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## **AM GROUP HOLDINGS LIMITED**

### **秀商時代控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1849)**

## **DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF THE MAJORITY STAKE OF MAJESTIC STATE INTERNATIONAL LIMITED**

**Financial Adviser**



**Euto Capital Partners Limited**

### **THE ACQUISITION**

On 23 November 2020, (after trading hours), the Company, the Vendor and the Guarantor entered into the Sale and Purchase Agreement pursuant to which the Company has agreed to acquire and the Vendor has agreed to sell the Sale Shares, representing 60% of the entire issued share capital of the Target Company.

Taking into account the 20% shareholding previously acquired by the Company at the consideration of RMB12,000,000 (details of which are disclosed in the voluntary announcement of the Company dated 16 June 2020), upon Completion, together with the Sale Shares, the Company will hold 80% of the entire issued share capital of the Target Company.

The Consideration of RMB66,000,000 shall be satisfied upon Completion, which is subject to adjustment under the section headed “The Sale and Purchase Agreement — Consideration and Profit Guarantee”.

## **THE CONTRACTUAL ARRANGEMENT**

As advised by the Company's PRC legal advisers, for the operation of the internet culture business (互聯網文化經營) in the PRC, Show Times (Chongqing) is subject to certain foreign-ownership restrictions under the laws and regulations of the PRC.

Through the Business Collaboration Agreements, the entire economic benefits and the risks of the business of Show Times (Chongqing) will flow into the WFOE and to enable the WFOE to gain 100% effective control over Show Times (Chongqing).

## **IMPLICATIONS UNDER THE LISTING RULES**

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition contemplated under the Sale and Purchase Agreement exceeds 5% but all of them are below 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and is therefore subject to the reporting and announcement requirements.

**Completion of the Acquisition is subject to the fulfillment (or waiver) of the conditions precedent set out in the Sale and Purchase Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.**

## **INTRODUCTION**

On 23 November 2020, (after trading hours), the Company, the Vendor and the Guarantor entered into the Sale and Purchase Agreement pursuant to which the Company has agreed to acquire and the Vendor has agreed to sell the Sale Shares, representing 60% of the entire issued share capital of the Target Company.

Taking into account the 20% shareholding previously acquired by the Company on 3 July 2020 at the consideration of RMB12,000,000 (details of which are disclosed in the voluntary announcement of the Company dated 16 June 2020), upon Completion, together with the Sale Shares, the Company will hold 80% of the entire issued share capital of the Target Company.

## **THE SALE AND PURCHASE AGREEMENT**

The principal terms of the Sale and Purchase Agreement are summarised as follows:

**Date:**

23 November 2020

**Parties:**

- (i) the Company as the purchaser of the Sale Shares;
- (ii) the Vendor as the vendor of the Sale Shares; and
- (iii) the Guarantor, who has agreed, among others, to guarantee the performance of the obligations of the Vendor under the Sale and Purchase Agreement.

To the best of Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, each of the Vendor and the Guarantor (being the ultimate beneficial owner of the Vendor) is an Independent Third Party.

**Assets to be acquired:**

Pursuant to the Sale and Purchase Agreement, the Company has agreed to acquire and the Vendor has agreed to sell the Sale Shares.

As at the date of the Sale and Purchase Agreement, the Target Company is beneficially owned as to 80% by the Vendor and 20% by the Company.

Please refer to the paragraph headed "INFORMATION OF THE TARGET GROUP" for details of the Target Group.

**Consideration:**

The Consideration of RMB66,000,000 shall be satisfied in the following manner:

- (i) RMB60,000,000 will be settled in cash upon Completion; and
- (ii) the balance of the Consideration, after downward adjustment made in accordance with the following formula and deduction of the said first installment, within seven business days after the actual audited net profit after tax of Show Times (Chongqing) for the financial year ending 31 December 2020 (the "2020 Profit") has been determined:

The second installment of the Consideration will be adjusted by the following formula:

$$B = A \times 10.18^{\alpha} \times 60\% - \text{RMB60,000,000}$$

Where:

- A = 2020 Profit
- B = Balance of the second installment of the Consideration payable by the Purchaser
- $\alpha$  = Implied Price-to-Earnings multiple as of 30 September 2020

For avoidance of doubt, B shall not exceed RMB6,000,000 (i.e. RMB66,000,000 – RMB60,000,000).

The Consideration is subject to adjustment under the sub-section headed “profit guarantee” below.

***Basis for determination of the Consideration***

The Consideration based on arm’s length negotiations between the Company and the Vendor was determined with reference to the valuation conducted by Vincorn Consulting and Appraisal Limited, an independent professional valuer engaged by the Company.

The valuation of Show Times (Chongqing), conducted by Vincorn Consulting and Appraisal Limited, was determined to be approximately RMB67,200,000 as of 30 September 2020 using the market approach.

In deriving the 60% equity interest of Show Times (Chongqing), implied price-to-earnings ratio for the year ending 31 December 2020 (i.e. 10.18) was adopted along with the profit guarantee of Show Times (Chongqing) for the year ending 31 December 2020 (i.e. RMB11,000,000). Accordingly, the Consideration represents a discount of approximately 1.79% to the Valuation. In essence, the computation would be as follows:

$$\text{RMB11,000,000} \times 10.18 \times 60\% = \text{RMB67,188,000}$$

The Directors consider that the Consideration is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

**Profit guarantee:**

For the purpose of the Acquisition of the Sale Shares, in the event that the 2020 Profit is less than RMB11,000,000, the Vendor has undertaken to pay to the Company an amount of the shortfall multiplied by 60% in cash (the “**Profit Compensation**”).

The Vendor shall procure that the financial statements of Show Times (Chongqing) for the year ended 31 December 2020 shall be audited and delivered to the Purchaser as soon as practicable and in any event not later than 31 May 2021.

