SKY LIGHT HOLDINGS LIMITED
天彩控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 3882)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO DISCLOSEABLE TRANSACTION ACQUISITION OF 51% EQUITY INTERESTS IN THE TARGET COMPANY INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE AND ISSUE OF PROMISSORY NOTES

Reference is made to the announcement of Sky Light Holdings Limited (the "**Company**") dated 23 September 2022 in relation to the Acquisition (the "**Announcement**"). Unless otherwise defined in this announcement, terms used herein shall have the same meanings as those defined in the Announcement.

THE SUPPLEMENTAL AGREEMENT

The Board wishes to announce that on 17 November 2022 (after trading hours), the Company, the Vendor, Wuhan Show Online and the Target Company entered into a supplemental agreement (the "**Supplemental Agreement**") to amend and supplement certain terms of the Agreement, the principal terms of which are summarized as follows:

Conditions precedent

The parties have agreed to remove the following item from the conditions precedent:

"(x) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Share."

Consideration

The parties have agreed to amend the terms in relation to the settlement of the Consideration, pursuant to which the Consideration of HK$194,242,883 shall be satisfied by way of the allotment and issue of 111,607,143 Consideration Shares at the issue price of HK$0.896 per Consideration Share and the issuance of the Promissory Notes by the Company to the Vendor (or its nominee(s)) in the following manner:

(i) *First Batch Consideration*

In respect of HK$104,242,883: (a) HK$55,000,000 (the "**First Batch Consideration Shares Value**") shall be satisfied by way of allotment and issue of 61,383,929 Consideration Shares (the "**First Batch Consideration Shares**") at the issue price of HK$0.896 per Consideration Share; and (b) HK$49,242,883 shall be satisfied by way of the issuance of the First Promissory Note of principal amount of HK$49,242,883 by the Company to the Vendor (or its nominee(s)).

The issue of the First Batch Consideration Shares shall be conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the First Batch Consideration Shares, which shall be satisfied within two (2) months after the Company's receipt of the Audit Report of the Target Company for the year ending 31 December 2023.

The Company shall within thirty (30) Business Days (the "**First Allotment Date**") after satisfaction of the said condition issue the First Batch Consideration Shares and the First Promissory Notes. In the event that the said condition cannot be satisfied within the stipulated period, the issue of the First Batch Consideration Shares shall instead be replaced with the issue of additional promissory notes in the principal amount equivalent to the First Batch Consideration Shares Value on terms equivalent to the First Promissory Note.

(ii) *Second Batch Consideration*

In respect of HK$90,000,000: (a) HK$45,000,000 (the "**Second Batch Consideration Shares Value**") shall be satisfied by way of allotment and issue of 50,223,214 Consideration Shares (the "**Second Batch Consideration Shares**") at the issue price of HK$0.896 per Consideration Share; and (b) HK$45,000,000 shall be satisfied by way of the issuance of the Second Promissory Note of principal amount of HK$45,000,000 by the Company to the Vendor (or its nominee(s)).

The issue of the Second Batch Consideration Shares shall be conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Second Batch Consideration Shares, which shall be satisfied within two (2) months after the Company's receipt of the Audit Report of the Target Company for the year ending 31 December 2024.

The Company shall within thirty (30) Business Days (the "**Second Allotment Date**") after satisfaction of the said condition issue the Second Batch Consideration Shares and the Second Promissory Notes. In the event that the said condition cannot be satisfied within the stipulated period, the issue of the Second Batch Consideration Shares shall instead be replaced with the issue of additional promissory notes in the principal amount equivalent to the Second Batch Consideration Shares Value on terms equivalent to the Second Promissory Note.

Both the First Batch Consideration Shares and the Second Batch Consideration Shares will be allotted and issued under the General Mandate.

