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a metaverse company

A Metaverse Company

— 元 宇 宙 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1616)

DISCLOSEABLE TRANSACTION DISPOSAL OF SUBSIDIARIES

On 22 December 2023 (after trading hours), the Vendor, a company controlled by the Group by way of contractual arrangements, and the Purchaser, an Independent Third Party, entered into the Disposal Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the Sale Equity at the consideration of RMB3,600,000.

As the highest of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal is more than 5% but less than 25%, the Disposal constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

On 22 December 2023 (after trading hours), the Vendor, a company controlled by the Group by way of contractual arrangements, and the Purchaser, an Independent Third Party, entered into the Disposal Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the Sale Equity at the consideration of RMB3,600,000.

The principal terms of the Disposal Agreement are as follows:–

THE DISPOSAL AGREEMENT

Date

22 December 2023 (after trading hours)

Parties

- (1) The Vendor; and
- (2) The Purchaser.

To the best knowledge, information and belief of the Board and after making all reasonable enquiries, the Purchaser and its ultimate beneficial owners are the Independent Third Parties.

Subject assets to be disposed

The Vendor has conditionally agreed to sell the Sale Equity to the Purchaser. The Sale Equity represents 100% of the registered capital of the Target Companies.

Immediately prior to the Disposal, the Target Companies were direct wholly-owned subsidiaries of the Vendor. Upon Completion, the Group will no longer have any interest in the Target Companies.

Consideration and Basis of the Consideration

The Vendor and Purchaser have agreed that part of the Consideration shall be used to offset an outstanding debt of RMB3,145,326.15 owed by the Vendor to the Target Companies.

Pursuant to the terms of the Disposal Agreement, the Payable Consideration of RMB454,673.85, being the remaining portion of the Consideration, shall be paid by the Purchaser in cash within three business days after signing of the Disposal Agreement.

The Consideration of the Disposal was arrived at after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms with reference to the valuation of the total equity interest and asset and liabilities of the Target Companies as at 30 November 2023 as per the Valuation Report dated 22 December 2023 issued by an independent valuer.

VALUATION

Given the unique characteristics of the asset, there are substantial limitations to using both the income approach and the market approach for valuing the Target Companies. Firstly, the income approach requires subjective assumptions, which makes the valuation is highly sensitive. Detailed operational information and long-term financial projections are also needed to determine an indication of value, but such information is highly uncertain as of the Valuation Date. Furthermore, the net profits of the Target Companies had been fluctuating in recent years. As the derived value based on the income approach is highly dependent on the reliability of the financial projections, given the uncertain short-term and long-term development of the Target Companies, the financial projections may not be reliable. As the result, the income approach is not adopted in the valuation. Secondly, the market approach generally relies on deriving value through a measure of the values of market comparables or transactions. However, given the unique characteristics of the Target Companies, there was a lack of market comparables or transactions available to derive an indicative value with a sufficient level of accuracy.

In view of the above, the independent valuer used the cost approach for the valuation. Under the cost approach, the summation method is typically adopted for a valuation subject when its value is primarily a factor of the value of the valuation subject's holding assets and liabilities. Under the summation method, each identifiable asset and liability of the Target Companies is being valued using the appropriate valuation approaches, and the opinion of value is derived by adding component assets and deducting component liabilities.

Set out below, amongst others, are the major principal assumptions made by the independent valuer in the valuation:

Major Assumptions

- (i) The valuation is primarily based on the unaudited financial data sourced from the preparation financial statements issued by Da Hua CPAs LLP, and the accuracy of that data is assumed, and such information has been relied by the independent valuer to a considerable extent on such information in arriving at its opinion of value;
- (ii) It is assumed that the continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued;
- (iii) It is assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Companies;
- (iv) It is assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- (v) It is assumed the information contained in the copies of the operating licenses and company incorporation documents to be reliable and legitimate. The independent valuer has relied to a considerable extent on such information provided in arriving at its opinion of value; and
- (vi) It is assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, the independent valuer assumes no responsibility for changes in market conditions after the Valuation Date.

