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H.BROTHERS | ENTERTAINMENT

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華 誼 騰 訊 娛 樂 有 限 公 司

Huayi Tencent Entertainment Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 419)

**CONTINUING CONNECTED TRANSACTIONS
COOPERATION FRAMEWORK AGREEMENT ON
INVESTMENT PROJECTS AND DISTRIBUTION PROJECTS
WITH HUAYI BROTHERS INTERNATIONAL LIMITED**

COOPERATION FRAMEWORK AGREEMENT

The Group intends to cooperate with Huayi Brothers Group in investing in and carrying out Media and Entertainment Projects, and to engage Huayi Brothers or its Associated Company to provide distribution services for certain Media and Entertainment Projects which the Group owns or has acquired the distribution rights in the PRC.

The Board is pleased to announce that, on 2 May 2019, the Company entered into the Cooperation Framework Agreement with Huayi Brothers, pursuant to which the parties have agreed to cooperate in (i) the Investment Projects and (ii) the Distribution Projects, for a term from 2 May 2019 to 31 December 2021 (both dates inclusive), subject to the fulfillment of the condition precedent of the Cooperation Framework Agreement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Huayi Brothers is a substantial shareholder of the Company holding approximately 18.17% of the total issued share capital of the Company. Accordingly, Huayi Brothers is a connected person of the Company and the transactions contemplated under the Cooperation Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios calculated in accordance with the Listing Rules in respect of the annual caps for the transactions contemplated under the Cooperation Framework Agreement will, on an annual basis, exceed 5%, the Cooperation Framework Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An EGM will be convened to obtain the Independent Shareholders' approval of the Cooperation Framework Agreement and the transactions contemplated thereunder and the proposed annual caps. Huayi Brothers and its associates will be required to abstain from voting on the resolutions to be proposed at the EGM.

A circular containing, among other things, information in relation to the Cooperation Framework Agreement and the proposed annual caps, a letter of advice from Red Sun, the recommendation of the Independent Board Committee, and a notice of the EGM is expected to be despatched to the Shareholders on or before 15 May 2019 in accordance with the Listing Rules.

The Group intends to cooperate from time to time with Huayi Brothers to invest in media and entertainment-related projects or to acquire the distribution right of these types of projects. Besides, the Group may from time to time engage Huayi Brothers to provide distribution services for those Media and Entertainment Projects which the Group owns or has acquired the distribution rights in the PRC.

The Board is pleased to announce that, on 2 May 2019, the Company entered into the Cooperation Framework Agreement with Huayi Brothers, pursuant to which the parties have agreed to cooperate in (i) the Investment Projects and (ii) the Distribution Projects, for a term from 2 May 2019 to 31 December 2021 (both dates inclusive), subject to the fulfillment of the condition precedent of the Cooperation Framework Agreement.

COOPERATION FRAMEWORK AGREEMENT

- Date** : 2 May 2019
- Parties** : (1) The Company
(2) Huayi Brothers
- Term** : From 2 May 2019 to 31 December 2021 (both dates inclusive), subject to the fulfillment of the condition precedent of the Cooperation Framework Agreement
- Subject matters** : (i) Collaboration between the Group and Huayi Brothers or its Associated Company on Investment Projects and (ii) engagement by the Group of Huayi Brothers or its Associated Company for Distribution Projects.

In relation to the Investment Projects

Members of the Group may from time to time enter into definitive agreements with Huayi Brothers (or its Associated Companies) on specific Investment Projects in accordance with the terms of the Cooperation Framework Agreement. The content and form of such cooperation definitive agreement may include (but are not limited to) jointly participating in an Investment Project, Huayi Brothers (or its Associated Company) procuring or allowing the members of the Group to participate in an Investment Project (or to share part of the investment) or vice versa.

In relation to the Distribution Projects

Members of the Group may from time to time enter into definitive agreements with Huayi Brothers (or its Associated Companies) on specific Distribution Projects in accordance with the terms of the Cooperation Framework Agreement, pursuant to which members of the Group will engage Huayi Brothers (or its Associated Company) to provide distribution services in relation to Distribution Projects.

Consideration : In relation to the Investment Projects

The investment amount of the Group for each single transaction of the Investment Projects shall be set out in the relevant definitive agreement to be entered into between the relevant member of the Group and Huayi Brothers (or its Associated Company).