Public float

The parties have further agreed that in the event that the Company shall become unable to meet the minimum public float requirement under the Listing Rules (including but not limited to Rules 8.08(1)(a) and 13.32(1)) as a result of the allotment and issue of any Consideration Shares, such part of the Consideration Shares that may cause the percentage of the total issued shares of the Company in public hands falling below 25% (the "**Excess Consideration Shares**") shall be replaced with the issue of additional promissory notes in the principal amount equivalent to the value of the Excess Consideration Shares based on HK$0.896 per Excess Consideration Share on terms equivalent to the First Promissory Note (if relating to the Consideration Shares to be issued on the First Allotment Date) or the Second Promissory Note (if relating to the Consideration Shares to be issued on the Second Allotment Date).

Save as disclosed above, there is no other material change to the terms and conditions of the Agreement.

ADDITIONAL INFORMATION ON THE ACQUISITION

The Board would like to provide certain additional information on the Acquisition as follows:

Basis of determination of Consideration

As disclosed in the Announcement, the Consideration was determined after arm's length negotiations between the Company and the Vendor with reference to among others, (i) the Guaranteed Net Profit; (ii) the P/E ratios of the Comparable Companies listed in Hong Kong principally engaged in the operation of retailing business in the PRC ranging from approximately 6.94 times to 56.78 times (based on the market price of the Comparable Companies as at 31 August 2022 and their latest published annual reports); and (iii) the Consideration represents a P/E ratio of approximately 5.71 times (based on the 2023 Guaranteed Net Profit), which is lower than the range of the P/E ratio of the Comparable Companies.

In respect of the Comparable Companies, the Company initially attempted to seek companies listed on the Stock Exchange with similar principal business as the Target Company, but was unable to identify any relevant companies engaged in the AI vending machine business, taking into account that the business model of the Target Company is new in the PRC market. The Company then extended its search scope to companies engaging in chained convenience store businesses in the PRC, and was able to identify a number of companies principally engaged in the operation of department stores, supermarkets and convenience stores. However, considering the products offered by such chained department stores and supermarkets are significantly different from the products being sold by the AI vending machines of the Target Company, the Company was of the view that these companies do not make a meaningful comparison with the Target Company.

Accordingly, the Company selected the Comparable Companies based on the following:

(i) the sole or major operation region of the Target Company and the Comparable Companies is the PRC;

(ii) the Target Company and the Comparable Companies derived 100% of their revenue from the PRC market;

(iii) the Target Company and the Comparable Companies are mainly operating in the food and beverage and retail industries;

(iv) the business model of the Target Company and the Comparable Companies are similar, which are involved in selling/distributing food and beverage products directly to consumers in the PRC market;

(v) only Comparable Companies with positive P/E ratio are included; and

(vi) the Comparable Companies are listed on the Stock Exchange.

Set out below are the Comparable Companies selected to assess the valuation of the Target Company:

Company name	**Stock code**	**P/E ratio**
Uni-President China Holdings Ltd.	00220.HK	18.99
Tingyi (Cayman Islands) Holding Corp	00322.HK	22.54
Xiabuxiabu Catering Management (China) Holdings Co., Ltd.	00520.HK	15.92
Ajisen (China) Holdings Limited	00538.HK	7.1
Tang Palace (China) Holdings Limited *(Note 1)*	01181.HK	6.94
Zhou Hei Ya International Holdings Company Limited	01458.HK	56.78
NNK Group Limited *(Note 2)*	03773.HK	8.9
Dali Foods Group Company Limited	03799.HK	11.47
Maximum:		**56.8**
Minimum:		**6.9**
Mean:		**19.6**
Median:		**15.9**

Note(s):

1. Tang Palace (China) Holdings Limited was selected as one of the Comparable Companies mainly due to the following reasons: (i) its operation region is in the PRC; (ii) 100% of its revenue were generated in the PRC; (iii) it is principally involved in selling/distributing food and beverage products directly to consumers in the PRC market; (iv) it has a positive P/E ratio; and (v) it is listed on the Stock Exchange of Hong Kong.

