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Feiyang International Holdings Group Limited

飛揚國際控股(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1901)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF 60% EQUITY INTEREST IN ZHEJIANG FEIJIADA AVIATION SERVICE CO., LTD.

Reference is made to the announcement of Feiyang International Holdings Group Limited (the “**Company**”) dated 10 October 2022 (the “**Announcement**”). Unless otherwise defined herein, capitalised terms used herein shall have the meanings ascribed to them in the Announcement.

The Board wishes to provide further information in relation to the Acquisition.

BASIS OF THE CONSIDERATION

As disclosed in the Announcement, the Consideration was determined by taking into consideration various factors, including but not limited to (i) the business development opportunity and prospects of the Target Group; (ii) the profit guarantee and undertaking by the Vendor and the Target Group; (iii) the terms of payment of the Consideration; (iv) the parties’ valuation of the Target Group; and (v) the reasons for the Acquisition.

The Board wishes to further elaborate on how each of the above factors were taking into consideration when determining the Consideration:

- (1) **Business development opportunity and prospects of the Target Group** — Having considered that Hainan Zhenlv has secured resources of air tickets in the PRC as mentioned under the paragraph headed “Information on the Vendor and the Target Group” in this announcement, the Company expects that the Target Group will continue to generate profits in the coming years and will continue to obtain additional resources of air tickets and airline charter resources from such project and other airline operators in the future;

- (2) **Profit guarantee and undertaking by the Vendor and the Target Group** — the profit guarantee represents a level of business that the parties to the Agreement consider to be achievable and that the Vendor, the Target Group and the Guarantors are confident on the prospects of the Target Group in meeting the profit guarantee;
- (3) **Term of payment of the Consideration** — According to the Agreement, there is no requirement for the Group to make any upfront payment for the Acquisition. The Group is only required to pay instalment for the relevant month in full if the Target Group is able to reach the Monthly Profit Guarantee or if the Vendor makes up for any shortfall in the event that the Target Group cannot meet the Monthly Profit Guarantee fully for such month. As such, the Group will not suffer any losses even if the Target Group fails to meet the Monthly Profit Guarantee. Through making payment of the Consideration by 36 instalments, the Group will be able to safeguard its interest pursuant to the Agreement in the event that the profit guarantees are not fulfilled;
- (4) **Parties' valuation of the Target Group** — the valuation of the Target Group agreed by the parties to the Agreement is primarily calculated based on three times of the Annual Guarantee Profit as the payment term is three years. As the Annual Guarantee Profit was determined based on the future cash flow of Hainan Zhenlv, such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules and the information required in compliance with Rules 14.60A and 14.62 of the Listing Rules in relation to the profit forecast is set out under the paragraph headed “Assumptions of Valuation” in this announcement; and
- (5) **Reasons for the Acquisition** — the Acquisition allows the Group to capture additional revenue to be generated by the Target Group and enhances the Group's ability to procure resources of air tickets in the PRC which it does not currently have access to.

Having considered the factors above, the Directors are of the view that the Consideration is on normal commercial terms or better and fair and reasonable.

PROFIT GUARANTEE

It was disclosed in the Announcement that the Vendor and the Target Group guarantee to the Purchaser that during the Guarantee Period, the net profit of the Target Group shall not be less than RMB50,400,000 for each year and RMB4,200,000 for each month (i.e. the Guarantee Profit). The Guarantee Profit was determined after arm's length negotiations among the parties based on the future cash flow of Hainan Zhenlv with reference to, among others, (i) Hainan Zhenlv's resources of air tickets and the sales contracts entered by Hainan Zhenlv with its customers as mentioned under the paragraph headed “Information on the Vendor and the Target Group” in this announcement; (ii) the expected business opportunities of the Target Group including sales of air tickets to other new customers and through the Group's sales channel; and (iii) the future development potential of the Target Group having considered that the COVID-19 pandemic will eventually subside and the tourism industry is set to bounce back strongly.

According to the Agreement, the Group is required to settle the Consideration by 36 instalments at the end of each month starting from the second month after commencement of the Guarantee Period. The monthly management accounts of the Target Group have to be approved and reviewed by the Group every month, and the finance staff of the Group will take all reasonable measures, including but not limited to reviewing bank statements, invoices and contracts, to ensure that the management accounts of the Target Group have been properly prepared according to the relevant accounting policies of the Group. The monthly instalment will then be made by the Group to the Vendor based on the net profit of the Target Group as disclosed in its management accounts (subject to the profit guarantee and undertaking). For example, if the net profit of the Target Group as disclosed in its management accounts for the first month of the Guarantee Period falls short of the Monthly Guarantee Profit by RMB2.1 million and the Vendor does not make up for the difference by contributing RMB2.1 million in cash to the Target Group, then the Group has the right to reduce the amount to be contributed in the next instalment by 60% (being the shareholding of the Group in the Target Company) of the difference (i.e. RMB2.1 million x 60% = RMB1.26 million).

