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BIRMINGHAM SPORTS HOLDINGS LIMITED

伯明翰體育控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2309)

SUPPLEMENTAL ANNOUNCEMENT

ACQUISITION OF A LOTTERY SERVICE SOLUTIONS COMPANY

Reference is made to the voluntary announcement (the “Announcement”) made by Birmingham Sports Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) dated 23 July 2019 in relation to the acquisition of a lottery service solutions company. Capitalised terms used herein shall bear the same meaning as those defined in the Announcement unless otherwise specified.

The Company wishes to provide its shareholders and potential investors with the following additional information in relation to the Acquisition.

Background

Historically, the Target Company was owned by certain shareholders (“Target Shareholders”) prior to the reorganisation as mentioned below. Mr. Zhao Wenqing (“Mr. Zhao”), an executive Director, who was a registered shareholder of approximately 2.22% equity interest (“Subject Interest”) in the Target Company, held the Subject Interest on trust for Mr. Gao Lei (“Mr Gao”), one of the Target Shareholders, and was engaged as a director of the Target Company representing Mr. Gao during the period from 22 September 2017 to 30 May 2019. Pursuant to a trust agreement (the “Trust Agreement”) dated 20 September 2017 entered into between Mr. Zhao and Mr. Gao, Mr. Zhao agreed to hold the Subject Interest on trust for Mr. Gao, and Mr. Zhao would (i) exercise his voting rights as shareholder and director of the Target Company; and (ii) transfer the Subject Interest without receiving any consideration, in accordance with the instruction of Mr. Gao. Mr. Zhao was merely a nominee of Mr. Gao and was not involved in the management of the Target Company.

Prior to the entering into of the Agreement, the Target Company went through a reorganisation, whereby the Target Shareholders transferred their entire interest in the Target Company to the Vendor which was ultimately beneficially owned by the Target Shareholders (other than Mr. Zhao). Therefore, under the direction of Mr. Gao, Mr. Zhao transferred the Subject Interest to the Vendor at nil consideration and the Trust Agreement was terminated on 30 May 2019. Mr. Zhao also resigned as a director of the Target Company on the same day.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquires, save for Mr. Zhao's agreement and arrangement relating to the Subject Interest as mentioned above, (a) Mr. Gao was an independent third party not connected with the Company and its connected persons at the time of execution of the Agreement; and (b) the Board was not aware of any relationship (business or otherwise), negotiation, understanding, agreement or prior arrangement (verbal or written) between any of (i) Mr. Zhao and his associates, and (ii) the beneficial owners of the Vendor and their associates in relation to the Acquisition.

Basis of Consideration

The Consideration was determined after arm's length negotiation between the Purchaser and the Vendor having considered, among others, the following factors:

(i) *Business Plan of the Target Company*

The Target Company has developed online lottery system, offline lottery system and online payment system (collectively, the "Systems") which have been licensed to PRC lottery business operators. The core management team of the Target Company possesses over 10 years of experience in the lottery service industry. The Acquisition allows the Company to capitalise on the expertise, knowledge, know-how and the readily available Systems of the Target Company in order to tap into the lottery and online payment service industry, which the Company considers to have significant potential for development, immediately. After the Acquisition, while the Target Company will continue its business in the PRC, the Group will proactively explore cooperation opportunities with overseas lottery and online payment operators by leveraging on the business connections and experiences of the Group in other countries, such as the United Kingdom and the Kingdom of Cambodia ("Cambodia"). The Group aims to bring in overseas business perspective to the Target Company and will emphasise the development of overseas business opportunities. The Directors believe that the refined business direction can capitalise on the potential of the lottery and online payment business in overseas markets.

(ii) Value of the Target Company

The market value of 100% equity interest in the Target Company as at 31 March 2019 (the “Valuation Date”) was determined to be approximately RMB21.2 million, as appraised by JP Assets Consultancy Limited (the “Valuer”), an independent valuer engaged by the Company adopting income approach since the potential income-producing ability of the Target Company is the critical element affecting value from a participant perspective (the “Valuation”).

The key assumptions and key parameters adopted in the Valuation are summarised below.

Key assumptions

As at the Valuation Date, the Target Company was exploring cooperation with potential local operator customers in Cambodia (the “Local Operators”). As at the date of this announcement, the Group has entered into cooperation agreements with Local Operators which possess relevant licenses for the development and operation of online/offline lottery business and online payment business. The Target Company is currently customising the Systems for the Local Operators’ use in their lottery and online payment businesses and it is expected that the Local Operators will commence their lottery and online payment operations with the Systems in place in or around March 2020.