The basis of determining the investment amount under the Investment Projects is set out in the sub-section titled “Basis for determining the terms of definitive agreements” below.

The investment amount will be paid in full within certain days of signing of a definitive agreement, or in instalments after (i) signing of a definitive agreement and (ii) certain milestone(s) is/are reached (including but not limited to obtaining the necessary approval of relevant authority(ies) in relation to the Investment Project, commencement of shooting, etc.).

In relation to the Distribution Projects

The formula of distribution fee payable by the Group for each single transaction of the Distribution Projects based on the gross profit of a Distribution Project will be set out in the relevant definitive agreement to be entered into between the relevant member of the Group and Huayi Brothers (or its Associated Company).

The gross profit of a Distribution Project will comprise all revenues or profits arising from distribution of the relevant Media and Entertainment Project in the PRC district within a specified distribution period of not more than 10 years from the first day of distribution (after deducting national film project fund, tax, cinema branch shared revenue, imported movies shared revenue, import and export fee, etc., if applicable) (“**Distribution Gross Profit**”).

The distribution fee under the definitive agreement for each Distribution Project which Huayi Brothers (or its Associated Company) is entitled to shall not exceed 20% of the Distribution Gross Profit of the Media and Entertainment Project.

The basis of determining the formula of the distribution fee under the Distribution Projects is set out in the sub-section titled “Basis for determining the terms of definitive agreements” below.

The distribution fee will be deducted from the Distribution Gross Profit received by Huayi Brothers (or its Associated Company) on behalf of the relevant member of the Group. The balance of the Distribution Gross Profit (after deducting the distribution fee and reimbursement of promotion and advertising expenses (the budget for which is subject to approval by the Group), if applicable) (if any) will be paid by Huayi Brothers (or its Associated Company) to the relevant member of the Group. The Company is entitled to conduct independent audit on the documents or records of the Distribution Projects.

**Basis for
determining
the terms of
definitive
agreements**

: In relation to the Investment Projects

The Company and Huayi Brothers agree that each transaction of the Investment Projects shall be on normal commercial terms which are no less favourable than terms offered by independent third parties to the Group or which can be obtained by the Group from independent third parties.

Detailed terms of each Investment Project shall be negotiated with reference to the respective business scopes, applicable laws and regulations, general commercial terms and collaboration practice on Media and Entertainment Projects of the Company and Huayi Brothers, in accordance with the principles set out in the Cooperation Framework Agreement and on the basis of fairness. Such detailed terms include, without limitation to, investment amount, settlement terms, investment proportion, revenue split arrangement, film copyright issues of a particular Media and Entertainment Project, etc.

A member of the Group and Huayi Brothers (or its Associated Companies) shall negotiate and conclude the terms of a definitive agreement for an Investment Project taking into account relevant factors including (but not limited to) the financial strength of the parties involved, the scale and content of the project, the major artistes/creation teams involved, and the relevant parties’ ability on distribution and on obtaining government and regulatory approvals.

In relation to the Distribution Projects

The Company and Huayi Brothers agree that each transaction of the Distribution Projects shall be on normal commercial terms which are no less favourable than terms offered by independent third parties to the Group or which can be obtained by the Group from independent third parties.

Detailed terms of each Distribution Project shall be negotiated with reference to the respective business scopes, applicable laws and regulations, general commercial terms and collaboration practice of Media and Entertainment Projects of the Company and Huayi Brothers, in accordance with the principles set out in the Cooperation Framework Agreement and on the basis of fairness. Such detailed terms include, without limitation to, the length of distribution period, the formula of distribution fee based on certain percentages of Distribution Gross Profit of the Media and Entertainment Project, etc.

A member of the Group and Huayi Brothers (or its Associated Companies) shall negotiate and conclude the terms of a definitive agreement for a Distribution Project taking into account relevant factors including (but not limited to) the scale and content of the project, the major artistes/creation teams involved, the expected timing of theatrical release and box office receipts estimates, the amount and proportion of promotion and advertising budgets that will be paid in advance by the relevant parties, and the relevant parties' ability on distribution and on obtaining government and regulatory approvals.