Valuation Approach and Methodology

In determining the fair values of different type of assets and liabilities, the appropriate valuation methodology for each different class of assets and liabilities is adopted as follows:

Assets	Valuation Approach & Methodology
Current assets – Cash and cash equivalents, Accounts receivable, Prepayments, Other Receivables, Other current assets	Based on the simulated consolidated financial statements in the review report issued by Da Hua CPAs LLP.
Current assets – Inventory	For Internet-drama “Her Fantastic Adventures”, base on the co-production agreement to consider the expected recoverable value. For other inventories, considered the cost approach and referred to the book value and have reviewed the relevant contracts and agreements, detailed television series ledgers, etc.
Non-current assets	Based on the simulated consolidated financial statements in the review report issued by Da Hua CPAs LLP.
Liabilities	Valuation Approach & Methodology
Current liabilities and Non-current liabilities	Based on the simulated consolidated financial statements in the review report issued by Da Hua CPAs LLP.

The market values of the identifiable tangible assets and liabilities in the Target Companies as at the Valuation Date are as follows:

The Target Companies	Market Value as at 30 November 2023 (Unit: RMB)
Total assets	82,164,948.78
Current assets	80,104,463.44
Cash and cash equivalents	1,422,629.44
Accounts receivable	33,824,496.10
Prepayments	1,712,044.76
Other Receivables	17,751,698.22
Inventory [#]	24,809,804.01
Other current assets	583,790.91
Non-current assets	2,060,485.34
Property, plant and equipment	10,890.18
Right of use	1,845,550.16
Long-term Deferred Expense	104,045.00
Other non-current assets	100,000.00
Total liabilities	126,604,698.65
Current liabilities	122,427,482.50
Short-term borrowings	7,000,000.00
Accounts payable	1,640,060.00
Advance receipts	2,092,459.79
Payroll payable	1,301,770.57
Tax payable	50,650,490.89
Other payables	59,074,840.39
Non-current liabilities due within one year	667,860.86
Non-current liabilities	4,177,216.15
Lease liabilities	998,861.31
Deferred income taxes	3,178,354.84
Net assets	(44,439,749.87)
Net assets (Rounded)	(44,440,000.00)

[#]*NOTE:* The inventory includes the Internet-drama “Her Fantastic Adventures” and upfront costs for certain IP assets. According to the co-production agreement with iQIYI (北京愛奇藝科技有限公司), the recoverable value of the Internet-drama “Her Fantastic Adventures” will be RMB21,952,904.49 if it can be released within a year. If not, the recoverable value will be zero. In the Valuation, it is assumed that this Internet-drama will be released within a year.

Completion

The Disposal Agreement shall be effective on the date of signing. Completion shall take place upon the full satisfaction in all respects of all the applicable requirements of the Listing Rules for the Disposal Agreement and the transactions contemplated thereunder, and the receipt of the Payable Consideration by the Vendor.

As at the date of this announcement, the Target Companies are direct wholly-owned subsidiaries of the Vendor. Upon Completion, the Group will cease to hold any interest in the Target Companies.

INFORMATION ON THE PARTIES

The Vendor

The Vendor is a limited liability company established in the PRC in May 2016 and is principally engaged in investment, production and distribution of film and television series and related businesses through subsidiaries. It is controlled by the Group by way of contractual arrangements.

The Purchaser

The Purchaser is a limited liability company established in the PRC in November 2023, which is a wholly owned subsidiary of Beijing Dongwang Cultural Development Co., Ltd.* (北京東王文化發展有限公司) and is principally engaged the production and distribution of television drama series and related services.

Information on the Target Companies

All the Target Companies are established in the PRC and are principally engaged in the business of, inter alia, investment, production and distribution of film and television series and related businesses.

The unaudited net asset value of the Target Companies were approximately RMB-59,979,000 in total as at 30 November 2023 according to the management account of the Target Companies reviewed by Da Hua CPAs LLP. The unaudited financial results of the the Target Companies for the two years ended 31 December 2022 are as follows:

	For the year ended	
	31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	72,005	6,800
Net loss before and after income tax	(147,663)	(37,129)

FINANCIAL EFFECTS OF THE DISPOSAL AND USE OF PROCEEDS

Subject to final audit, it is expected that the Group will realise a profit from the Disposal of approximately RMB63,579,000, which is calculated by reference to the management account of the Target Companies reviewed by Da Hua CPAs LLP.

The proceeds from the Payable Consideration are currently intended to be used by the Group for general corporate purposes.

Upon completion of the Disposal, the Group will no longer have any interest in the Target Companies and the Target Companies will cease to be accounted for as subsidiaries of the Group.

