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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Huanxi Media Group Limited (“Company”), you should at once hand this circular together with the enclosed form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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### 歡喜傳媒集團有限公司\* HUIANXI MEDIA GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1003)**

#### **(I) CONNECTED TRANSACTIONS: THE FILM PRODUCTION AGREEMENT, THE DIRECTOR AGREEMENT, THE PRODUCER AGREEMENT, THE SCREENWRITER AGREEMENT AND THE ACTOR AGREEMENT; AND (II) NOTICE OF SPECIAL GENERAL MEETING**

**Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders**



**Shinco Capital Limited**

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Capitalised terms used in this cover shall have the same meanings as defined in this circular.

A letter from the Board is set out from pages 6 to 29 of this circular. A letter from the Independent Board Committee is set out on pages 30 to 31 of this circular. A letter from Shinco Capital, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out from pages 32 to 48 of this circular.

A notice convening the SGM to be held at 11:00 a.m. on Wednesday, 12 June 2019 at Strategic Financial Relations Limited, 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong is set out on pages 61 to 63 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17/MF, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event by 11:00 a.m. on Monday, 10 June 2019 or not less than 48 hours before the time appointed for the holding of any adjournment of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“2015 Service Agreements”	as defined in the paragraph headed “6. Competing Interest” in the Appendix to this circular
“Actor Agreement”	the actor agreement dated 26 February 2019 entered into between Huan Huan Xi Xi and Mr. Xu Zheng
“Actor Fee”	as defined in the paragraph headed “Subject Matter” under the section headed “Principal Terms of the Actor Agreement” in the Letter from the Board in this circular
“Agreements”	the Film Production Agreement, the Director Agreement, the Producer Agreement, the Screenwriter Agreement and the Actor Agreement
“Announcement”	the announcement of the Company dated 26 February 2019 in relation to, among other things, the Agreements and the transactions contemplated thereunder
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Joy Leader”	北京真樂道文化傳播有限公司 (Beijing Joy Leader Culture Communication Co. Ltd.), a company established in the PRC with limited liability and is principally engaged in movie production and movie investments, which is owned as to 51% by Mr. Xu Zheng, 25% by Ms. Tao Hong, Mr. Xu Zheng’s spouse, and 24% by Ms. Liu Ruifang, an Independent Third Party
“Board”	the board of Directors
“Company”	Huanxi Media Group Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Director Agreement”	the director agreement dated 26 February 2019 entered into between Huan Huan Xi Xi and Mr. Xu Zheng

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## DEFINITIONS

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“Director Fee”	as defined in the paragraph headed “Director Fee” under the section headed “Principal Terms of the Director Agreement” in the Letter from the Board in this circular
“Director Shareholders”	Mr. Xu Zheng and Mr. Ning Hao collectively
“Director Shareholders’ Productions”	films and programmes (including films, television drama series, online drama series and other television programmes) developed and directed by any of the Director Shareholders
“Dirty Monkey Tianjin”	天津壞猴子影業有限公司 (Tianjin Dirty Monkey Films Company Limited*), a company established in the PRC and is ultimately owned as to over 50% by Mr. Ning Hao
“Film”	a film tentatively named as “Lost in Russia” 《囧媽》 (subject to confirmation in the film release permit)
“Film Production Agreement”	the film production agreement dated 26 February 2019 entered into between Shou Ying and Beijing Joy Leader
“Film Production Services”	as defined in the paragraph headed “Subject matter” under the section headed “Principal Terms of the Film Production Agreement” in the Letter from the Board in this circular
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huan Huan Xi Xi”	歡歡喜喜(天津)文化投資有限公司 (Huan Huan Xi Xi (Tianjin) Culture Investment Company Limited*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Independent Board Committee”	the independent board committee, comprising all independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder

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## DEFINITIONS

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“Independent Financial Adviser” or “Shinco Capital”	Shinco Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders, other than the Shareholders who have a material interest in the transactions contemplated under the Agreements
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Latest Practicable Date”	21 May 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Movie Investment Agreement”	the co-investment agreement dated 24 December 2018 entered into between Huan Huan Xi Xi and Tibet Jindouyun in relation to the investment in the production of the Target Film
“New Media”	all forms of media other than traditional cinema, applicable to the whole world, including but not limited to the internet, broadband, mobile internet technologies, etc., such as web video, mobile video applications, tablet video applications, computer video applications, internet TV, IPTV, future media applications, satellite, cable, TV media (either free or paid), audiovisual products and audio and through video equipment or other terminal equipment in internet cafes, hotels, aircraft, trains and cars
“Non-Director Shareholders’ Productions”	films and programmes (including films, television drama series, online drama series and other television programmes) which are not developed or directed by the Director Shareholders and the Director Shareholders are either producer, screenwriter, lead actor or other creative member