Condition precedent

- : The Cooperation Framework Agreement and the transactions contemplated thereunder are conditional upon the Company having complied with and fulfilled the relevant requirements of the Stock Exchange and under the Listing Rules, including but not limited to announcement, circular and/or Independent Shareholders' approval requirement (if required).

Proposed annual caps

The maximum annual investment amount to be invested by the Group in the Investment Projects and the maximum annual consideration amount for the agreements in respect of the Distribution Projects to be entered into by the Group with Huayi Brothers (or its Associated Companies) for the 8 months ending 31 December 2019 and in each of the two financial years ending 31 December 2020 and 31 December 2021 (the “**Annual Cap Periods**”) shall not exceed the following respective proposed annual cap:

	Proposed annual cap		
	For the 8 months ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
Investment Projects (in HKD)	162,000,000	264,000,000	279,000,000
Distribution Projects (in RMB)	165,000,000	196,000,000	206,000,000

Basis of the proposed annual caps

The aforesaid proposed annual caps in respect of the Investment Projects in the relevant periods are determined with reference to investment amounts and investment ratios of the Group’s historical investment in and acquisition of distribution rights of Media and Entertainment Projects with independent third parties, the Media and Entertainment Projects in the pipeline of Huayi Brothers or its Associated Companies currently available to the Group, and the estimated amounts proposed to be invested by the Group in Media and Entertainment Projects during the Annual Cap Periods.

The aforesaid proposed annual caps in respect of the Distribution Projects in the relevant periods are determined with reference to the Group’s historical distribution arrangement, estimated amounts proposed to be invested by the Group in Media and Entertainment Projects during the Annual Cap Periods, estimated amounts of PRC distribution right to be acquired by the Group during the Annual Cap Periods, estimated percentage of distribution fees in terms of Distribution Gross Profit, and estimated box office receipts for the Distribution Projects during the Annual Cap Periods based on historical box office records of imported movies in the PRC.

REASONS FOR AND BENEFITS OF ENTERING INTO THE COOPERATION FRAMEWORK AGREEMENT

For the entertainment and media business operations of the Group, the Group undertakes investments in as well as collaboration with other parties in Media and Entertainment Projects. Market players which have considerable scale and capabilities in the media and entertainment industry that the Group operates in tend to be few. In terms of the manner of collaboration, co-development and co-investment in Media and Entertainment Projects by several investors and operators is a common market practice. Huayi Brothers, a substantial shareholder of the Company, belongs to a prominent group with strong capabilities in the media and entertainment field. To endeavour to be successful in the Media and Entertainment Projects that the Group participates in, it is necessary to avail itself of opportunities to co-operate with prominent investors and operators in the media and entertainment industry with the financial strength and capabilities to develop films, drama series and other media projects that can bring decent commercial returns.

Currently the Group does not have distribution capabilities in the PRC, while Huayi Brothers is one of the major distributors of Media and Entertainment Projects in the PRC with long history and proven track records. There is a genuine business need for the Group to engage distributor(s) to handle the distribution of Media and Entertainment Projects in the PRC acquired or owned by the Group, which is also a common market practice.

It would be advantageous for the Group in carrying out the Investment Projects and the Distribution Projects by partnering with Huayi Brothers Group since it is a major investor and operator in the media and entertainment industry and a major distributor of Media and Entertainment Projects in the PRC. Huayi Brothers Group is strong in capital, connections and marketing, and is experienced in market connection, promotion and advertising as well as in dealing with government authorities. Besides, the Company considers that Huayi Brothers Group would duly take the interest of the Group into account in such transactions given the shareholding relationship of Huayi Brothers with the Company.

The Directors (excluding the independent non-executive Directors who will express their opinion after considering the advice of Red Sun) are of the view that the Cooperation Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and on normal commercial terms, and that the terms of the Cooperation Framework Agreement are fair and reasonable and in the interests of the Company and shareholders of the Company as a whole.

Mr. WANG Zhongjun is the chairman and a director of Huayi Brothers Media Corporation, a substantial shareholder of the Company and the holding company of Huayi Brothers. Mr. WANG Zhonglei is the vice-chairman and general manager of Huayi Brothers Media Corporation. Therefore, Mr. WANG Zhongjun and Mr. WANG Zhonglei have abstained from voting on the relevant Board resolutions approving the Cooperation Framework Agreement and the transactions contemplated thereunder to avoid any conflicts of interest.