REASONS FOR THE DISPOSAL

The Group keeps adjusting its investment strategy and production structure to adapt to the changing landscape of the film and television industry. It aims to reduce reliance on traditional TV stations as sales channels and strengthen cooperation with new media platforms. This shift is driven by the rapid emergence of online video websites, social media, and short video platforms, which have become the dominant content providers. By leveraging existing resources and advantages, the Group aims to align with the industry's new development trends. Following a review of the Target Companies' financial performance and operations, the Board considers that it is appropriate to proceed with the Disposal. The Disposal, when materialized, will allow the Group to reallocate its resources for future development.

As the Disposal is being carried out after arm's length negotiation, on normal commercial terms and with reference to the Valuation Report, the Directors are of the view that the Disposal is in the interests of the Company and the Shareholders as a whole and the terms of the Disposal Agreement were fair and reasonable and on normal commercial terms.

IMPLICATIONS UNDER THE LISTING RULES

As the highest of the applicable percentage ratios exceeds 5% but less than 25%, the execution of the Disposal Agreement constitutes a discloseable transaction for the Company and is therefore subject to the requirements of notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

“Board”	the board of Directors
“Company”	A Metaverse Company, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Stock Exchange (stock code: 1616)

“Completion”	completion of the Disposal under the Disposal Agreement
“Consideration”	the total consideration for the Disposal, being RMB3,600,000
“Da Hua”	Da Hua CPAs LLP (大華會計師事務所(特殊普通合夥))
“Director(s)”	the director(s) of the Company
“Disposal”	the sale of the Sale Equity by the Vendor to the Purchaser
“Disposal Agreement”	the equity transfer agreement dated 22 December 2023 entered into between the Vendor and the Purchaser in relation to the Disposal
“Group”	the Company and its subsidiaries
“Hanxing Jinhong”	Beijing Hanxing Jinhong Cultural Development Co., Ltd.* (北京漢星瑾宏文化發展有限公司), a limited liability company established in the PRC
“Her Fantastic Adventures”	第二次初見 (formerly known as “Back to the Dynasty” (午門囧事))
“Huasheng Taitong”	Beijing Huasheng Taitong Media Investment Co., Ltd.* (北京華晟泰通傳媒投資股份有限公司), a limited liability company established in the PRC
“Independent Third Party(ies)”	a person or a company which is a third party, independent of the Company and its connected person(s) ascribed to it in the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Payable Consideration”	the cash portion of the Consideration, being RMB454,673.85
“PRC”	the People’s Republic of China
“Purchaser”	Dongyang Xingsheng (Beijing) Cultural Development Co., Ltd.* (東陽星晟(北京)文化發展有限公司), a limited liability company established in the PRC which is ultimately owned and controlled by Mr. Xu Yujian, who is an Independent Third Party and a merchant
“RMB”	Renminbi, the lawful currency of the PRC

“Ruibo Star”	Beijing Ruibo Star Culture Media Co., Ltd.* (北京睿博星辰文化傳媒有限公司), a limited liability company established in the PRC
“Sale Equity”	100% of the registered capital of each of the Target Companies
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	Huasheng Taitong, Hanxing Jinhong, Yongming Film, and Ruibo Star, all of which are limited liability companies established in the PRC and are wholly owned subsidiaries of the Vendor as at the date of the Disposal Agreement
“Valuation Date”	30 November 2023
“Valuation Report”	the valuation report dated 22 December 2023 which is prepared by the valuer, an Independent Third Party, for the valuation of the Target Companies
“Vendor”	Beijing Starrise Cultural Development Co., Ltd.* (北京星宏文化發展有限公司), a PRC company controlled by the Group by way of contractual arrangements
“Yongming Film”	Beijing Yongming Film and Television Culture Co., Ltd.* (北京勇明影視文化股份有限公司), a limited liability company established in the PRC
“%”	per cent

By order of the Board
A Metaverse Company
LIU Dong
Chairman

Beijing, the PRC, 22 December 2023

As at the date of this notice, the Board comprises seven Directors, namely Mr. LIU Dong, Mr. LIU Zongjun, Ms. YANG Qinyan and Mr. HE Han as executive Directors; and Mr. LAM Kai Yeung, Ms. LIU Chen Hong and Mr. KWOK Pak Shing as independent non-executive Directors.

* *For identification purposes only*