2. NNK Group Limited is principally engaged in providing mobile top-up services to mobile users through electronic banks systems of the PRC banks and other third-party online platform. According to the Target Company, NNK Group is considered as a distribution channel service provider in the retail business, and through its distribution channels it allows customers to enjoy a more convenient service experience, which is similar to the business nature of the Target Company. In this regard, the management of the Target Company believes that well-established distribution channels are the key, important and most valuable assets to the success of its business. Therefore, the Target Company has been laying-out its road map for establishing its distribution channels since its commencement of operation. The Company therefore considers that the business model of NNK Group Limited and the Target Company are similar in nature but involve the distribution of different products. Therefore, NNK Group Limited was selected as one of the Comparable Companies.

Given there is no direct comparable company the business of which is similarly involved in the vending machine business as the Target Company and which is also listed on the Stock Exchange, the Directors consider that the Comparable Companies are appropriate and relevant for assessing the valuation of the Target Company.

The valuation (i.e., the P/E ratio) of a company is affected by various factors, including but not limited to its growth prospects as well as the prevailing economic and financial market conditions. The Consideration represents a P/E ratio of the Target Company of 5.7 and 4.0 times for the years ending 31 December 2023 and 2024 respectively, which are below the range of the P/E ratios of the Comparable Companies of 6.9 to 56.8 times, and are also below the mean and median P/E ratios of the Comparable Companies of 19.6 times and 15.9 times respectively. Therefore, the Directors are of the view that the valuation of the Target Company is fair and reasonable.

Reasonableness of Profit Guarantee

As disclosed in the Announcement and above, the Consideration was arrived at arm's length negotiation with the Vendor and was determined based on a P/E ratio of the Target Company of approximately 5.71 times, which was considered to be reasonable by the Company with reference to the P/E ratios of the Comparable Companies as set out above.

On the other hand, as the Consideration is based on a fixed P/E ratio of approximately 5.71 times and the earnings of the Target Company for the years ending 31 December 2023 and 2024 are unknown and theoretically without limit, in order to protect the interests of the Company, a maximum cap on the earnings for the purpose of determining the Consideration, i.e., the Guaranteed Net Profit, has been set by the Vendor and the Company such that the Consideration will be limited to no more than HK$194,242,883.

As disclosed in the Announcement, the Target Company was still loss making for the period from the date of its establishment (i.e., 13 May 2022) to 31 August 2022. In this regard, in assessing whether the Consideration (including the Guaranteed Net Profits which serve as the maximum cap on the Consideration) is fair and reasonable, the Directors have considered the following factors:

(i) The business model of the Target company and the advantages thereof:

   (a) the Target company is engaged in the operation of intelligent vending machines in the PRC through the installation of AI vending machines at residential and commercial areas and buildings;

(b) the Target Company's main source of revenue is from the sales generated from the AI vending machines, and based on the agreements entered into with the venue providers for installation of the AI vending machines the Target Company will pay to the venue providers either a fixed fee or an agreed percentage of the revenue from the sales of products the AI vending machines to the venue providers as costs for the installation at the venues;

(c) the AI vending machines initially mainly store and sell food and beverage products, and have a larger storage capacity alike a convenience store's refrigerator as compared to the traditional vending machines commonly available in the PRC market so that diversified food and beverage products can be put up for sale through the AI vending machines;

(d) customers will be able to swiftly purchase their desired products from the AI vending machines after registering with the vending machines' AI system with their phones. The customers can unlock the AI vending machines' door by scanning the QR code affixed to the AI vending machines with either their AliPay or WeChat Pay, after which they can simply taking out their desired products. The AI vending machines are equipped with two cameras to detect, through its AI technology, which item is taken out of the AI vending machine and its quantity, after which the price of the purchased products will be automatically deducted from the AliPay or Wechat Pay account of the customers and the Target Company's will be directly credited with such amount;

(e) the AI vending machines obviate the need with hiring convenience store clerk and the payment of substantial rental and renovation expenses;