For avoidance of doubt, a profit guarantee has been provided previously by the Vendor under the sale and purchase agreement for the sale and purchase of the 20% shareholding of the Target Company, in which the formula is as follows:

$$= (\text{RMB8,000,000} - \text{the audited net profit after tax prepared in accordance to the HKFRS of Show Times (Chongqing)}) \times 8 \times 20\%, \text{ subject to ceiling of RMB12,000,000, i.e. the consideration for acquiring the 20\% shareholding of the Target Company}$$

**Conditions precedent:**

Completion is conditional upon the satisfaction of the following conditions precedent:

- (i) the Vendor has a good title to the Sale Shares free from encumbrances on Completion and is the registered and beneficial owner of the Sale Shares on Completion;
- (ii) the Company having been satisfied with the results of the due diligence review conducted by the Company on the Target Group;
- (iii) no event having occurred since the date of the Sale and Purchase Agreement to the date of Completion, the consequence of which is to materially and adversely affect the financial position, business or property, results of operations or business prospects of the Target Group; and
- (iv) no material breach of the warranties provided by the Vendor in the Sale and Purchase Agreement and such warranties remain true and accurate in all respects and not misleading at Completion.

**Completion:**

Completion shall take place on the third business day from the fulfillment or waiver of the last of the conditions. If the conditions have not been fulfilled by the Vendor (or waived by the Purchaser at its sole discretion) on or before 31 December 2020, the Sale and Purchase Agreement shall lapse and neither party to the Sale and Purchase Agreement shall be bound to proceed with the sale and purchase of the Sale Shares.

**Post-Completion obligations**

In consideration of the Consideration, the Guarantor agreed to provide assistance on the operations of the Target Group for a period of 24 months immediately after Completion.

During the period of 24 months immediately after Completion, it has been agreed that (i) there shall be no dividends declaration by any members of the Target Group; and (ii) no disposal of any assets of the Target Group other than under the usual and ordinary course of business.

**Guarantee on accounts receivable**

During the due diligence on the Target Group, the Company noticed that there was an account receivable in the sum of approximately RMB14,100,000 owed to Show Times (Chongqing). It has been agreed in the Sale and Purchase Agreement that in the event that Show Times (Chongqing) fails to recover such accounts receivable in full on or before 30 June 2021 the Guarantor and the Vendor shall pay the shortfall thereof to the Company based on the effective shareholding of the Company on Show Times (Chongqing), i.e. 80% in total.

## **INFORMATION OF THE VENDOR AND THE GUARANTOR**

The Vendor is an investment holding company incorporated under the laws of BVI with limited liability, 98% of the issued share capital of which is owned by the Guarantor and the remaining 2% is owned by another individual who is an Independent Third Party to the Company as well. The Guarantor is a merchant in the PRC.

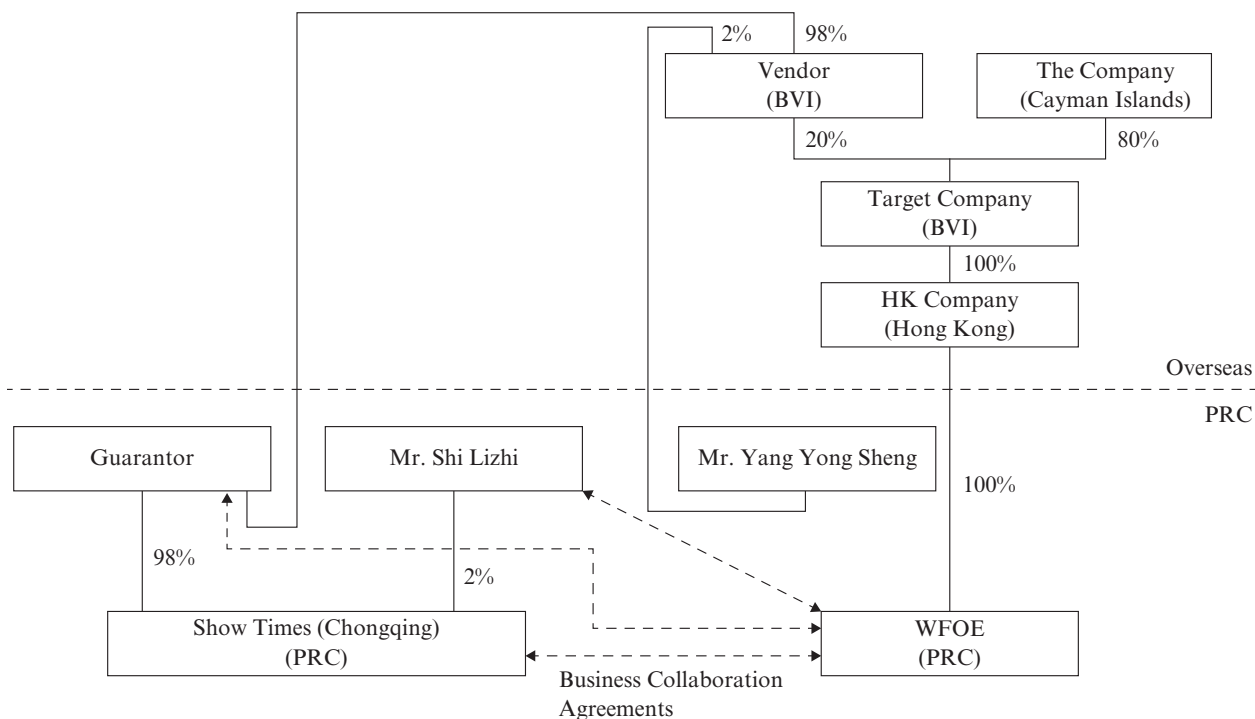
## **INFORMATION OF THE TARGET GROUP**

The Target Company is an investment holding company incorporated in the BVI with limited liability and is owned as to 80% by the Vendor and as to 20% by the Company before Completion. The Target Company is the sole shareholder of the HK Company which in turn wholly-owns WFOE. 98% of the registered capital of Show Times (Chongqing) is owned by the Guarantor, and the remaining 2% of the registered capital of Show Times (Chongqing) is owned by an Independent Third Party.