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## DEFINITIONS

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“PRC”	the People’s Republic of China, but for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Producer Agreement”	the producer agreement dated 26 February 2019 entered into between Huan Huan Xi Xi and Mr. Xu Zheng
“Producer Fee”	as defined in the paragraph headed “Producer Fee” under the section headed “Principal Terms of the Producer Agreement” in the Letter from the Board in this circular
“Production Fee”	as defined in the paragraph headed “Production Fee” under the section headed “Principal Terms of the Film Production Agreement” in the Letter from the Board in this circular
“RMB”	Renminbi, the lawful currency of the PRC
“Screenwriter Agreement”	the screenwriter agreement dated 26 February 2019 entered into between Huan Huan Xi Xi and Mr. Xu Zheng
“Screenwriter Fee”	as defined in the paragraph headed “Screenwriter Fee” under the section headed “Principal Terms of the Screenwriter Agreement” in the Letter from the Board in this circular
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company convened to be held at 11:00 a.m. on Wednesday, 12 June 2019 at Strategic Financial Relations Limited, 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong for the Independent Shareholders to consider and, if thought fit, to approve the Agreements and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholders of the Company from time to time

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## DEFINITIONS

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“Shou Ying”	北京歡喜首映文化有限公司 (Beijing Huanxi Shou Ying Culture Company Limited*), a company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company through contractual arrangements
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tairong Holdings”	Tairong Holdings Limited (泰嶸控股有限公司), a company incorporated in the British Virgin Islands with limited liability
“Target Film”	Tropical Memories 《熱帶往事》, a film directed by Wen Shipei (溫仕培), produced by Ning Hao (寧浩) and starring Eddie Peng Yu-Yan (彭于晏)
“Tibet Jindouyun”	西藏筋斗雲影業有限公司 (Tibet Jindouyun Film Company Limited*), a company established in the PRC and wholly owned by Dirty Monkey Tianjin
“working day”	a day other than (i) Saturday, Sunday or public holiday; or (ii) on which banks are closed for general banking business in Hong Kong
“%”	per cent.

*In this circular, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.158.*

*Reference to time and dates in this circular are to Hong Kong time and dates.*

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## LETTER FROM THE BOARD

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### 歡喜傳媒集團有限公司\*

### HUANXI MEDIA GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1003)**

*Executive Directors:*

Dong Ping (*Chairman*)

Xiang Shaokun, Steven (*Chief Executive Officer*)

*Non-executive Directors:*

Ning Hao

Xu Zheng

*Independent Non-executive Directors:*

Wong Tak Chuen

Su Tuong Sing, David

Li Xiaolong

*Registered office:*

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

*Head office and principal place of  
business in Hong Kong:*

11/F, Far East Finance Centre

16 Harcourt Road

Admiralty, Hong Kong

23 May 2019

*To the Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTIONS:  
THE FILM PRODUCTION AGREEMENT,  
THE DIRECTOR AGREEMENT,  
THE PRODUCER AGREEMENT,  
THE SCREENWRITER AGREEMENT  
AND THE ACTOR AGREEMENT**

#### **INTRODUCTION**

Reference is made to the Announcement in which the Company announced that on 26 February 2019, (i) Shou Ying, an indirect wholly-owned subsidiary of the Company, entered into the Film Production Agreement with Beijing Joy Leader, pursuant to which Beijing Joy Leader has conditionally agreed to provide the Film Production Services to Shou Ying in relation to the Film; and (ii) Huan Huan Xi Xi, an indirect wholly-owned subsidiary of the Company, entered

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## LETTER FROM THE BOARD

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into (a) the Director Agreement with Mr. Xu Zheng pursuant to which Mr. Xu Zheng has conditionally agreed to act as the director of the Film; (b) the Producer Agreement with Mr. Xu Zheng pursuant to which Mr. Xu Zheng has conditionally agreed to act as the producer of the Film; (c) the Screenwriter Agreement with Mr. Xu Zheng pursuant to which Mr. Xu Zheng has conditionally agreed to act as the screenwriter of the Film; and (d) the Actor Agreement with Mr. Xu Zheng pursuant to which Mr. Xu Zheng has conditionally agreed to act as the leading actor of the Film. The purpose of this circular is to provide you with, among other things, (i) further information of the Agreements and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders containing its recommendation in respect of the Agreements and the transactions contemplated thereunder; (iii) a letter from Shinco Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder; and (iv) the notice of the SGM.

### PRINCIPAL TERMS OF THE FILM PRODUCTION AGREEMENT

Major terms of the Film Production Agreement are set out below:

Date: 26 February 2019

Parties:

- (1) Beijing Huanxi Shou Ying Culture Company Limited\* (北京歡喜首映文化有限公司), an indirect wholly-owned subsidiary of the Company through contractual arrangements
- (2) Beijing Joy Leader Culture Communication Co. Ltd. (北京真樂道文化傳播有限公司)
- (3) As at the Latest Practicable Date, Beijing Joy Leader is principally engaged in movie production and movie investments. It is owned as to 51% by Mr. Xu Zheng, 25% by Mr. Xu Zheng's spouse and 24% by Ms. Liu Ruifang, an Independent Third Party. Mr. Xu Zheng is a non-executive Director of the Company and the sole ultimate beneficial owner of Tairong Holdings, a substantial Shareholder which held 438,625,528 Shares, representing approximately 13.90% of the issued share capital of the Company as at the Latest Practicable Date. As such, Beijing Joy Leader is an associate of Mr. Xu Zheng and is a connected person of the Company under the Listing Rules.