(f) the Directors are of the view that as computer vision technology in the AI field improves and matures, the AI vending machines, through the cameras installed within, are able to simultaneously identify the products stocked and sold at the machines and provide instant feedback at the backend database on the sales level of different products for each AI vending machine, and accordingly this helps with the optimization operation and management of the AI vending machines, including restocking and inventory management,

and based on the aforesaid, the Directors are of the view that the business model and operation of the Target Company are considered to be simple and non-labour intensive with relatively low maintenance cost, and that such unmanned autonomous AI vending machines (1) are likely to replace the existing vending machines given the much larger storage capacity of the AI vending machines which would allow them to provide a larger variety of products at a larger quantity, and the popularity of electronic wallets and payment systems such as AliPay and WeChat Pay, and (2) have the potential to replace and take over the market of traditional convenience store, given the AI vending machines' advantage in obviating the need with hiring store clerks and payment of rental and renovation expenses while providing comparable selection of products. Therefore, there is growth potential and reasonable prospect to achieve profitability by the Target Company, given the potential room for a significant increase in the number of AI vending machines installed in the coming years.

(ii) The Target Company is able to lower its initial costs in relation to the acquisition of the AI vending machines by negotiating sponsorship of the AI vending machines by food and beverage brands. The Target Company and its supplier of the AI vending machines (the "**Vending Machines Supplier**") have entered into a cooperation agreement in relation to the AI vending machines, pursuant to which the Vending Machines Supplier has agreed to provide 10,000 AI vending machines to the Target Company charging only refundable deposits, in exchange of the exclusive placement of products of a brand specified by the Vending Machines Supplier, on one or two levels of the AI vending machines' shelf racks.

The Target Company is also currently engaged in negotiations with other famous brands for the sponsorship of the AI vending machines in similar manner. Based on the latest negotiations as at the date of this announcement, the Target Company has preliminary reached agreement with two such brands for the sponsorship of 10,000 AI vending machines each, and is pending the signing of the formal agreement with these two brands.

(iii) While the Vendor is engaged in online sales and trading, its affiliated companies are engaged in operating retail business in Wuhan, and therefore the Vendor through its affiliated companies have the ability and resources to secure supply of food and beverage products to the Target Company at an ideal discount rate. In this regard, the Directors have also reviewed and engaged PRC legal advisors to review the existing contracts and arrangements for procurement of food and beverage items, and noted that the cost of sales margin is approximately 55%, and the Directors anticipate that the cost of sales margin will go down as the economies of scale improve with the expansion of business in the coming years.

(iv) The Target Company and its existing affiliated companies have good business relationship with renowned property developers and management companies in the PRC and have entered into contracts for installation of AI vending machines at complexes under their management in Wuhan, despite that the Target Company was only recently established in May 2022. Aside from property developers and management companies, the Target Company has also entered into agreements for installation of the AI vending machines at venues including schools, hotels, hospitals and offices. Some of the agreements also contain exclusivity clause such that no vending machine from other providers can be installed during the term of the agreement, which will enable the Target Company to establish its market presence and penetrate the market with less competition. Therefore, the Target Company and its existing affiliated companies have the resources and connections to reach and negotiate with different venue providers, including major ones, to introduce the AI vending machines to different venues, thereby increasing the adoption rate of the AI vending machines in the PRC market.

Although the Target Company is still currently only focusing its business efforts in installing AI vending machines in Wuhan to strengthen its business and presence there, it is also planning to further expand to other markets in the PRC over the next few years. In this regard, the Target Company has been engaged in negotiations and discussions with a renowned conglomerate in the PRC for the installation of vending machines in the properties and premises under its operation and management throughout the PRC. Therefore, the Directors consider that there is large potential room for market expansion and penetration of the Target Company's business, and thus the number of AI vending machines installed might increase exponentially in the coming years.

As at the date of this announcement, the Target Company has entered into contracts with different venue providers for the installation of a total of 11,050 AI vending machines (including those already installed). The Target Company is also currently negotiating with a property developer and management company for the further installation of 4,000 AI vending machines.

(v) Based on the Directors' discussion with the management of the Target Company, although the Target Company is still loss-making, this is mainly attributed to the fact that the Target Company was only recently established in May 2022 and is still in an early startup stage, and there were various costs and expenses associated with the early-stage establishment of its business.