HK Company is an investment holding company incorporated in Hong Kong with limited liability. Each of Show Times (Chongqing) and the WFOE is a company established under the laws of the PRC. The WFOE is not engaged in any material business activities as at the date of this announcement. The Target Group, through Show Times (Chongqing), is principally engaged in operation of online e-commerce platforms in an innovative business model of “Internet mall + real-time internet broadcasting and short-form mobile videos” through Show Time (Chongqing)’s mobile application named “秀友” currently.

Through the Business Collaboration Agreements, the Target Company has obtained rights to have effective control over the operation of Show Times (Chongqing) and the right to enjoy the economic benefits in the business and/or asset of Show Times (Chongqing), and that Show Times (Chongqing) will be accounted for as a wholly-owned subsidiary of the Target Company in which its financial results be consolidated with that of the Target Group through the Business Collaboration Agreements.

Hereinbelow is the shareholding structure of Show Times (Chongqing) immediately after Completion:



**The business of the Target Group:**

The business of the Target Group, through Show Times (Chongqing), is operation of online e-commerce platforms in an innovative business model of “Internet mall + real-time internet broadcasting and short-form mobile videos” through Show Time (Chongqing)’s mobile application named “秀友”. Show Time (Chongqing) receives most of its income derived from technology services (技術服務費) and commissions for transactions completed on its mobile application named “秀友” (平台服務費).

## Financial information of the Target Group

Set out below is the unaudited financial information of Show Times (Chongqing) from 29 August 2019 (being the date of establishment of Show Times (Chongqing)) to 31 December 2019 and from 1 January 2020 to 30 September 2020:

	<b>From 29 August 2019 to 31 December 2019</b> <i>(RMB'000)</i>	<b>From 1 January 2020 to 30 September 2020</b> <i>(RMB'000)</i>
Revenue:	3,447	42,222
Net (loss)/profit before taxation:	2,997	13,810
Net (loss)/profit after taxation:	2,748	10,355

The unaudited total asset value and the unaudited net asset value of Show Times (Chongqing) as at 30 September 2020 were approximately RMB38.05 million and approximately RMB15.10 million respectively.

Upon Completion, the Group will be interested in 80% of the entire issued share capital of the Target Company which will become a direct non-wholly-owned subsidiary of the Company.

As advised by the Vendor, the Target Company, the HK Company and the WFOE are principally engaged in investment holding and were incorporated on 9 January 2020, 22 May 2020 and 28 June 2020 respectively. Due to the short operation history of the Target Company, the HK Company and the WFOE since their respective incorporations, the financial performance of the Target Company, the HK Company and the WFOE are insignificant.

As advised by the Company's PRC legal adviser, pursuant to the Business Collaboration Agreements, the Target Company will be able to control 100% of the management and operation of Show Times (Chongqing) so as to obtain the entire economic interest and benefits from its business activities despite the lack of full registered equity ownership. The Directors confirm that, to the best of their knowledge and belief, having made such inquiries of management and the auditors of the Company as they considered necessary for the purpose of appropriately informing themselves that the financial results of the Target Group are capable of being consolidated into the financial statements of the Group.



## INFORMATION OF THE CONTRACTUAL ARRANGEMENT

### Reasons for the use of the Business Collaboration Agreements

As at the date of this announcement, Show Times (Chongqing) is principally engaged in operation of online e-commerce platforms in the PRC including real-time internet broadcasting and short-form mobile videos services which is a form of operation of internet culture business (互聯網文化經營) in the PRC according to 《互聯網文化管理暫行規定》 (Provisional Regulations for the Administration of Internet Culture) issued by the Ministry of Culture and Tourism of the PRC (formerly known as the Ministry of Culture of the PRC) on 15 December 2017.

As advised by the Company's PRC legal adviser, for the operation of internet culture business in the PRC, Show Times (Chongqing) is subject to the foreign-ownership restrictions under 《外商投資准入特別管理措施(負面清單)(2019年版)》 (Special Management Measures for Foreign Investment Access (Negative List) (2019 Edition)) (the “**Negative List**”) issued by the National Development and Reform Commission of the PRC and the Ministry of Commerce of the PRC on 30 June 2019 and implemented on 30 July 2019. According to the Item 21 of the Negative List, ownership of foreign entity in operation of internet culture business is strictly forbidden in the PRC.

Therefore, the Business Collaboration Agreements have been entered into between relevant parties to enable the financial results, the entire economic benefits and the risks of the business of Show Times (Chongqing) to flow into the WFOE and to enable the WFOE to gain 100% effective control over Show Times (Chongqing).

### The Business Collaboration Agreements

Principal terms of each of the Business Collaboration Agreements are set out as follows:

**1. Exclusive technological consultancy and service agreement (the “Exclusive Consultancy Agreement”)**

**Parties:**

- (i) the WFOE; and
- (ii) Show Times (Chongqing)

**Subject matter:**

Show Times (Chongqing) agreed to engage the WFOE as the exclusive service provider to provide Show Times (Chongqing) with technological services, business consultancy, intellectual properties, equipment and leases, market consultancy, consultancy and management service related to the operation of Show Times (Chongqing), and such other business upon requested by Show Times (Chongqing) permitted under the laws of the PRC (the “**Services**”).

During the term of the Exclusive Consultancy Agreement, without the prior written consent of the WFOE, Show Times (Chongqing) is not allowed to engage or co-operate with any third party (except for the WFOE's designated party or related party) for the provision of the same or similar Services.

Show Times (Chongqing) agreed to pay 100% of its net profit to the WFOE as a fee for the Services on a yearly basis.

**Term:**

The Exclusive Consultancy Agreement has an initial term of 10 years from the date of its execution and be renewed at the sole discretion of the WFOE, until any of the following circumstances occur:

- (i) Show Times (Chongqing) has bankrupted, wound up, terminated or dissolved;
- (ii) all equity interest and/or assets of Show Times (Chongqing) have been transferred to WFOE or its nominee according to the Option Agreement (as defined below);
- (iii) the laws of the PRC have allowed Show Times (Chongqing) to directly hold the equity interest of Show Times (Chongqing) and that the WFOE, its subsidiary and branch companies are allowed to legally operate the business of Show Times (Chongqing);
- (iv) the WFOE informed Show Times (Chongqing) with written notice of at least 30 days in advance to terminate the Exclusive Consultancy Agreement; or
- (v) an event of default has occurred under the Exclusive Consultancy Agreement and the non-defaulting party has requested to terminate the agreement.