Subject matter: Beijing Joy Leader will provide the film production services to Shou Ying in relation to the Film including but not limited to the services set out below (collectively the “**Film Production Services**”):

- (1) shooting of the Film;

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## LETTER FROM THE BOARD

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- (2) location scouting, including arranging the location scouting and other preparatory work of the Film, setting up and finalising the shooting scene;
- (3) coordinating in hiring shooting crew members and assisting in handling immigration procedures relating to visas of foreign personnel and equipment, etc.;
- (4) providing shooting progress report to Shou Ying every week;
- (5) providing to Shou Ying all required materials for obtaining the film release permit of the Film and assisting Shou Ying in obtaining such permit;
- (6) being responsible for the safety matters within its scope of duties in relation to the production of the Film; and
- (7) arranging appropriate insurance according to the needs of the production of the Film for no less than the production period of the Film and monitoring the insurable risk. Shou Ying may request Beijing Joy Leader to sign contract with third parties (“**Third Party Contracts**”) on behalf of Shou Ying in relation to the shooting of the Film, provided that the total amount of the Third Party Contracts shall not exceed RMB100,000,000 (equivalent to approximately HK\$115,800,000). Shou Ying agrees to pay to Beijing Joy Leader the sum payable to all such third parties under the Third Party Contracts, which is expected to be funded by internal resources of the Group.

It is a market practice to request the production house to sign contracts with third parties on behalf of the film investor. The Company considered that (i) Beijing Joy Leader, as an experienced film production house, has its network to seek for competent service providers and have a higher bargaining power with service providers to ask for lower price; (ii) the service providers are willing to sign contracts with Beijing Joy Leader because of the reputation of Beijing Joy Leader in the film production industry; and (iii) in some circumstances, such as during film shooting in overseas, Beijing Joy Leader to sign the contracts with third parties can achieve the operational efficiency by shortening approval procedures to get the contracts signed.

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## LETTER FROM THE BOARD

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However, the Company will take part in negotiation and signing some third party contracts of the Film with the aim of reducing the risk of over-budget and having a better financial control to minimise the investment cost of the Group.

The Board referred to the budget of the Film and considered the reasons mentioned above to determine the cap of RMB100,000,000, the expected nature of Third Party Contracts is as follows:

<b>Nature</b>	<i>RMB' million</i>
Project planning and development and non-leading actors fee	20
Production expenses in the PRC	10
Production expenses in Russia	48
Production expenses in the United States	7
Post-production and visual effect expenses	<u>15</u>
Total	<u><u>100</u></u>

Shou Ying will refer to the payment terms of the Third Party Contracts signed by Beijing Joy Leader and the payment requisitions from Beijing Joy Leader in respect of the Third Party Contracts signed by Beijing Joy Leader to pay the same amount without any interest to Beijing Joy Leader.

Production Fee: After the Film Production Agreement takes effect, Beijing Joy Leader has the right to receive the production fee in the sum of RMB30,000,000 (equivalent to approximately HK\$34,740,000) (the “**Production Fee**”).

The Production Fee shall be paid by Shou Ying to Beijing Joy Leader as follows:

- (1) as to RMB20,000,000 (equivalent to approximately HK\$23,160,000) within 10 working days after the Film Production Agreement has taken effect (i.e. after the condition precedent to the Film Production Agreement has been fulfilled);
- (2) as to RMB7,000,000 (equivalent to approximately HK\$8,106,000) prior to 10 working days preceding the end of the shooting of the Film (which shall be notified by Beijing Joy Leader to Shou Ying at least 30 working days in advance); and

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## LETTER FROM THE BOARD

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- (3) as to RMB3,000,000 (equivalent to approximately HK\$3,474,000) within 10 working days after the film release permit of the Film is obtained.

The Board considered that apart from “Lost in Thailand” 《人再囧途之泰囧》 and “Lost in Hong Kong” 《港囧》, the Film would be the third film of “Lost” series that were produced by Beijing Joy Leader. Beijing Joy Leader has the relevant comedy film production experiences in the PRC with high box office receipts to prove its production capability and quality.

The Directors believe that it is the industry practice to determine production fee level of a film based on the amount as percentage of the total budget of the film, so it is reasonable to compare the production fee level among different films based on the relative ratio of the production fee to the total budget of the film. The Board considered that (i) the previous two films of “Lost” series produced by Beijing Joy Leader were released in 2012 and 2015 respectively and the production fee level is therefore less comparable as compared with that of more recent films; and (ii) the Company was not involved in the production of these previous two “Lost” series and does not have sufficient information to compare their production fees with that of the Film. Therefore, the previous films in “Lost” series were not chosen to compare their production fee with the Film. Instead, the Board took other films which were invested by the Company with exclusive or majority interest to compare their production fee with that of the Film. Taking into account that (i) the production fee of the films invested by the Company in 2017 and 2018 with exclusive or majority interest including “Crazy Alien” 《瘋狂的外星人》, “One Second” 《一秒鐘》, “Miss Mom” 《生不由己》 and 《平靜》, ranges between 5.00% and 8.62% of the relevant total budget of the aforesaid films; and (ii) the Production Fee is equal to approximately 7.89% of the budget of the Film, the Board considered that the Production Fee is within the market range of film production fee and it is fair and reasonable and on normal commercial terms.

The Production Fee was determined after arm’s length negotiations between the parties with reference to the prevailing market rate of production fees for films of similar nature.

It is expected that the Production Fee would be funded by internal resources of the Group.

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## LETTER FROM THE BOARD

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Copyright: Beijing Joy Leader solely owns the copyright and derivative product development rights (including but not limited to film rights such as re-shooting, producing the sequel and using elements in the Film for commercial development including theme park projects) of the Film and related elements of the Film (including but not limited to pictures, audio and video of character names, character shapes, music, songs, etc.).