In addition, the Group's auditors will examine the management accounts of the Target Group every six months to ensure its accuracy. In the event that the net profit of the Target Group as agreed by the Group's auditors is lower than that as disclosed in the management accounts of the Target Group, the Group has the right to adjust the amount of the next instalment downward proportionately. For example, if the net profit of the Target Group as disclosed in its management accounts for the first year of the Guarantee Period is RMB50.4 million (which meets the Annual Guarantee Profit) while the net profit agreed by the auditors of the Group is only RMB50 million, then the Group has the right to either (a) request the Vendor to make up for the difference by contributing RMB0.4 million in cash to the Target Group, or (b) reduce the amount to be contributed in the next instalment by 60% (being the shareholding of the Group in the Target Company) of the difference (i.e. RMB0.4 million x 60% = RMB0.24 million).

According to the Agreement, the Company has the unilateral right to terminate the Agreement if the Target Group (i) fails to meet sustainable expectations; (ii) records net losses for two consecutive months; or (iii) fails to meet the Monthly Guarantee Profit for three times or more in a year, the Purchaser and the Vendor may terminate the Agreement. Having considered that the Group has the unilateral right to terminate the Agreement under the circumstances as mentioned above and the Group is protected under the payment mechanism as set out in the Agreement, the Board is of the view that the amount of refund required to be paid by the Vendor would not be significant in case of termination of the Agreement. In addition, the Guarantors also provided personal guarantee in favour of the Purchaser the obligations and liabilities of the Vendor pursuant to the Agreement.

In the case of termination of Agreement, the parties shall use their best endeavours to restore the position of the Target Group to the status before Completion within 30 days pursuant to the Agreement, which includes the transfer of the 60% equity interest in the Target Company from the Group to the Vendor and the refund of all consideration paid from the Vendor to the Group according to the Agreement in a fair, reasonable and honest manner.

INFORMATION ON THE VENDOR AND THE TARGET GROUP

As disclosed in the Announcement, Hainan Zhenlv has obtained resources of air tickets through a cooperation agreement with a state-owned travel agency in Sanya, Hainan for an underwriting project with a PRC airline operator, pursuant to which Hainan Zhenlv has been appointed the exclusive operator and sales agent of the air tickets issued by the PRC airline operator. In November 2022, Hainan Zhenlv entered into another cooperation agreement with the state-owned travel agency and other parties, pursuant to which Hainan Zhenlv has been appointed as the operator and agent for the sales of additional amount of air tickets issued by the same PRC airline operator. Based on the cooperation agreements above, Hainan Zhenlv has obtained RMB300 million worth of resources of air tickets issued by the PRC airline operator. In addition, Hainan Zhenlv entered into sales contracts with two customers, pursuant to which they agreed to procure air tickets issued by the PRC airline operator in the amount of RMB152 million and RMB48 million, respectively during June 2022 to May 2023.

ASSUMPTIONS OF VALUATION

Pursuant to Rule 14.62(1) of the Listing Rules, details of the principal assumptions, upon which the valuation was based are as follows:

1. Hainan Zhenlv's annual revenue will increase by 70% in 2023 (compared with the average income from June to September 2022). According to the forecast of the industry of the management of the Company, the air ticket business in 2022 was still be greatly discounted due to COVID-19 but after the end of the 20th National Congress of the Communist Party of China, the "20 Measures" was issued earlier, which greatly relaxed the epidemic prevention and control measures, shortened the quarantine time of overseas flights, from 14+7 to 7+3, to the current 5+3, and announced the end of the quarantine measures for international arrivals from 8 January 2023, and the management of the Company believes that as China gradually relaxes the prevention and control measures against COVID-19, the air ticket business, especially the cross country air tickets, will experience explosive growth.
2. In 2022 and 2023, air ticket settlement cost, handling fees and other platform fees as a percentage of revenue will be similar to those from June to September 2022.
3. General and management costs are estimated by the management of the Company based on the current operating conditions, and the costs will be similar to those from June to September 2022.
4. 15% corporate income tax rate is according to the preferential tax policy of Hainan Free Trade Port.

The Board has reviewed the principal assumptions upon which the profit forecast was based and is of the view that the profit forecast was made after due and careful enquiry.

CCTH CPA Limited ("CCTH"), the auditors of the Company, has been engaged by the Company to review the arithmetical calculation of the future estimated cash flows upon which the valuation prepared by the Group was based.

A letter from the Board and a report from CCTH are included in the appendices to this announcement for the purposes of Rules 14.60A and 14.62 of the Listing Rules. The following is the qualification of CCTH:

EXPERT AND CONSENT

The qualification of the expert who has given its opinion and advice in this announcement is as follows:

Name	Qualification
CCTH	Certified Public Accountants

CCTH has given and has not withdrawn its written consent to the issue of this announcement, with the inclusion of its report and the reference to its name in the form and context in which it appears.