**2. *Share pledge agreement (the "Share Pledge Agreement")***

**Parties:**

- (i) the WFOE;
- (ii) Show Times (Chongqing); and
- (iii) the Registered Owners

The Registered Owners agreed to pledge all of its equity interests in Show Times (Chongqing) to the WFOE to secure the performance of all its obligations and also the obligations of Show Times (Chongqing) under the Exclusive Consultancy Agreement, the Share Pledge Agreement, the Option Agreement and the Proxy Agreement (as defined below).

If the Registered Owners and/or Show Times (Chongqing) breach any of the abovementioned obligation, the WFOE shall have the rights to, among others, dispose and transfer the pledged equity interests. In addition, pursuant to the Share Pledge Agreement, the Registered Owners undertook to the WFOE, among others, not to transfer its interests in Show Times (Chongqing) and not to create any pledge thereon without prior written consent of the WFOE.

In accordance with the Share Pledge Agreement, the Registered Owners have already registered the equity pledge with the relevant authorities and provided the documentary proof of successful registration to the WFOE.

The Share Pledge Agreement has become effective upon recordation of the equity pledge on the register of shareholders. The equity pledge under the Share Pledge Agreement has taken effect from the date of registration with the responsible market supervision and administration department where Show Times (Chongqing) is located and shall remain binding until the Registered Owners discharge all their obligations under the Business Collaboration Agreements, or until any of the following circumstances occur:

- (i) under applicable PRC laws and regulations, the WFOE and/or its nominee exercised its call option under the Option Agreement, pursuant to which it acquired all the equity interests and/or assets of Show Times (Chongqing), and the WFOE and/or its nominee can legally operate the business of Show Times (Chongqing);
- (ii) the WFOE informs the Registered Owners to terminate the Share Pledge Agreement; or
- (iii) the Share Pledge Agreement is terminated in accordance with the applicable laws and regulations of the PRC.

### **3. *Exclusive call option agreement (the “Option Agreement”)***

#### **Parties:**

- (i) the WFOE;
- (ii) Show Times (Chongqing); and
- (iii) the Registered Owners

**Subject matter:**

Show Times (Chongqing) and the Registered Owners irrevocably and unconditionally agree to grant an exclusive call option to the WFOE, pursuant to which the WFOE may, to the extent permitted under applicable PRC laws and regulations, require:

- (i) the Registered Owners to transfer entirely or partially its or its nominees' equity interests in Show Times (Chongqing) to the WFOE or its nominee insofar at a nominal consideration, or, unless another price is required by the relevant PRC authority. In such event, the Registered Owners shall reimburse the WFOE or its nominees any consideration paid by the WFOE or its nominees to the Registered Owners in surplus of the said nomination consideration; and
- (ii) Show Times (Chongqing) to transfer entirely or partially their or their nominees' assets in Show Times (Chongqing) to the WFOE or its nominee insofar at a nominal consideration, or, unless another price is required by the relevant PRC authority. In such event, the Registered Owners shall reimburse the WFOE or its nominees any consideration paid by the WFOE or its nominees to the Registered Owners in surplus of the said nominal consideration.

In addition, without the prior written consent of the WFOE, Show Times (Chongqing) and the Registered Owners, among other things:

- (i) shall not alter the registered capital of Show Times (Chongqing); (ii) shall not sell, transfer, mortgage or otherwise dispose of the legal rights of any assets, businesses or incomes of Show Times (Chongqing) the value of which exceeds RMB500,000;
- (ii) shall not enter into any merger, acquisition or investment by Show Times (Chongqing);
- (iii) shall not procure the declaration or actual distribution of any profits, bonus or dividend by Show Times (Chongqing); and
- (iv) shall not enter into any agreement which will be in conflict with the Option Agreement or the interests of the WFOE under the Option Agreement.

**Term:**

The Option Agreement has an initial term of 10 years from the date of its execution and will be extended automatically, unless otherwise determined by the WFOE or any of the following circumstances occur.

- (i) the WFOE informed Show Times (Chongqing) and the Registered Owners in writing to terminate the Option Agreement;

- (ii) under applicable PRC laws and regulations, the WFOE and/or its nominees exercised the call option under the Option Agreement, pursuant to which it acquired all the equity interests and/or assets of Show Times (Chongqing) and the WFOE, its subsidiary and branch companies are allowed to legally operate the business of Show Times (Chongqing); or
- (iii) an event of default caused by Show Times (Chongqing) or the Registered Owners has occurred under the Option Agreement and the WFOE has requested to terminate the agreement.

#### **4. *Shareholders' Voting Right Entrustment Agreement (the "Proxy Agreement")***

##### **Parties:**

- (i) the WFOE;
- (ii) Show Times (Chongqing); and
- (iii) the Registered Owners

##### **Subject matter:**

The Registered Owners irrevocably and unconditionally agreed to entrust the WFOE all its voting rights in Show Times (Chongqing), including but not limited to the followings:

- (i) as the agent of the Registered Owners, to convene and attend the shareholders' meetings of Show Times (Chongqing) in accordance with the articles of association of Show Times (Chongqing); and
- (ii) to enjoy all rights of the Registered Owners as shareholders of Show Times (Chongqing) and exercise the voting rights according to the laws of the PRC and the articles of association of Show Times (Chongqing).

In addition, the Registered Owners irrevocably undertook, among other things, that they will neither, unless the WFOE has agreed in writing, directly or indirectly (either on its own or through any other individual or legal entity), participate or engage in any main business which is or may be in competition with the business of Show Times (Chongqing) or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any material conflict of interest among itself and the WFOE.

**Term:**

The Proxy Agreement shall take effect from the date of its execution, until any of the following circumstances occur:

- (i) the WFOE has informed the Registered Owners in writing to terminate the Proxy Agreement;
- (ii) under applicable PRC laws and regulations, the WFOE or its nominee is allowed to register itself as the sole shareholder of Show Times (Chongqing) and operate the businesses of Show Times (Chongqing); or
- (iii) an event of default caused by Show Times (Chongqing) or the Registered Owners has occurred under the Proxy Agreement and the WFOE has requested to terminate the agreement.