INFORMATION ON THE PARTIES

The Group is principally engaged in (i) entertainment and media business; and (ii) provision of offline healthcare and wellness services.

Huayi Brothers is principally engaged in the production, releasing and derivative businesses of movies and television dramas.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Huayi Brothers is a substantial shareholder of the Company holding approximately 18.17% of the total issued share capital of the Company. Accordingly, Huayi Brothers is a connected person of the Company and the transactions contemplated under the Cooperation Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios calculated in accordance with the Listing Rules in respect of the annual caps for the transactions contemplated under the Cooperation Framework Agreement will, on an annual basis, exceed 5%, the Cooperation Framework Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An EGM will be convened to obtain the Independent Shareholders' approval of the Cooperation Framework Agreement and the transactions contemplated thereunder and the proposed annual caps. Huayi Brothers and its associates will be required to abstain from voting on the resolutions to be proposed at the EGM.

An Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the terms of the Cooperation Framework Agreement and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the resolutions to be proposed at the EGM.

Red Sun has been appointed by the Company as its independent financial adviser to give recommendations to the Independent Board Committee and the Independent Shareholders as to, among other things, whether terms of the Cooperation Framework Agreement and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the resolutions to be proposed at the EGM.

A circular containing, among other things, information relation to the Cooperation Framework Agreement and the proposed annual caps, a letter of advice from Red Sun, the recommendation of the Independent Board Committee, and a notice of the EGM is expected to be despatched to the Shareholders on or before 15 May 2019 in accordance with the Listing Rules.

DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

“30%-controlled company”	has the meaning ascribed to it under Chapter 14A of the Listing Rules
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Associated Company”	a holding company, a subsidiary or a 30%-controlled company of a company, or a subsidiary or a 30%-controlled company of a holding company of that company
“Board”	the board of Directors
“Company”	Huayi Tencent Entertainment Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (Stock Code: 419)
“connected persons”	shall have the meaning as ascribed to it under the Listing Rules
“Cooperation Framework Agreement”	the cooperation framework agreement dated 2 May 2019 and entered into between the Company and Huayi Brothers in respect of the collaboration in the Investment Projects and the Distribution Projects
“Director(s)”	the director(s) of the Company
“Distribution Project(s)”	distribution of Media and Entertainment Projects in the PRC acquired or owned by members of the Group
“EGM”	an extraordinary general meeting of the Company to be convened to consider, and if thought fit, approve the Cooperation Framework Agreement and the transactions contemplated thereunder and the proposed annual caps
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Huayi Brothers”	Huayi Brothers International Limited, a company incorporated in Hong Kong with limited liability and holding approximately 18.17% of the total issued share capital of the Company as at the date of this announcement
“Huayi Brothers Group”	Huayi Brothers and its Associated Companies

“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors established for the purpose of giving advice and making recommendation to the Independent Shareholders in respect of the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps
“Independent Shareholders”	Shareholders other than Shareholder(s) who is/are materially interested in the transactions contemplated under the Cooperation Framework Agreement
“Investment Project(s)”	investment in and acquisition of distribution rights of Media and Entertainment Projects in any countries, districts or areas
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Media and Entertainment Projects”	films, television dramas, television programs, internet dramas and programs, musical projects and copyrights, and other media and entertainment-related projects
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Red Sun”	Red Sun Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Cooperation Framework Agreement and the transactions contemplated thereunder and the proposed annual caps
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	the shares of the Company
“Shareholders”	the holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules

“%” per cent.

By Order of the Board
Huayi Tencent Entertainment Company Limited
WANG Zhongjun
Chairman

Hong Kong, 2 May 2019

As at the date of this announcement, the Board comprises:

Executive Directors: Mr. WANG Zhongjun (Chairman), Mr. CHENG Wu (Vice Chairman), Mr. WANG Zhonglei, Mr. LIN Haifeng, Mr. HU Junyi, Mr. YUEN Hoi Po

Independent non-executive Directors: Dr. WONG Yau Kar David, GBS, JP, Mr. YUEN Kin, Mr. CHU Yuguo