To the best knowledge, information and belief of the Board and having made all reasonable enquiries, CCTH is a third party independent of the Group and is not a connected person of the Group. As at the date of this announcement, CCTH does not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for securities in any member of the Group.

As at the date of this announcement, CCTH does not have any direct or indirect interests in any assets which have been, since 31 December 2021 (the date to which the latest published annual results of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

By Order of the Board
Feiyang International Holdings Group Limited
He Binfeng
Chairman, chief executive officer and executive Director

Ningbo, the PRC, 6 January 2023

** For identification purpose only and should not be regarded as the official English translation of the Chinese names. In the event of any inconsistency, the Chinese name prevails.*

As at the date of this announcement, the Board comprises Mr. He Binfeng, Mr. Xiong Di, Mr. Huang Yu, Mr. Wu Bin, and Ms Chen Huiling as executive Directors; Mr. Shen Yang as non-executive Director; and Mr. Li Huamin, Mr. Yi Ling and Ms. Zhao Caihong as independent non-executive Directors.

Website: <http://www.iflying.com>

Appendix I — Letter from the Board

6 January 2023

Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

Discloseable Transaction in relation to the acquisition of 60% equity interest in Zhejiang Feijiada Aviation Service Co., Ltd.* (浙江飛加達航空服務有限公司)

We refer to the announcement of Feiyang International Holdings Group Limited (the “**Company**”) dated 10 October 2022 and 6 January 2023 concerning the captioned transaction (the “**Announcements**”). Unless the context otherwise requires, terms defined in the Announcements shall have the same meanings when used herein.

As disclosed in the Announcements, the consideration was arrived at after arm’s length negotiations between the parties after having considered a number of factors including but not limited to the parties’ valuation of the Target Group, which is primarily calculated based on three times of the Annual Guarantee Profit. As the Annual Guarantee Profit was determined based on the future cash flow of the Hainan Zhenlv, such valuation constitutes a profit forecast (the “**Profit Forecast**”) under Rule 14.61 of the Listing Rules.

For the purpose of preparing this letter, we have (i) considered the report from CCTH CPA Limited regarding the calculations of the Profit Forecast upon which the valuation of the Target Group is based; (ii) reviewed the Profit Forecast upon which the valuation of the Target Group has been made; (iii) discussed with the relevant senior management of the Company regarding the bases and assumptions upon which the Profit Forecast regarding the Target Group in the valuation has been prepared, the relevant work conducted by the senior management, and the historical performance of the Target Group; and (iv) reviewed the reports to the Directors from the senior management regarding the calculations of the future cash flows used in the valuation. We confirm that the Profit Forecast was made after due and careful enquiry.

Yours faithfully,
For and on behalf of the Board
Feiyang International Holdings Group Limited
Xiong Di
Executive Director

* *For identification purpose*

Appendix II — Report from CCTH

The following is the text of a report received from the Company's reporting accountant, CCTH CPA Limited, Certified Public Accountants, Hong Kong, for inclusion in this announcement.



ACCOUNTANT'S REPORT ON CALCULATIONS OF PROFIT FORECAST IN CONNECTION WITH THE VALUATION OF 60% EQUITY INTEREST IN ZHEJIANG FEIJIADA AVIATION SERVICE CO., LTD.

We have examined the calculations of the profit forecast of Hainan Zhenlv International Travel Agency Co., Ltd (“**Hainan Zhenlv**”) for the nineteen months from 1 June 2022 to 31 December 2023 (the “**Profit Forecast**”), Hainan Zhenlv is a wholly owned subsidiary of Zhejiang Feijiada Aviation Service Co., Ltd (“**Zhejiang Feijiada**”) and the business valuation of 60% equity interest in Zhejiang Feijiada at 30 September 2022 (the “**Valuation**”), as prepared by the directors of Feiyang International Holdings Group Limited (the “**Company**”) dated 6 January 2023, is determined by reference to the Profit Forecast. Details of Zhejiang Feijiada are set out in the announcement dated 10 October 2022 which was issued by the Company in connection with the acquisition by the Company of 60% equity interest in Zhejiang Feijiada, an entity established in the People’s Republic of China. The Valuation, which takes into account the Profit Forecast, is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors’ responsibility for the Profit Forecast

The directors of the Company are responsible for the preparation of the Profit Forecast in accordance with the bases and assumptions determined by the directors (the “**Assumptions**”) and set out in the supplemental announcement of the Company dated 6 January 2023. This responsibility includes carrying out appropriate procedures relevant to the preparation of the Profit Forecast for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management 1 “Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants’ responsibility

It is our responsibility to form an opinion on the arithmetical accuracy of the calculations of the Profit Forecast on which the Valuation is based and to report solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this announcement.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance about whether the Profit Forecast, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of the Zhejiang Feijiada.

Because the Valuation relates to Profit Forecast, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the Profit Forecast, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

CCTH CPA Limited

Certified Public Accountants

Hong Kong

6 January 2023