**Dispute Resolutions**

The Business Collaboration Agreements contain dispute resolution clauses to the effect that, amongst others, in the event any dispute arises under the relevant Business Collaboration Agreements cannot be resolved among the parties through negotiation, such dispute shall provide for arbitration by the Shenzhen Court of International Arbitration in accordance with the then arbitration rules. The place of arbitration shall be in Shenzhen, the PRC and the language of arbitration shall be Chinese. The decision of the arbitration shall be final, conclusive and binding on the parties.

Further, the Business Collaboration Agreements contain provisions to the effect that

- (i) the arbitrators may award remedies over the shares and/or assets of Show Times (Chongqing), injunctive reliefs (such as mandatory transfer of assets) and/or winding up of Show Times (Chongqing); and
- (ii) the courts in the PRC, Hong Kong, and the Cayman Island are empowered to grant interim remedies in supporting of the arbitration pending the formation of an arbitral tribunal.

## **Liquidation**

Pursuant to the Option Agreement, in the event of liquidation or winding up of Show Times (Chongqing) pursuant to the applicable PRC laws, Show Times (Chongqing) shall sell all of its residual assets (to the extent permitted by the PRC laws) to the WFOE or another qualifying entity designated by the WFOE at the lowest price permitted by applicable PRC laws. Show Times (Chongqing) shall exempt the WFOE or another qualifying entity designated by the WFOE from payment of any price arising therefrom (to the extent permitted by applicable PRC laws and regulations). Any proceeds from such transaction shall be paid to the WFOE or the qualifying entity designated by the WFOE as consultancy fee or service fee based on the Business Collaboration Agreements.

Accordingly, in a liquidation or winding up of Show Times (Chongqing), a liquidator may seize the assets of Show Times (Chongqing) through the WFOE based on the Proxy Agreement for the benefit of the Company's creditors/shareholders assuming the completion of the Acquisition.

## **Conflict of interests**

The Company confirms that appropriate arrangements have been made to address the potential conflict of interests between the Registered Owners and the Group. In particular, the Proxy Agreement provides that the Registered Owners would neither, directly or indirectly, participate or engage in any business which is or may be in competition with the business of Show Times (Chongqing) or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any conflict of interest among the Registered Owners and the WFOE and WFOE's shareholders.

## **Arrangement with the Registered Owners**

The Company confirms that appropriate arrangements have been made to protect the Company's interests in the event of liquidation or winding up of the Registered Owners. Each of the Registered Owners has undertaken that if he is subject to bankruptcy, liquidation, or the cancellation or revocation of its business license, or any possible or threatened action thereof, he will inform the WFOE immediately and will unconditionally indemnify the WFOE for any losses incurred by it in full. In addition to the Proxy Agreement, each of the spouse of the Registered Owners has issued a written consent letter which provides that she understands and agrees with the undertaking made by their respective spouse and shall do everything possible, including signing of all necessary legal documents and taking all necessary actions to achieve the Registered Owners' commitments and obligations under Business Collaboration Agreements as abovementioned.

## **INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP**

The Business Collaboration Agreements contain certain provisions in order to exercise effective control over and to safeguard the assets of Show Times (Chongqing).

In addition to the internal control measures as provided in the Business Collaboration Agreements, it is the intention of the Company to implement, through the WFOE, additional internal control measures against Show Times (Chongqing) as appropriate, having regard to the internal control measures adopted by the Group from time to time, which may include but not limited to:

### **Management controls**

- (i) The Group will appoint a board representative (the “**Representative**”) to the board of Show Times (Chongqing). The Representative is required to conduct weekly reviews on the operations of Show Times (Chongqing) and shall submit the weekly reviews to the Board. The Representative is also required to check the authenticity of the monthly management accounts of Show Times (Chongqing);
- (ii) The Representative shall establish a team to be funded by the Group who shall station at Show Times (Chongqing) and shall be actively involved in various aspects of the daily managerial and operational activities of Show Times (Chongqing);
- (iii) Upon being aware of any major events of Show Times (Chongqing), the Representative shall report to the Board;
- (iv) The Representative shall conduct regular site visits to Show Times (Chongqing) and conduct personnel interviews quarterly and submit reports to the Board; and
- (v) All seals, chops, incorporation documents and all other legal documents of Show Times (Chongqing) must be kept at the office of the WFOE.

### **Financial controls**

- (i) The Representative shall collect monthly management accounts, bank statements and cash balances and major operational data of Show Times (Chongqing) for review. Upon discovery of any suspicious matters, the Representative must report to the Board;
- (ii) If the payment of the service fees from Show Times (Chongqing) to the WFOE is delayed, the Representative must meet with the Registered Shareholder to investigate and should report any suspicious matters to the Board. In extreme cases, the Registered Owners will be removed and replaced;
- (iii) Show Times (Chongqing) must submit copies of latest bank statements for every bank accounts of Show Times (Chongqing) within 15 days after each month end; and



- (iv) Show Times (Chongqing) must assist and facilitate the Company to conduct quarterly on-site internal audit on Show Times (Chongqing).

### **Effect and legality of the Business Collaboration Agreements**

As stated in the sub-section headed “Information of the Contractual Arrangement — Reasons for use of the Business Collaboration Agreements” above, among other things, according to the Negative List, a foreign entity is forbidden to own any equity interest in entity operating internet culture business (互聯網文化經營) in the PRC. Therefore, the Business Collaboration Agreements have been entered into by the relevant parties to enable the financial results, the entire economic benefits and the risks of the business of Show Times (Chongqing) to flow into the WFOE and to enable the WFOE to gain 100% effective control over Show Times (Chongqing).

The Company’s PRC legal adviser is of the view that, according the current PRC laws and regulations, there is no prohibitive or restrictive requirement with respect to the Business Collaboration Agreements.

