YH Entertainment Group
乐华娱乐集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2306)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITIONS OF ASSETS AND CONTINUING CONNECTED TRANSACTION RELATING TO BUSINESS COOPERATION FRAMEWORK AGREEMENT

Reference is made to the announcement (the "**Announcement**") of YH Entertainment Group (the "**Company**") dated April 19, 2024 in relation to, among others, the Acquisition and the Business Cooperation Framework Agreement with Nice Future. Unless otherwise defined, capitalized terms used in this announcement shall bear the same meanings as those defined in the Announcement.

PROFIT FORECAST REQUIREMENTS UNDER THE LISTING RULES

As disclosed in the Announcement, the consideration of each of the Asset Transfer Agreement I, Asset Transfer Agreement II and Patent Licensing Agreement was determined after arm's length negotiations between the parties to the respective agreement, after taking into consideration the (i) historical performance of the Target Business; (ii) potential growth and prospects of the Target Business; and (iii) the valuation of the Target Assets done by the Group based on the future discounted cash flow of the Target Business, no significant risks identified in the business and financial due diligence, the forecasted profit generated from the Target Business, the synergies brought by the Acquisition to the Group's business strategy as an important market player in pan-entertainment industry.

The Company has also taken into account the final appraised value of the Target Assets as of March 31, 2024 of approximately RMB31.5 million pursuant to the business valuation (the "**Valuation**") carried out by Beijing Luguang Asset Valuation Co., Ltd. (北京魯光資產評估有限公司) ("**Beijing Luguang**", the "**Valuer**"). The Valuer is a professional and qualified valuer in the PRC registered in Beijing Municipal Bureau of Finance (北京市財政局) and is experienced in the valuation exercises in relation to acquisition, disposition, and financing transactions. The Valuer is independent from the Company and its connected persons as defined under the Listing Rules. Given the Valuation was based on the income approach involving the use of discounted cash flows method, such Valuation constitutes profit forecasts under Rule 14.61 of the Listing Rules. Therefore, this announcement is made in compliance with Rule 14.60A of the Listing Rules, and the requirement under Rule 14.60A of the Listing Rules is therefore applicable.

To arrive at the Valuation, discounted cash flow approach was selected by the Valuer to conduct the Valuation, based on the fact that (a) it is difficult to find comparable assets in the similar market as the development and operation of virtual assets in China are still in an early stage where there is a limited number of market participants; accordingly, the market approach is not appropriate due to the lack of suitable market comparable; (b) the assets being acquired are mainly intangible assets, the value of which is hard to evaluate based the cost of acquisition. Therefore, the cost approach is not appropriate; and (c) as the Group has been collaborating with the Vendor I in relation to the operation of A-Soul, it is relatively easy for the Group to ascertain whether the future cash flow generated from the Target Business is reasonably and reliably estimated.

A period of three years (the "**DCF Period**") is adopted in the discounted cash flows method. The major basis of the DCF Period of three years is the period for the iteration of underlying technology (i.e., continuous improvement and update of current technology to achieve better performance). It is agreed with the Vendors that a three-year period is a reasonable for the Target Assets. The terminal value was not included as part of the discounted cash flow analysis, which is also consistent with the Company's assessment of 3 years based on the iteration of the underlying technology.

The DCF Period is also consistent with the term of Business Cooperation Framework Agreement with Nice Future. In arriving the term of the aforementioned continuing connected transaction with Nice Future, the Company has taken into account, among others, the iteration of the underlying technology and the update on all the equipment required for development (normally three years).

ASSUMPTIONS OF VALUATION

Pursuant to Rule 14.60A of the Listing Rules, details of the principal assumptions, including commercial assumptions, upon which the Valuation was based are as follows:

General Assumptions

1. It is assumed that the Target Assets is in the process of a transaction and the Valuation can be done based on the conditions to the transactions;

2. It is assumed that the Target Assets can be freely traded in an open market and level playing field;

3. It is assumed that there are no material changes in the current laws, regulations and policies, and the macroeconomic situation of the country, nor are there any material changes in the political, economic and social environment of the regions where the parties to the transactions are located;

4. It is assumed that the Target Business operate on a going-concern basis;

5. It is assumed that there are no material changes in the interest rate, exchange rate, tax base and tax rate, policy levy and other expenses relevant to the Target Business after the Acquisition;

6. It is assumed that the management after the Acquisition is responsible, stable and capable of their duties;

7. It is assumed that the Target Assets and Target Business, together with all parties involved in the Acquisition acquired are in full compliance with relevant state and local laws and regulations; and

8. It is assumed that after the Acquisition, there are no force majeure and unforeseen factors which will have a significant adverse impact on the Target Business.