For the factors and reasons set out above, the Directors are of the view that the terms relating to the Consideration and Guaranteed Net Profit (which effectively serve as the maximum cap on the Consideration) are fair and reasonable, notwithstanding that the Target Company was still loss making up to 31 August 2022.

In this regard, the Directors have also conduced the following due diligence review:

(i) discussing with the management of the Target Company to understand the business model of the Target Company and the market of the vending machine business in the PRC;

(ii) reviewed the videos of the actual operation of the AI vending machines operated by the Target Company;

(iii) engaged a PRC legal advisor to conduct a due diligence review on the Target Company, including but not limited to the history of establishment, corporate matters, history of non-compliances litigations and administrative actions, as well as its existing material contracts, and reviewed the due diligence report prepared by the PRC legal advisor;

(iv) reviewed the due diligence report to understand the material terms of the agreements entered into by the Target Company, and noted that, among others, (a) based on the agreement with the Vending Machine Supplier, the Target Company will be provided 10,000 AI vending machines within about five years, and is only charged deposits which are refundable upon expiry of the five years' term in exchange for certain products specified by the Vending Machine Supplier to be sold by the AI vending machines, and (b) the Target Company has, as at the time of due diligence, already entered into more than 30 contracts with different venue providers for the installation of vending machines at different venues in Wuhan;

(v) discussed with the management of the Target Company to understand that while the Target Company's operations are still focused in Wuhan at the current early stage, there is potential and room for expansion to other markets in the PRC over the next few years which would help increase and improve the revenue and profitability of the Target Company; and

(vi) reviewed the latest financial information of the Target Company and discussed with the management of the Target Company to understand that the Target Company was only recently established in May 2022 and is still in an early startup stage, and was still loss-making as a result of the various costs and expenses associated with the early stage establishment of its business.

In case the actual Net Profits fall short of the Guaranteed Net Profits, the Company has put in place relevant terms in the Agreement to protect the interests of the Company and its Shareholders:

(i) the Consideration pro rata adjustment mechanism, as set out in the paragraph headed "The Agreement – Profit Guarantee" in the Announcement, to reflect the actual finance performance of the Target Company by ensuring that the Consideration to be paid by the Company will represent a P/E ratio of no higher than approximate 5.71 times based on the actual Net Profits, together with a minimum threshold of actual Net Profits to be met failing which no Consideration will have to be paid; and

(ii) as set out in the paragraph headed "The Agreement – Conditions precedent" in the Announcement, it is a condition precedent under the terms of the Agreement that the Company has completed its due diligence and independent valuation and be satisfied with the results thereof within ninety (90) Business Days, failing which the Company shall have the right to terminate the Agreement.

In any event, even if the actual Net Profits fall short of the Guaranteed Net Profits, the Company nevertheless consider the Acquisition to be in the interests of the Company and its Shareholders considering (i) the business model and plan of the Target Company; (ii) the reasons and benefits set out in the paragraph headed "Reasons for and Benefits of the Acquisition" in the Announcement; and (iii) that as long as the actual Net Profit meets the minimum thresholds of RMB10,000,000 for the year ending 31 December 2023 and RMB17,000,000 for the year ending 31 December 2024, the performance of the Target Company will be considered satisfactory, and any shortfall to the Guaranteed Net Profit will also trigger the pro rata adjustment mechanism to the Consideration.

Based on all the aforesaid, the Directors are of the view that the terms of the Agreement (including the Consideration and the Guaranteed Net Profit) are on normal commercial terms, fair and reasonable in the interests of the Company and its shareholders as a whole.

By Order of the Board
Sky Light Holdings Limited
Tang Wing Fong Terry
Chairman

Hong Kong, 17 November 2022

As at the date of this announcement, the executive Directors are Mr. Tang Wing Fong Terry and Mr. Lu Yongbin; the non-executive Director is Ms. Tang Kam Sau; and the independent non-executive Directors are Mr. Tse Yat Hong, Dr. Cheung Wah Keung and Professor Jian Wang.