The Company’s PRC legal adviser, after taking reasonable actions and steps to reach its legal conclusions, is of the following legal opinions:

- (i) the Business Collaboration Agreements are narrowly tailored to minimise the potential for conflict with relevant PRC laws and regulations;
- (ii) Show Times (Chongqing) is duly established and validly existing under the PRC laws, and has obtained or completed or will obtain or complete requisite approvals, permits, registrations or filings that are material for carrying out its existing business operations as required by the applicable PRC laws, regulations and rules;
- (iii) each of the Business Collaboration Agreements, taken individually and collectively, constitutes legal, valid and binding obligations of the parties thereto and will be enforceable under applicable PRC laws and regulations;
- (iv) the Business Collaboration Agreements do not, individually or collectively, violate the mandatory provisions of 《中華人民共和國合同法》 (Contract Law of PRC), 《中華人民共和國民法總則》 (General Provisions of the Civil Law of the PRC) and other applicable PRC laws and regulations and are not deemed as “concealing illegal intentions with a lawful form” resulting in the invalidity of the Business Collaboration Agreements;
- (v) none of the Business Collaboration Agreements violates any provisions of the existing articles of association of Show Times (Chongqing); and
- (vi) the execution, effectiveness and enforceability of the Business Collaboration Agreements do not require any approvals from any PRC governmental authority, except that the Share Pledge Agreement is subject to registration requirements with

the relevant authorities, and the exercising of the exclusive option by the WFOE according to the Option Agreement shall be subject to the then effective PRC laws and regulations and relevant approval procedures (if applicable).

### **Board's view on the Business Collaboration Agreements**

Based on the above, the Board is of the view that the Business Collaboration Agreements are narrowly tailored to achieve Show Times (Chongqing)'s business purpose and to minimise the potential conflict with and are enforceable under the relevant PRC laws and regulations. The Business Collaboration Agreements enable the WFOE to gain control over the financing and business operations of Show Times (Chongqing), and is entitled to the economic interest and benefits of Show Times (Chongqing). The Business Collaboration Agreements also provide that the WFOE may unwind the Business Collaboration Agreements as soon as relevant PRC rules and regulations governing foreign investment in the operation of internet culture business are issued which allow the WFOE to register itself as the sole shareholder of Show Times (Chongqing).

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the date of the announcement, Show Times (Chongqing) has not encountered any interference or encumbrance from any governing bodies in operating its business through the contractual arrangements under Business Collaboration Agreements.

### **RISK FACTORS IN RELATION TO THE BUSINESS COLLABORATION AGREEMENTS**

#### **Uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and how it may impact the viability of the current corporate structure, corporate governance and business operations of the Target Group**

On 15 March 2019, the National People's Congress of the PRC (the "NPC") adopted《中華人民共和國外商投資法》(Foreign Investment Law) (the "**Foreign Investment Law**") at the closing meeting of the second session of the 13th NPC. Upon taking effect on 1 January 2020, the Foreign Investment Law will replace《中華人民共和國中外合資經營企業法》(Sino-Foreign Equity Joint Venture Enterprise Law),《中華人民共和國中外合作經營企業法》(Sino-Foreign Cooperative Joint Venture Enterprise Law<sup>#</sup>) and《中華人民共和國外資企業法》(Wholly Foreign-Owned Enterprise Law). The Foreign Investment Law stipulates three forms of foreign investment, but does not explicitly stipulate the contractual arrangements as a form of foreign investment.

Since contractual arrangements are not specified as foreign investment under the Foreign Investment Law, and if the future laws, regulations and rules do not incorporate the contractual arrangements as a form of foreign investment, the Contractual Arrangement as a whole and each of the Business Collaboration Agreements will not be materially affected and will continue to be legal, valid and binding on the parties.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council”. There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangement will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangement will be handled. Therefore, there is no guarantee that the Contractual Arrangement and the business of Show Times (Chongqing) will not be materially and adversely affected in the future due to changes in PRC laws and regulations.

If future laws, administrative regulations or provisions prescribed by the State Council of the PRC mandate further actions to be completed by companies with existing contractual arrangements, the Target Group may face substantial uncertainties as to the timely completion of such actions. In the extreme case scenario, the Target Group may be required to unwind the Contractual Arrangement and/or dispose of Show Times (Chongqing), which could have a material and adverse effect on the business, financial conditions and results of operations of the Group.

**The Contractual Arrangement may not be as effective in providing the Target Company with control over Show Times (Chongqing) as direct ownership**

Upon Completion, the Group will rely on the Contractual Arrangement to conduct Business in the PRC. The Contractual Arrangement may not be as effective in providing the Group with control over Show Times (Chongqing) as equity ownership. If the Group could become the legal owner of 100% of Show Times (Chongqing) with direct ownership, it would be able to exercise its rights as shareholder, rather than the rights under the powers of attorney, to effect changes to its board of directors, which in turn could implement changes at the management and operational level. However, under the current Contractual Arrangement, as a legal matter, if Show Times (Chongqing) or the Registered Owners fail to perform their respective obligations under the Contractual Arrangement, the Group will not be able to direct the corporate action of Show Times (Chongqing) as the direct ownership would otherwise entail, and therefore the Group may be unable to maintain an effective control over the operations of Show Times (Chongqing). If the Group loses effective control over Show Times (Chongqing) after Completion, the Group would not be able to consolidate the results of operations of Show Times (Chongqing).

**The Registered Owners may have conflicts of interest with the Group, which may materially and adversely affect the Group’s business and financial condition**

The Registered Owners are the legal owners of Show Times (Chongqing) and their interests may differ from the interests of the Company as a whole. The Company cannot assure you that when conflicts of interest arise, the Registered Owners will act in the best interests of the Company or that such conflicts will be resolved in the favour of the

Group. In addition, the Registered Owners may breach, or cause Show Times (Chongqing) to breach, or refuse to renew, the existing Contractual Arrangement. If the Group cannot resolve any conflict of interest or dispute with the Registered Owners, the Group would have to rely on legal proceedings, which could result in disruption of the Group's business and subject the Group to substantial uncertainty as to the outcome of any such legal proceedings. These uncertainties may impede the Group's ability to enforce the Contractual Arrangement. If the Group is unable to resolve any such conflicts, or if the Group experiences significant delays or other obstacles or subject to claims from third parties as a result of such conflicts, its business and operations could be severely disrupted, which could materially and adversely affect its results of operations.