The revenue of the Target Company’s lottery and online payment business would primarily represent the service income to be received based on the lottery sales and size of online payment transactions of the Local Operators derived by estimating the number of users and spending or size of transaction per user during the projection period (i.e. from July 2019 to June 2022), which are estimated with reference to the market size and trend of Cambodia’s lottery industry and online payment market, respectively. Beyond the projection period, the revenue is assumed to grow at an annual rate of 3% perpetually.

Key parameters

Discount for lack of marketability	40%, with reference to Mergerstat Review 2018 published by FactSet Mergerstat, LLC.
Cost of equity	33.22%, calculated by the Modified Capital Asset Pricing Model, which is based on market participant’s data which are varied daily due to new information and changing market expectation every day.
Risk Free Rate	2.81%, based on 30-year U.S. Generic Government Bond.

Beta	0.84, based on selected guideline public companies that are engaged in similar business, or business exposed to similar extent of macro-economic risks as the Target Company.
Equity Risk Premium	5.96%, based on calculated Equity Risk Premiums for similar companies as published by the renowned Professor Aswath Damodaran of New York University.
Size Premium	7.74%, based on the studies in Cost of Capital Professional published by Business Valuation Resources, LLC.
Country Risk Premium	7.64%, based on the publication of Professor Aswath Damodaran of New York University.
Specific Company Adjustment	10.00%, determined based on risks that the Target Company is subject to: <ol style="list-style-type: none"> 1. The Systems and the business plan of the Target Company were not yet launched as at Valuation Date; 2. The feasibility of the business plan of the Target Company is highly dependent on whether the Local Operators' applications for licenses are successful, which is not under the Target Company's control; and 3. The Systems are tailor-made for lottery business. If the lottery market declines, the Target Company will suffer due to its lack of business diversification.
Cost of debt	4.90%, based on over 5-year best lending rate of the PRC.
Discount rate (WACC)	26.00%

(iii) Profit Target

The Vendor has undertaken to the Purchaser that the lottery business of the Target Company shall achieve the Profit Target for the Relevant Periods (i.e. accumulative Profit of RMB30 million for the three years from 1 July 2019 to 30 June 2022) (the “Profit Guarantee”), failing which, the Vendor shall compensate the Purchaser in the manner as disclosed in the Announcement. Mr. Gao undertook to compensate the Purchaser in the event that the Vendor fails to make such payment (the “Undertaking”).

The Profit Guarantee was determined based on the same business projection as that adopted in the Valuation. During the course of determination of the business projection together with the Target Company’s management, the management of the Company made reference to the size and trend of the target market and the expected business growth. Having considered the internal research, discussions with the Target Company’s management as well as the expected terms of cooperation with potential business partners, the management of the Company believes that the assumptions adopted in the business projection are fair and reasonable and the Profit Guarantee is achievable under the target direction and business plan of the Target Company as mentioned above.

Having considered (i) the business plan of the Target Company to expand into the overseas lottery and online payment market, which the Company considers to have significant potential for development, by capitalising on the expertise, knowledge, know-how and readily available Systems of the Target Company as mentioned above; (ii) the Profit Guarantee and the Undertaking; (iii) the benefits of the Acquisition as disclosed in the Announcement; and (iv) the Consideration, which approximates the value of 100% equity interest in the Target Company as at the Valuation Date as appraised by the Valuer, the Board is of the view that the terms of the Acquisition, including the Consideration, are fair and reasonable and in the interests of the Company and its shareholders as a whole.

By Order of the Board
Birmingham Sports Holdings Limited
Zhao Wenqing
Chairman

Hong Kong, 18 November 2019

As at the date of this announcement, the Board comprises nine Directors, namely Mr. Zhao Wenqing (Chairman), Mr. Huang Dongfeng (Chief Executive Officer), Mr. Yiu Chun Kong, Mr. Hsiao Charng Geng and Dr. Guo Honglin as Executive Directors; Mr. Sue Ka Lok as Non-executive Director; and Mr. Pun Chi Ping, Ms. Leung Pik Har, Christine and Mr. Yeung Chi Tat as Independent Non-executive Directors.