Specific Assumptions

1. It is assumed that the accounting policies adopted for the Target Assets in the Valuation are consistent with those adopted by the Group and will not affect the discounted cash flow model adopted by the Target Business in material aspects;

2. It is assumed that the Target Assets will operate in the way consistent with the existing after the valuation base date;

3. It is assumed that the cash inflow of the Target Assets after the valuation base date is the average inflow and the cash outflow is the average outflow;

4. It is assumed that the forecasted figures (including the revenue, costs and profits) in relation to the Target Business would remain largely in line with its performance since the commencement of the operation of the Target Business.

5. It is assumed that the Target Business after the valuation base date will operate under the current situation of market competition; and

6. It is assumed that all information related to the Valuation provided by the Group is true, complete, legal and valid.

DISCOUNT RATE AND SENSITIVITY ANALYSIS

The discount rate in the profit forecast as illustrated in the Valuation Report is based on the time value of money and the risk associated with the investment, which takes into account the potential for future earnings to be impacted by inflation, interest rates, and other market factors such as risks related to policy, technology, market, capital and management.

The discount rate equals to the sum of risk-free rate of return and risk rate of return. The risk-free rate is 2.2901%. The risk rate is 17.4%, which equals the sum of policy risk, technology risk, market risk, capital risk and management risk, each being calculated with reference to the weight of such risk.

Based on the above assumptions, the Valuer has performed a sensitivity analysis on (i) the discount rate; and (ii) revenue growth rate adopted in the Valuation, details of which are set out as follows:

Discount rate (changes in the absolute value)	**Revenue growth rate** (changes in the absolute value)	**Valuation** *RMB (in thousand)*	**Increase/(decrease) in Valuation** *RMB (in thousand)*
18.69% (-1%)	6% (+1%)	32,749.29	1,260.12
19.69% (base input)	6% (+1%)	32,335.85	846.68
20.69% (+1%)	6% (+1%)	31,931.28	442.11
18.69% (-1%)	5% (base input)	31,889.61	400.43
19.69% (base input)	5% (base input)	31,489.17	–
20.69% (+1%)	5% (base input)	31,097.34	(391.83)
18.69% (-1%)	4% (-1%)	31,029.92	(459.25)
19.69% (base input)	4% (-1%)	30,642.49	(846.68)
20.69% (+1%)	4% (-1%)	30,263.40	(1,225.77)

Based on the operating history of A-Soul and the Group's experiences in collaborating with the Vendors, as well as the due diligence work conducted by the Board, including but not limited to the following:

(a) discussing with the responsible members of the Vendors;

(b) reviewing documents and agreements in relation to the historical business operation, competition, regulatory environment, established market channel and client relationship;

(c) reviewing the relevant permits, business certificates, licenses and legal approvals in relation to the Target Assets; and

(d) discussing with the Company's PRC legal advisor about the latest regulatory requirement and status of the relevant permits and licenses in relation to the Target Business.

The Board is of the view that the profit forecast has been made after due care and enquiry, and the underlying assumptions are fair, reasonable and represented the management's best estimate by taking into account all relevant information.

The Directors have reviewed and considered the Valuation Report, including, among other things, the valuation methodology and key assumptions, having taken into account important factors including:

(1) Beijing Luguang is an independent third-party valuer engaged to prepare the Valuation of the Target Assets. The Directors have not noticed any information in the Valuation Report or any circumstances which lead the Directors to conclude that the Valuation Report prepared by Beijing Luguang shall not be relied upon;

(2) the Directors have considered and agreed with Beijing Luguang's views set out in the Valuation Report that amongst the common approaches for asset and business valuation such as the market approach, income approach, and cost approach, the income approach is the most appropriate valuation approach for the Valuation of the Target Assets as it takes the future growth potential into consideration, including other commercial and operational factors as set out in the Valuation Report; and

(3) based on the independent work conducted by the Directors and with reference to the Valuation Report by Beijing Luguang, having taken into account the potential impact of the consideration on the Company's financial health and stability, as well as the potential benefits for the Shareholders as disclosed in the Announcement, the Board is of the view that the consideration is fair and reasonable, and it aligns with the long-term interests of the Company and its Shareholders.

A letter from the Board and a letter from PricewaterhouseCoopers are included in the appendices to this announcement for the purpose of Rule 14.60A of the Listing Rules.

EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their opinion and advice included in this announcement:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountants Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under Accounting and Financial Reporting Council Ordinance (Cap. 588)
Beijing Luguang	Valuer

Each of PricewaterhouseCoopers and Beijing Luguang has given and has not withdrawn its written consent to the publication of this announcement with inclusion of its report/letter and all references to its name (including its qualification) in the form and context in which they are included.