In addition, although the Share Pledge Agreement to be entered into with the Registered Owners provides that the pledged equity interests constitute continuing security for any and all of the indebtedness, obligations and liabilities under all of the principal service agreements, it is possible that a PRC court could take the position that the amounts listed on the equity pledge registration forms or estimated in the equity pledge agreements represent the full amounts of the collateral that have been registered and perfected. If this were to happen, the obligations that are supposed to be secured in the Share Pledge Agreement in excess of the amounts listed on the equity pledge registration forms or estimated in the equity pledge agreements could be deemed unsecured debts by the PRC court, which take the last priority among creditors.

**The Group's exercise of the option to acquire the equity interest of Show Times (Chongqing) may be subject to certain limitations and the Group may incur substantial costs**

The Group may incur substantial cost in the exercise of the option to acquire the equity interests in Show Times (Chongqing). Pursuant to the Contractual Arrangement, the WFOE has the exclusive right to require the Registered Owners to transfer its equity interests in Show Times (Chongqing), in whole or in part, to WFOE or a third party designated by the WFOE at any time and from time to time, at the lowest price allowed under PRC laws and regulations at the time of transfer. If the relevant PRC authorities determine that the purchase prices for acquiring Show Times (Chongqing) are below the market value, they may require the WFOE to pay enterprise income tax for ownership transfer income with reference to the market value. The amount of the tax may be substantial, which could materially and adversely affect the Group's business, financial condition and results of operations.

**Any failure by Show Times (Chongqing) to perform its obligations under the Contractual Arrangement would potentially lead to the incurrence of additional costs and the expending of substantial resources on the part of the Group to enforce such arrangements, temporary or permanent loss of control over the primary operations or loss of access to the primary sources of revenue of the Group**

Under the current Contractual Arrangement, if Show Times (Chongqing) fails to perform its obligations under the Contractual Arrangement, the Group may incur substantial costs and resources to enforce such arrangements and rely on legal remedies under PRC

laws, including seeking specific performance or injunctive relief and claiming damages. The Contractual Arrangement is governed by PRC laws and provide for the resolution of disputes through arbitration in China. Accordingly, the Business Collaboration Agreements will be interpreted in accordance with PRC laws and any disputes will be resolved in accordance with PRC legal procedures. Under PRC laws, rulings by arbitrators are final and the parties to a dispute cannot appeal the arbitration results in any court based on the substance of the case. The prevailing party may enforce the arbitration award by instituting arbitration award recognition proceedings with a competent PRC court. The legal environment in the PRC is not as developed as in other jurisdictions, such as Hong Kong. As a result, uncertainties in the PRC legal system could limit the Group's ability to enforce the Business Collaboration Agreements. If the Group is unable to enforce the Contractual Arrangement, it may not be able to exert effective control over Show Times (Chongqing) and the Registered Owners. As a result, the business and operations of the Group could be severely disrupted, which could materially and adversely affect the business, financial condition and results of operations of the Group.

#### **Certain terms of the Contractual Arrangement may not be enforceable under PRC laws**

The Contractual Arrangement provides for dispute resolution by way of arbitration in accordance with the arbitration rules of the Shenzhen Court of International Arbitration. The Contractual Arrangement provides that the arbitral body may award remedies over the equity interests and/or assets of Show Times (Chongqing), injunctive relief and/or winding up of Show Times (Chongqing). In addition, the Contractual Arrangement provides that courts in the PRC, Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, the Company's PRC legal adviser advised that the above-mentioned provisions contained in the Contractual Arrangement may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final winding-up order to preserve the assets of or any equity interest in Show Times (Chongqing) in case of disputes. Therefore, such remedies may not be available to the Group, notwithstanding the relevant contractual provisions contained in the Contractual Arrangement. PRC laws allow an arbitral body to award the transfer of assets of or equity interests in Show Times (Chongqing) in favor of an aggrieved party. In the event of noncompliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally do not grant injunctive relief or the winding-up order against Show Times (Chongqing) as interim remedies to preserve the assets or equity interests in favor of any aggrieved party. The Company's PRC legal adviser is also of the view that, even though the Contractual Arrangement provides that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if so granted by courts in Hong Kong or the Cayman Islands in favor of an aggrieved party) may not be recognised or enforced by PRC courts. As a result, in the event that Show Times (Chongqing) or the Registered

Owners breach any of the Business Collaboration Agreements, the Group may not be able to obtain sufficient remedies in a timely manner, and the Group's ability to exert effective control over Show Times (Chongqing) and conduct Business could be materially and adversely affected.

**If Show Times (Chongqing) becomes subject to winding up or liquidation proceedings, the Group may lose the ability to use and enjoy certain important assets held by Show Times (Chongqing), which could negatively impact the business of the Group**

Show Times (Chongqing) holds assets that are essential to the Business, including equipment and facilities related to operation of internet culture business.

If Show Times (Chongqing) goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, the Group may be unable to continue some or all of the Business, which could materially and adversely affect the business, financial condition and results of operations of the Group. If Show Times (Chongqing) undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering the Group's ability to operate the Business.

**The Company does not have any insurance which covers the risks relating to the Business Collaboration Agreements and the transactions contemplated thereunder**

The insurance of the Group does not cover the risks relating to the Contractual Arrangement and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the Contractual Arrangement in the future, such as those affecting the enforceability of the Business Collaboration Agreements and the relevant agreements for the transactions contemplated thereunder and the operation of Show Times (Chongqing), the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, the Group will implement relevant internal control measures to reduce the operational risk.

