them to assist the Company to identify and secure investment opportunities, and to develop new businesses in the media, advertising, and entertainment industries, while providing an advance payment of HK\$26,440,000 to the Agent as security deposits and capital for potential entertainment projects.

From the year ended 31 December 2019 to 31 December 2021, the Company did not invest in any investment projects proposed by the Agent as those investments did not meet the investment criteria of the Company. Further, in light of the negative impact brought by the COVID-19 epidemic, the Company considered that the investment environment in the Greater China area in relation to media, advertising, and entertainment industries had become increasingly turbulent and uncertain. In the beginning of 2022, the Company made a strategic decision to allocate more resources back to the development of the Company’s core business segments, including the business segment of sale and distribution of merchandise as well as the business segment of the provision of interior design and building engineering services, while ceasing its plans for further investments in the media, advertising and entertainment industry in the foreseeable future.

In the 2019 annual report of the Company, it was disclosed that as at 31 December 2019, all the Proceeds were fully utilised as planned for the Intended Use. The Company would like to clarify that given the change in circumstances, including that the Acquisition was not completed and that the Company did not invest in any investment projects proposed by the Agent, the sum of HK\$33,046,000, equivalent to the Second Consideration for the Acquisition, shall not be utilised for the Intended Purpose. The Company intends to apply this sum for general working capital requirement and expansion of the Company's existing businesses.

## **REFUND OF THE PARTIAL SECOND CONSIDERATION**

Since the Company will not complete the Acquisition with the Vendor and the Company does not have any plans for further investments in the media, advertising, and entertainment industries in the foreseeable future, the Board considered the Company should request for the refund of HK\$26.44 million from the Agent, which would be fair and reasonable and in the interests of the shareholders as a whole.

The Company delivered a written notice to Agent on 15 July 2022 and requested the Agent to refund the Partial Second Consideration to the Company. As at the date of this announcement, the Partial Second Consideration has been fully refunded to the Company.

Save as disclosed above, there is no other information relating to the Profit Guarantee which needs to be disclosed by the Company under Rule 14.36B(1) and Rule 14.36B(2) of the Listing Rules.

By order of the Board  
**Jiyi Holdings Limited**  
**Hou Wei**  
*Chairlady*

Hong Kong, 10 October 2022

*As at the date of this announcement, Ms. Hou Wei, Mr. Liu Xianxiu and Mr. Yang Baikang are the executive directors of the Company, Mr. Hou Bo is the non-executive director of the Company, and Mr. Ye Yihui, Mr. Ho Hin Yip and Mr. Hou Lianchang are the independent non-executive directors of the Company.*