If a musician is hired to create music exclusively for the Film, the copyright of the music work (including the copyright of the song and all the rights of the corresponding performance) shall be an inseparable part of the Film and solely owned by Beijing Joy Leader.

Beijing Joy Leader solely owns the entire copyright of the script of the Film (including but not limited to the creative elaboration, simple outline, character biography, synopsis and unfinished scripts, materials, etc. formed during the script creation process).

Distribution rights: Shou Ying shall own the worldwide exclusive distribution rights of the Film for fifteen (15) years through cinema screening, New Media (the distribution rights of the New Media shall follow the provisions regarding New Media as stated in the section headed "Income rights" below), interactive media, audio and video products, television broadcasting, internet communication and currently undeveloped broadcasting and screening media. Such distribution rights shall include the sole distribution and co-distribution of the Film with a qualified third party. The specific matters concerning the exercise of the distribution right (such as the distribution strategy, the distribution schedule, the choice of the distributor, the distributorship fee, the terms of the distribution, etc.) shall be negotiated and agreed between Shou Ying and Beijing Joy Leader.

Income rights: Shou Ying shall be entitled to all the income derived worldwide from the use of the copyright of the Film including (i) income from the distribution or rental in the cinema or line of cinemas; and (ii) rights of distribution and sales of the Film and income from the distribution and sales of the Film.

The time limit for the above rights to distribution and sales and the proceeds from the distribution and sales shall be fifteen (15) years commencing from the first release date of the Film. After the time limit of fifteen (15) years, the rights to distribution and sales and the income from the distribution and sales shall belong to Beijing Joy Leader.

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## LETTER FROM THE BOARD

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The above principal terms of the Film Production Agreement were arrived at after commercial negotiation and were acceptable to both contracting parties to the Film Production Agreement.

In determining the terms of copyright, derivative product development rights, distribution rights and income rights of the Film Production Agreement, the Board considered that (i) the previous two films of “Lost” series produced by Beijing Joy Leader were released in 2012 and 2015 respectively and the respective rights arrangement is therefore less comparable as compared with those of more recent films; and (ii) the Company was not involved in the production of these previous two “Lost” series and does not have sufficient information to compare the terms of the copyright, derivative product development rights, distribution rights and income rights of the film production agreement of the films. In view of the absence of reliable public source of information which can be used as reference for the terms of copyright, derivative product development rights, distribution rights and income rights of the film production agreement for the released films in the PRC, in determining the above principal terms of the Film Production Agreement, the Board has taken into account the following factors: (i) almost all of the revenue from distribution rights and income rights of a film will be generated within the first one to two years from the first theatrical release date of a film and thus the value of distribution rights and income rights of a film after 15 years will be immaterial; (ii) the New Media rights will be solely owned by the Company for an unlimited income period which has lasting economic value such as the revenue generated from web video, mobile video applications, tablet video applications, computer video applications, internet TV, TV media and through other terminals such as hotels, aircraft and trains; and (iii) the terms of copyright, derivative product development rights, distribution rights and income rights of the Film Production Agreement are similar to those of “Crazy Alien” 《疯狂的外星人》, a comparable film that the Company invested exclusively with similar investment budget of the Film. The Board therefore considered that the terms of the Film Production Agreement are on normal commercial terms, similar to the agreement terms with Independent Third Parties, and are fair and reasonable.

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## LETTER FROM THE BOARD

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Notwithstanding the above provisions, Shou Ying has the exclusive rights to distribute the Film on a global basis through New Media for an unlimited income period, including the right to exclusive playback of the Film on Shou Ying's own platform and third party New Media platform authorized by Shou Ying ("**New Media Exclusive Rights**"); Shou Ying has the right to transfer the New Media Exclusive Rights to other third parties at their sole discretion. If Shou Ying deem that its New Media Exclusive Rights have been infringed, it shall have the right, and Beijing Joy Leader (or its designated third party) hereby fully authorizes Shou Ying, to take such actions as Shou Ying considers appropriate to sue for the tort liability of the relevant party. Beijing Joy Leader (or its designated third party) shall take all necessary actions to cooperate in accordance with the requirements of Shou Ying.

For the avoidance of doubt, through exercise of the New Media Exclusive Rights by Shou Ying, (i) all the income obtained from online platform (including but not limited to Shou Ying's own platform and other third-party platforms authorized by Shou Ying); and (ii) all income earned through the New Media, shall exclusively belong to Shou Ying.

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## LETTER FROM THE BOARD

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### PRINCIPAL TERMS OF THE DIRECTOR AGREEMENT

Major terms of the Director Agreement are set out below:

Date: 26 February 2019

Parties:

- (1) Huan Huan Xi Xi (Tianjin) Culture Investment Company Limited\* (歡歡喜喜(天津)文化投資有限公司), an indirect wholly-owned subsidiary of the Company.
- (2) Mr. Xu Zheng, a non-executive Director of the Company and the sole ultimate beneficial owner of Tairong Holdings, a substantial Shareholder which held 438,625,528 Shares, representing approximately 13.90% of the issued share capital of the Company as at the Latest Practicable Date.

Subject Matter: Mr. Xu Zheng has conditionally agreed to act as the film director of the Film. The work of film director shall include (but not limited to) pre-production, shooting, post-production, review, submission for approval and promotion of the Film.