**Economic risks the Target Company bears as the primary beneficiary of Show Times (Chongqing), financial support to Show Times (Chongqing) and potential exposure of the Target Company to losses**

As the primary beneficiary of Show Times (Chongqing) (through the HK Company and the WFOE), the Target Company will share both profit and loss of Show Times (Chongqing). Equally, the Target Company bears economic risks which may arise from difficulties in the operation of Show Times (Chongqing)'s business. The Target Company may have to provide financial support in the event of financial difficulty of Show Times (Chongqing). Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of Show Times (Chongqing) and the need to provide financial support to Show Times (Chongqing).

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Group is principally engaged in the provision of marketing services, which include search engine marketing services, creative technology services and social media marketing services.

As disclosed in and with reference to the interim report of the Company for the six months ended 30 June 2020, business owners of retail, trade, service, catering or travel sectors may have suffered from the adverse impact of the outbreak of COVID-19. As such, it has been noted by the Group that some business owners who were the Group's existing customers had requested the Group to reduce their monthly advertising spending, hold up their advertising campaign or decide not to renew the advertising contracts. Also, considering that there will be less travelling due to the outbreak of COVID-19, it has become more challenging for the sales team of the Group, which would incur extra costs, to carry out marketing activities and bring in new customers. Therefore, in the medium to long term, it has been expected that the outbreak of COVID-19 would bring a negative impact on the Group.

In view of the above and in order to achieve sustainable growth, the Group has been identifying business opportunities to diversify its business, broaden its revenue base and expand its business into other business sectors.

As disclosed in the voluntary announcement of the Company dated 16 April 2020, with the Company's listing status in Hong Kong, the Group is able to increase its exposure in the PRC market and seek collaboration with PRC-based digital platforms. Leveraging on the past experience of Mr. Mu (i.e. the Guarantor and the ultimate beneficial owner of the Vendor) in the online business in the PRC, the Company's strategic co-operation with Mr. Mu is expected to allow the Group to tap into the PRC market and in turn to engage PRC-based online business entities to the Southeast Asia market.

The Directors consider that the Acquisition represents a good opportunity for the Group to tap into the online e-commerce industry, diversify the business operations and client base of the Group, which will maximise the corporate value of the Group for the Shareholders.

Having regards to the above reasons, the Directors are of the view that the terms of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

## **IMPLICATIONS UNDER THE LISTING RULES**

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition contemplated under the Sale and Purchase Agreement exceeds 5% but all of them are below 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and is therefore subject to the reporting and announcement requirements.

**Completion of the Acquisition is subject to the fulfillment (or waiver) of the conditions precedent set out in the Sale and Purchase Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.**

## **DEFINITIONS**

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

“Acquisition”	the acquisition of the Sale Shares by the Company pursuant to the terms and conditions of the Sale and Purchase Agreement
“associate”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business”	the business currently carried out by the Target Group through Show Times (Chongqing) which is operation of online e-commerce platforms in an innovative business model of “Internet mall + real-time internet broadcasting and short-form mobile videos” through Show Time (Chongqing)’s mobile application named “秀友”
“Business Collaboration Agreements”	collectively, the Exclusive Consultancy Agreement, the Option Agreement, the Share Pledge Agreement and the Proxy Agreement, details of which are set out in the section headed “Information of the Contractual Arrangement — The Business Collaboration Agreements”
“BVI”	the British Virgin Islands
“China” or “PRC”	the People’s Republic of China, which for the sole purpose of this announcement excludes Hong Kong, the Macau Special Administration Region of the PRC and Taiwan
“Company” or “Purchaser”	AM Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Stock Exchange (stock code: 1849)
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
“connected person”	has the meaning ascribed to it under the Listing Rules



“Consideration”	a sum of RMB66,000,000 being the amount of consideration to be paid by the Company to the Vendor for the sale and purchase of the Sale Shares
“Contractual Arrangement”	the arrangement to obtain the rights to have effective control over the operation of Show Times (Chongqing) and the right to enjoy the economic benefits in the business and/or asset of Show Times (Chongqing), and that Show Times (Chongqing) will be accounted for as a wholly-owned subsidiary within the Target Group in which their financial results be consolidated with that of the Target Group through the entering into of the Business Collaboration Agreements
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Guarantor” or “Mr. Mu”	Mr. Mu Lei
“HK Company”	Show Times (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company
“HKFRS”	Hong Kong Financial Reporting Standards as accepted by The Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	individual(s) or company(ies) which is/are not connected with any Directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates and is/are independent of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Registered Owner(s)”	the registered owner(s) of Show Times (Chongqing), being Mr. Mu and Mr. Shi Lizhi (師立志), who respectively own 98% and 2% of the registered capital of Show Times (Chongqing)
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 23 November 2020 and entered into between the Company, the Vendor and the Guarantor in respect of the Acquisition
“Sale Shares”	6,000 shares of the Target Company, representing 60% of the entire issued share capital of the Target Company

“Shareholders”	holders of the shares of the Company
“Show Times (Chongqing)”	秀商時代(重慶)科技有限公司 (Show Times (Chongqing) Technology Company Limited), a limited liability company established in the PRC which is owned by the Registered Owners
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Majestic State International Limited, a company incorporated in BVI with limited liability, which is as at the date of this announcement, owned as to 80% and 20% by the Vendor and the Company respectively
“Target Group”	Target Company and its subsidiaries
“Vendor”	ROC Arise Holdings Limited, a company incorporated in the BVI with limited liability, which is owned as to 98% by the Guarantor (being the ultimate beneficial owner) and as to 2% by another individual both of whom are Independent Third Parties
“WFOE”	秀商時代(重慶)網絡服務有限公司 (Show Times (Chongqing) Network Service Limited), a limited liability company established in the PRC which is wholly-owned by the HK Company
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

By order of the Board  
**AM Group Holdings Limited**  
**Teo Li Lian**

*Chairlady, Executive Director and Chief Executive Officer*

Hong Kong, 23 November 2020

*As at the date of this announcement, the Board comprises two executive Directors, namely Ms. Teo Li Lian (Chairlady and Chief Executive Officer) and Mr. Teo Kuo Liang; one non-executive Director, namely Ms. Zhang Hong; and two independent non-executive Directors, namely Mr. Chung Kwok Hoe and Mr. Lee Shy Tsong.*