To the best knowledge, information and belief of the Board and having made all reasonable enquiries, each of PricewaterhouseCoopers and Beijing Luguang is a third party independent of the Group and is not a connected person of the Group. As of the date of this announcement, each of PricewaterhouseCoopers and Beijing Luguang 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 of the date of this announcement, each of PricewaterhouseCoopers and Beijing Luguang does not have any direct or indirect interests in any assets which have been, since December 31, 2023 (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.

FURTHER INFORMATION ABOUT THE VENDORS

The Vendors, Afflatus Limited (a shareholder of the Company holding approximately 4.08% of the total Shares of the Company as of the date of the Announcement), are fellow subsidiaries of Beijing Quantum Jump Technology Co., Ltd. (北京量子躍動科技有限公司) ("**Quantum Jump**"), which are under common control of the same ultimate beneficial shareholder. Quantum Jump is a pre-IPO investor of the Company.

Quantum Jump is a limited liability company incorporated in the PRC. Quantum Jump is an investment holding company and is a wholly-owned subsidiary of Douyin Co., Ltd. (抖音有限公司). Afflatus Limited is an offshore affiliate of Quantum Jump. Afflatus Limited is an investment holding company.

The Company had been collaborated with its business partner, being Vendor I, for the development of A-SOUL since June 2020.

FURTHER INFORMATION ABOUT THE TARGET ASSETS

The Target Business, including A-SOUL which made first debut in November 2020 and another two virtual artist projects which made their first debut in October 2023, is empowered by motion capture technology to transmit every move of the person behind it to the real-time screen. Since its official debut, A-SOUL has mainly interacted with followers through live broadcasts on Bilibili (a popular video-sharing platform in China), where over one thousand live broadcasts have been held with tens of thousands of followers on Bilibili participating in and interacting with the virtual artists. As of April 2024, A-SOUL, together with its related accounts, has gain a total of approximately 4.5 million followers on Bilibili.

The unaudited gross profit attributable to the Target Assets generated from the Target Business for the years ended December 31, 2022 and 2023 was RMB33.5 million and RMB24.0 million, respectively.

REASONS FOR AND BENEFITS OF ENTERING INTO THE BUSINESS COOPERATION FRAMEWORK AGREEMENT WITH NICE FUTURE

Nice Future has been an important market player in the areas of virtual artist operation with accumulated experiences over the years. Given the operation and management of A-Soul requires a quantity of professional human resources as well as branding and marketing efforts, the Directors are of the view that the business cooperation with Nice Future instead of operating A-Soul by the Group itself, would be economically effective to the Company to save money and human resources to be invested in the operation of A-Soul. In addition, the Directors believe that the Nice Future would manage and operate A-Soul professionally and satisfactorily given its track record in developing and operating virtual artists.

The determination of net income sharing percentages as set out under the Business Cooperation Framework Agreement involves a variety of factors, including among others, the costs of the Acquisition, contributions and responsibilities of the parties thereto, the level of risk and business judgment made by each party, and the overall financial goals and objectives of the business cooperation. In addition, market factors, including the overall industry trends, and the potential for future growth and profitability of the Target Assets have also been taken into account.

Having discussed with Nice Future about the future plans on the operation of the Target Assets acquired by the Company, Nice Future's track record in operating and managing the virtual artists, with the market prospect for virtual artists, the Board is of the view that net income sharing percentages under the Business Cooperation Framework Agreement are fair and reasonable. In particular, the minimum fees to be paid by Nice Future during the collaboration period could largely cover the cost for acquisition of the Target Assets; and the net income sharing mechanism could not only incentivize Nice Future to devote more efforts in operating the Target Business, but also ensure the Group could benefit from better performance of the Target Business.

INTERNAL CONTROL MEASURES IN CONNECTION WITH THE BUSINESS COOPERATION FRAMEWORK AGREEMENT

The Company will take the following internal control measures to ensure that the terms of transactions contemplated under the Business Cooperation Framework Agreement follow the pricing policy:

(a) the management and finance department of the Group will discuss with the management of Nice Future about the pricing to ensure it is in accordance with similar transactions conducted between Nice Future and other market participants; and

(b) the Group's connected transaction task force (consisting of key members from finance department, internal control department, investor relations department and legal department) will review the draft transaction documents to be entered with Nice Future by taking into account the prevailing market rates of entering similar agreement with other comparable business partners.