Director Fee: After the Director Agreement takes effect, Mr. Xu Zheng is entitled to a director fee of RMB27,000,000 (equivalent to approximately HK\$31,266,000) (inclusive of all tax to be incurred) (“**Director Fee**”), which shall be paid by Huan Huan Xi Xi to Mr. Xu Zheng as follows:

- (1) as to RMB5,400,000 (equivalent to approximately HK\$6,253,000) (inclusive of all tax to be incurred) as the first instalment within 5 working days after the Director Agreement has taken effect (i.e. after the condition precedent to the Director Agreement has been fulfilled);
- (2) as to RMB8,100,000 (equivalent to approximately HK\$9,380,000) (inclusive of all tax to be incurred) as the second instalment within 5 working days after the start of the shooting of the Film;
- (3) as to RMB8,100,000 (equivalent to approximately HK\$9,380,000) (inclusive of all tax to be incurred) as the third instalment within 5 working days after completion of more than half of the shooting of the Film (as per the shooting plan confirmed by both parties);

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## LETTER FROM THE BOARD

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(4) as to RMB4,050,000 (equivalent to approximately HK\$4,690,000) (inclusive of all tax to be incurred) as the fourth instalment within 5 working days after the end of the shooting of the Film; and

(5) as to RMB1,350,000 (equivalent to approximately HK\$1,563,000) (inclusive of all tax to be incurred) as the fifth instalment within 5 working days after the film release permit of the Film is obtained.

The Director Fee is determined with reference to the prevailing market rates payable to Independent Third Party film directors who are of similar calibre, status, standing and reputation.

It is expected that the Director Fee would be funded by internal resources of the Group.

### PRINCIPAL TERMS OF THE PRODUCER AGREEMENT

Major terms of the Producer Agreement are set out below:

Date: 26 February 2019

Parties: (1) Huan Huan Xi Xi (Tianjin) Culture Investment Company Limited\* (歡歡喜喜(天津)文化投資有限公司), an indirect wholly-owned subsidiary of the Company.

(2) Mr. Xu Zheng, a non-executive Director of the Company and the sole ultimate beneficial owner of Tairong Holdings, a substantial Shareholder which held 438,625,528 Shares, representing approximately 13.90% of the issued share capital of the Company as at the Latest Practicable Date.

Subject Matter: Mr. Xu Zheng has conditionally agreed to act as the film producer of the Film. The work of producer shall include (but not limited to) (i) planning for the specific shooting schedule for the Film's production; (ii) being responsible for the total expenditure budget for the film crew and the logistics support for film production; and (iii) providing assistance in arranging specific day-to-day affairs.

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## LETTER FROM THE BOARD

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Producer Fee:

After the Producer Agreement takes effect, Mr. Xu Zheng is entitled to a producer fee of RMB10,000,000 (equivalent to approximately HK\$11,580,000) (inclusive of all tax to be incurred) (“**Producer Fee**”), which shall be paid by Huan Huan Xi Xi to Mr. Xu Zheng as follows:

- (1) as to RMB2,000,000 (equivalent to approximately HK\$2,316,000) (inclusive of all tax to be incurred) as the first instalment within 5 working days after the Producer Agreement has taken effect (i.e. after the condition precedent to the Producer Agreement has been fulfilled);
- (2) as to RMB3,000,000 (equivalent to approximately HK\$3,474,000) (inclusive of all tax to be incurred) as the second instalment within 5 working days after the start of the shooting of the Film;
- (3) as to RMB3,000,000 (equivalent to approximately HK\$3,474,000) (inclusive of all tax to be incurred) as the third instalment within 5 working days after completion of more than half of the shooting of the Film (as per the shooting plan confirmed by both parties);
- (4) as to RMB1,500,000 (equivalent to approximately HK\$1,737,000) (inclusive of all tax to be incurred) as the fourth instalment within 5 working days after the end of the shooting of the Film; and
- (5) as to RMB500,000 (equivalent to approximately HK\$579,000) (inclusive of all tax to be incurred) as the fifth instalment within 5 working days after the film release permit of the Film is obtained.

The Producer Fee is determined with reference to the prevailing market rates payable to Independent Third Party film producers who are of similar calibre, status, standing and reputation.

It is expected that the Producer Fee would be funded by internal resources of the Group.

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## LETTER FROM THE BOARD

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### PRINCIPAL TERMS OF THE SCREENWRITER AGREEMENT

Major terms of the Screenwriter Agreement are set out below:

Date: 26 February 2019

Parties:

- (1) Huan Huan Xi Xi (Tianjin) Culture Investment Company Limited\* (歡歡喜喜(天津)文化投資有限公司), an indirect wholly-owned subsidiary of the Company.
- (2) Mr. Xu Zheng, a non-executive Director of the Company and the sole ultimate beneficial owner of Tairong Holdings, a substantial Shareholder which held 438,625,528 Shares, representing approximately 13.90% of the issued share capital of the Company as at the Latest Practicable Date.

Subject Matter: Mr. Xu Zheng has conditionally agreed to act as the screenwriter of the Film. The work of screenwriter shall include (but not limited to) provision of screenwriting services and related matters.

Screenwriter Fee: After the Screenwriter Agreement takes effect, Mr. Xu Zheng is entitled to a screenwriter fee (“**Screenwriter Fee**”) of RMB10,000,000 (equivalent to approximately HK\$11,580,000) (inclusive of all tax to be incurred), which shall be paid by Huan Huan Xi Xi to Mr. Xu Zheng as follows:

- (1) as to RMB2,000,000 (equivalent to approximately HK\$2,316,000) (inclusive of all tax to be incurred) as the first instalment within 5 working days after the Screenwriter Agreement has taken effect (i.e. after the condition precedent to the Screenwriter Agreement has been fulfilled);
- (2) as to RMB3,000,000 (equivalent to approximately HK\$3,474,000) (inclusive of all tax to be incurred) as the second instalment within 5 working days after the start of the shooting of the Film;
- (3) as to RMB3,000,000 (equivalent to approximately HK\$3,474,000) (inclusive of all tax to be incurred) as the third instalment within 5 working days after completion of more than half of the shooting of the Film (as per the shooting plan confirmed by both parties); and

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## LETTER FROM THE BOARD

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(4) as to RMB2,000,000 (equivalent to approximately HK\$2,316,000) (inclusive of all tax to be incurred) as the fourth instalment within 5 working days after the end of the shooting of the Film.

The Screenwriter Fee is determined with reference to the prevailing market rates payable to Independent Third Party film screenwriters who are of similar calibre, status, standing and reputation.

It is expected that the Screenwriter Fee would be funded by internal resources of the Group.

### PRINCIPAL TERMS OF THE ACTOR AGREEMENT

Major terms of the Actor Agreement are set out below:

Date: 26 February 2019

Parties: (1) Huan Huan Xi Xi (Tianjin) Culture Investment Company Limited\* (歡歡喜喜(天津)文化投資有限公司), an indirect wholly-owned subsidiary of the Company.

(2) Mr. Xu Zheng, a non-executive Director of the Company and the sole ultimate beneficial owner of Tairong Holdings, a substantial Shareholder which held 438,625,528 Shares, representing approximately 13.90% of the issued share capital of the Company as at the Latest Practicable Date.

Subject Matter: Mr. Xu Zheng has conditionally agreed to act as the leading actor of the Film. The work of leading actor shall include (but not limited to) the performance and promotion of the Film and the re-shooting of the Film (if required).

Actor Fee: After the Actor Agreement takes effect, Mr. Xu Zheng is entitled to an actor fee (“**Actor Fee**”) of RMB40,000,000 (equivalent to approximately HK\$46,320,000) (inclusive of all tax to be incurred), which shall be paid by Huan Huan Xi Xi to Mr. Xu Zheng as follows:

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## LETTER FROM THE BOARD

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- (1) as to RMB8,000,000 (equivalent to approximately HK\$9,264,000) (inclusive of all tax to be incurred) as the first instalment within 5 working days after the Actor Agreement has taken effect (i.e. after the condition precedent to the Actor Agreement has been fulfilled);
- (2) as to RMB12,000,000 (equivalent to approximately HK\$13,896,000) (inclusive of all tax to be incurred) as the second instalment within 5 working days after the start of the shooting of the Film;
- (3) as to RMB12,000,000 (equivalent to approximately HK\$13,896,000) (inclusive of all tax to be incurred) as the third instalment within 5 working days after completion of more than half of the shooting of the Film; and
- (4) as to RMB8,000,000 (equivalent to approximately HK\$9,264,000) (inclusive of all tax to be incurred) as the fourth instalment within 5 working days after the end of the shooting of the Film.

The Actor Fee is determined with reference to the prevailing market rates payable to Independent Third Party film actors who are of similar calibre, status, standing and reputation.

It is expected that the Actor Fee would be funded by internal resources of the Group.

“Lost” series (《囧》系列电影) is a very successful movie series and it has become very popular in the PRC market. “Lost in Russia” 《囧媽》 is the fourth movie in the series and has been highly anticipated by the audiences and media market. All the previous three movies have done very well in both box office and artistic critics:

- a. “Lost on Journey” 《人在囧途》 (2010, RMB37.6 million)
- b. “Lost in Thailand” 《人再囧途之泰囧》 (2012, RMB1,268 million)
- c. “Lost in Hong Kong” 《港囧》 (2015, RMB1,614 million)

The Board considered that the “Lost” series is well-known in the PRC and has accumulated a large audience base and the Company is of the view that the new movie “Lost in Russia” 《囧媽》 has a high probability of continuing the prior track record and achieving a satisfactory box office and a good economic return for the Company.

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## LETTER FROM THE BOARD

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Mr. Xu Zheng has been the leading actor for all the previous three “Lost” movies and director for the latest two “Lost” movies and is essential to the intellectual property. Mr. Xu Zheng, being the icon of “Lost” series, is critical to the success of the Film. With his experience in the prior three “Lost” movies and his recent achievement in China film industry demonstrated by the awards and box office successes, the Board believes that he will continue to drive the success of the Film, “Lost in Russia” 《囧媽》.

The Company negotiated the aggregated fee under the Agreements with Mr. Xu Zheng and Beijing Joy Leader by reference to the relevant aggregated fee of the film “Crazy Alien” 《瘋狂的外星人》 (the “**Comparable Film**”).

The Board considered that (i) the previous three films of “Lost” series were released long time ago, in 2010, 2012 and 2015 respectively and the various fee levels are therefore less comparable as compared with those of more recent films; (ii) there is absence of reliable public source of information which can be used as reference for the director fee, producer fee, screenwriter fee and actor fee of the films released in the PRC; and (iii) the Company does not have sufficient information to compare the director fee, producer fee, screenwriter fee and actor fee of the Film with the other films in “Lost” series.