In addition, the Board, together with the Group's connected transaction task force, on a regular basis, will review the transactions already entered into with Nice Future and adjust the pricing for upcoming transactions according to the specific terms of the business cooperations and forms of promotion and operation of the virtual artist project.

By order of the Board
YH Entertainment Group
DU Hua
Executive Director, Chairlady of the Board and Chief Executive Officer

Hong Kong, July 16, 2024

As of the date of this announcement, the Board comprises Ms. DU Hua, Mr. SUN Yiding and Mr. SUN Le as executive Directors, Mr. MENG Jun, as non-executive Director, and Mr. FAN Hui, Mr. LU Tao and Mr. HUANG Jiuling as independent non-executive Directors.

APPENDIX I – LETTER FROM THE BOARD

July 16, 2024

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

Dear Sirs,

RE: DISCLOSEABLE TRANSACTION – ACQUISTION OF THE ASSETS

We refer to the announcement of YH Entertainment Group (the "**Company**") dated April 19, 2024 (the "**Announcement**") relating to the captioned matters. Capitalized terms used herein shall have the same meanings as those defined in the Announcement unless otherwise defined.

As disclosed in the Announcement, the consideration of each of the Asset Transfer Agreement I, Asset Transfer Agreement II and Patent Licensing Agreement was determined after arm's length negotiations between the parties to the respective agreement, after taking into consideration the (i) historical performance of the Target Business; (ii) potential growth and prospects of the Target Business; and (iii) the Valuation of the Target Assets done by the Beijing Luguang engaged by our Group based on the future discounted cash flow of the Target Business, no significant risks identified in the business and financial due diligence, the forecasted profit generated from the Target Business, the synergies brought by the Acquisition to the Group's business strategy as an important market player in pan-entertainment industry. The Valuation on the Target Business is based on the discounted cash flow, which 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 PricewaterhouseCoopers regarding the arithmetical accuracy of the calculations of the discounted future estimated cash flows upon which the Valuation of the Target Business is based; (ii) reviewed the Profit Forecast upon which the Valuation of the Target Business has been made; (iii) discussed with the Valuer and the relevant senior management of the Company regarding, the bases and assumptions upon which the Profit Forecast regarding the Target Business in the Valuation has been prepared, the relevant work conducted by the

Valuer and senior management, and the historical performance of the Target Business; and (iv) reviewed the reports to the Directors from the Valuer regarding the calculations of the discounted future cash flows used in the Valuation. We confirm that the Profit Forecast as contained in the Valuation Report have been made after due and careful enquiry.

Yours faithfully,
For and on behalf of the Board
YH Entertainment Group
DU Hua
Executive Director, Chairlady of the Board and Chief Executive Officer

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong for the purpose of incorporation in this announcement.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF CERTAIN TANGIBLE AND INTANGIBLE ASSETS RELATED TO A-SOUL AND OTHER VIRTUAL ARTISTS

TO THE BOARD OF DIRECTORS OF YH ENTERTAINMENT GROUP

We have completed our assurance engagement to report on the calculations of the discounted future estimated cash flows on which the business valuation (the "**Valuation**") dated 18 April 2024 prepared by Beijing Luguang Asset Valuation Co., Ltd. in respect of the appraisal of the fair value of certain tangible and intangible assets related to A-SOUL and other virtual artists (the "**Target Assets**") is based. The Valuation is set out in the announcement of YH Entertainment Group (the "**Company**") dated 16 July 2024 (the "**Announcement**") in connection with the acquisition by the Company of the Target Assets. The Valuation based on the discounted future estimated cash flows 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 Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows, including the bases and assumptions set on pages 2 to 4 of the Announcement on which the discounted future estimated cash flows are based. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the discounted future estimated cash flows 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 ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

It is our responsibility, pursuant to paragraph 14.60A(2) of the Listing Rules, to express an opinion on the calculations of the discounted future estimated cash flows, and to report our opinion 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 report.

We conducted our work 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 plan and perform our work to form the opinion.

This assurance engagement involved performing procedures to obtain sufficient appropriate evidence as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the bases and assumptions set out on pages 2 to 4 of the Announcement. The extent of procedures selected depends on the Reporting Accountant's judgement and our assessment of the engagement risk. Within the scope of our work, we, amongst others, reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows have been prepared using a set of bases and assumptions that include hypothetical assumptions about future events and management's actions that cannot be confirmed and verified in the same way as past results and that are not necessarily expected to occur. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the discounted future estimated cash flows since other anticipated events frequently do not occur as expected and the variation may be material. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the bases and assumptions adopted by the directors of the Company as set out on pages 2 to 4 of the Announcement.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 16 July 2024