The Board has also considered all the films invested by the Company from the date of the Company commencing the film investment business in September 2015 to 31 December 2018 for comparing the director fee, producer fee, screenwriter fee and actor fee of the Film. The films “Crazy Alien” 《瘋狂的外星人》, 《平靜》, “One Second” 《一秒鐘》 and “Miss Mom” 《生不由己》 were invested by the Company with exclusive or majority interest and are more comparable to the Film, with details of the films set out in the table below.

<b>Film</b>	<b>Genre</b>	<b>Approximate total budget (RMB' million)</b>
Crazy Alien 《瘋狂的外星人》	Comedy	400
《平靜》	Drama	Less than 30
One Second 《一秒鐘》	Drama	Less than 100
Miss Mom 《生不由己》	Romance	Less than 30

The Board considered the film “Crazy Alien” 《瘋狂的外星人》 as the only one suitable for comparing with the Film in relation to the director fee, producer fee, screenwriter fee and actor fee since the other three films all have (i) genres other than comedy; (ii) total budgets that are far less than the budget of the Film; and (iii) cast with comparatively less popular actors, which make them not comparable to the Film in relation to the director fee, producer fee, screenwriter fee and actor fee.

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## LETTER FROM THE BOARD

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The Board considered the film “Crazy Alien” 《瘋狂的外星人》 as a good reference for comparison with the Film for the reasons that (i) the budget of the Comparable Film is close to that of the Film; (ii) the Comparable Film and the Film are both comedy films; (iii) the Comparable Film is also exclusively invested in 100% by the Company; (iv) the target market of the Comparable Film is also the PRC which is the same as the Film; and (v) the release date of the Comparable Film is February 2019 (close to the date of the Agreements) such that the Comparable Film can served as a recent reference. The Board is of the view that the adoption of the Comparable Film as reference is justifiable.

The director fee, producer fee, screenwriter fee and leading actor fee of the Film and the Comparable Film are as follows:

	The Film		The Comparable Film	
	Amount	Ratio to the	Amount	Ratio to the
	(RMB' million)	total budget	(RMB' million)	total budget
Director fee	27	7.11%	30	7.5%
Producer fee	10	2.63%	N/A <sup>Note</sup>	N/A <sup>Note</sup>
Screenwriter fee	10	2.63%	7	1.75%
Leading actor fee	40	10.53%	Over 60	Over 15%

*Note:* There is no separate position of producer in the Comparable Film and the role of the producer is performed by the director.

Given that (i) the services of the relevant agreements of the Comparable Film are similar to those of the Agreements as stated above; and (ii) although the respective ratios of the fee payable under the Film Production Agreement, the fee payable under the Director Agreement and the Producer Agreement and the fee payable under the Screenwriter Agreement to the budget of the Film is slightly higher than that of the relevant agreements of the Comparable Film respectively, the aggregate fee payable under the Agreements (i.e. RMB117 million) which represents approximately 30.79% of the budget of the Film is slightly lower than that of the Comparable Film (approximately 31.54% of the Comparable Film), the Company considered that the aggregated fee payable under the Agreements is fair and reasonable and on normal commercial terms.

### CONDITION PRECEDENT OF THE AGREEMENTS

Pursuant to the Agreements, the condition precedent of the Agreements is approval of the regulatory authorities in Hong Kong and the Independent Shareholders (if required).

The Agreements do not require the approval of the regulatory authorities in Hong Kong.

As set out in the paragraph headed “Implication under the Listing Rules” below, the Agreements are subject to independent shareholders’ approval under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, the condition precedent has not been fulfilled.

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## LETTER FROM THE BOARD

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There is no long stop date or expected completion date provided in the Agreements. It is expected that the parties to the Agreements would perform their obligations thereunder once the condition precedent is fulfilled (i.e. the approval of the Independent Shareholders). It is currently expected that completion date of the condition precedent of the Agreements will take place on the first business day after obtaining the approval of Independent Shareholders at the SGM (i.e. 13 June 2019).

### REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENTS

The Group is principally engaged in media and entertainment related businesses and other businesses. It plans to develop its existing business in the media and entertainment industry. It intends to produce and invest in different types of film. The film development and investment is in line with the Group's development in the media and entertainment industry. Taking into account Beijing Joy Leader's extensive experience in movie production, its professional and competent production team and its successful track record in the production of films including but not limited to "Lost in Thailand" 《人再囧途之泰囧》, "Lost in Hong Kong" 《港囧》, "How Long Will I Love You" 《超時空同居》, "A or B" 《幕後玩家》 and "Dying to Survive" 《我不是藥神》 and Mr. Xu Zheng is a prestigious and successful director, screenwriter and actor in the PRC movie industry who was awarded the best leading actor by Taiwan Golden Horse (金馬獎) for his performance in "Dying to Survive" 《我不是藥神》 in 2018, the participation of Mr. Xu Zheng in the Film would be beneficial to the Group's development in the media and entertainment industry, the Directors consider that the Agreements would be beneficial to the Group.

The total budget of the Film is as follows:

	<b>Total budget amount</b> <i>(RMB' million)</i>
Project planning and development and non-leading actors fee	42
Production expenses in the PRC	112
Production expenses in Russia	48
Production expenses in the United States	7
Post-production and visual effect expenses	54
Director Fee for Mr. Xu Zheng	27
Producer Fee for Mr. Xu Zheng	10
Screenwriter Fee for Mr. Xu Zheng	10
Actor Fee for Mr. Xu Zheng	40
Production Fee for Beijing Joy Leader	30
	<hr/>
Total	<b>380</b> <hr/> <hr/>

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the development and pre-production stage of the Film has been completed, the Film is currently under production stage. The expected completion date of production and post-production of the Film is as follows:

<b>Stage</b>	<b>Expected completion date</b>
Production	September 2019
Post-production	December 2019

The Film is expected to be distributed through cinemas in the PRC in late January 2020 and through New Media in late April 2020. The Board considered the recent successful track record of the film “Crazy Alien” 《瘋狂的外星人》, a film of similar comedy nature and investment budget of the Film, which the Company exclusively invested RMB400 million in and recorded box office receipts of more than RMB2.20 billion in 2019, as well as the successful track record of box office receipts of the previous three “Lost” series movies, the Board expected that the box office of the Film will be at least RMB2.0 billion and the revenue to be generated from the Film through the box office receipts in the PRC and sale of overseas distribution right will be at least RMB670 million .

As at the Latest Practicable Date, other than the Agreements, the Company has entered into certain agreements with Independent Third Parties with aggregate commitment of approximately RMB44 million in relation to the Film including approximately RMB18 million for project planning and development and approximately RMB26 million for production in the PRC (including approximately RMB20 million for obtaining various services; approximately RMB2 million for rental expense; and approximately RMB4 million for miscellaneous expenses). The Company will finance the investment cost of the Film through its internal resources. Since the Company is the exclusive investor of the Film, all the investment cost of the Film will be borne by the Company. The Company monitors the production and progress and the cost of the Film closely through the control of payment procedures and contracts negotiation and signing, the Company will bear the extra cost of the Film in the event the actual investment cost of the Film exceed the budget of the Film. The Company has set up a working team led by a vice president of the Group who is experienced in film production to monitor the development and production of the Film through measures including but not limited to (i) conducting regular meetings with Beijing Joy Leader and conducting spot checks at the locations of shooting to assess the production progress of the Film; and (ii) performing regular review and analysing the actual cost and budget of the Film. The Board considers that the measures above are effective and adequate to monitor the production and development of the Film. As at the Latest Practicable Date, the Company expected the actual investment cost of the Film would not exceed its budget. The Company will publish further announcement in the event the actual investment cost of the Film substantially deviates from the budget of the Film. The Company is not aware of any disadvantages of the Agreements to the Company.

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## LETTER FROM THE BOARD

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The Directors are of the view that the fees payable by the Company under the Film Production Agreement, the Director Agreement, the Producer Agreement, the Screenwriter Agreement and the Actor Agreement are costs directly attributable to the development of the distribution right and income rights of the Film, which will be capitalised and recognised as “Film and TV programmes rights under production” in the financial statements of the Group during the production stage of the Film and will be transferred to “Film and TV programmes rights completed” in the financial statements of the Group upon the completion of production of the Film.

The Directors are of the view that the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### INFORMATION ABOUT THE COMPANY

The Company is a company incorporated in Bermuda with limited liability. It is an investment holding company and its subsidiaries are principally engaged in media and entertainment related businesses and other businesses.

### INFORMATION ABOUT THE FILM

The Film is tentatively named as “Lost in Russia” 《囧媽》, a Chinese comedy film directed by Mr. Xu Zheng and starring Mr. Xu Zheng. The Film is expected to be first released in the PRC in January 2020.

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## LETTER FROM THE BOARD

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### BACKGROUND INFORMATION ABOUT BEIJING JOY LEADER

Beijing Joy Leader, a company established in the PRC with limited liability and is principally engaged in movie production and movie investments, which is owned as to 51% by Mr. Xu Zheng, 25% by Ms. Tao Hong, Mr. Xu Zheng's spouse, and 24% by Ms. Liu Ruifang, an Independent Third Party. The relevant film production experience of Beijing Joy Leader in the recent years are set out below:

<b>Year of launch in the PRC</b>	<b>Name of film</b>	<b>Box office (RMB)</b>	<b>Nomination/Award</b>	<b>Nature of film</b>
2012	Lost in Thailand 《人再囧途之泰囧》	1,268 million	Shortlisted for Best Film (最佳影片) in the 32nd Hundred Flowers Awards 第32屆大眾電影百花獎	Comedy
2015	Lost in Hong Kong 《港囧》	1,614 million	Awarded for Best Actor (最佳男主角) in the 11th Chinese American Film Festival 第11屆中美電影節	Comedy
2018	How Long Will I Love You 《超時空同居》	900 million	Awarded for Outstanding Youth Filmmaking 優秀青年電影創作獎 in the 17th China Huabiao Film Awards 第17屆中國電影華表獎	Comedy
2018	A or B 《幕後玩家》	359 million	N/A	Suspense
2018	Dying to Survive 《我不是藥神》	3,100 million	Nominated for Best Feature Film (最佳劇情長片) in the 55th Taipei Golden Horse Film Festival 第55屆台北金馬影展	Comedy
2018	The Wind Guardians 《風語咒》	113 million	N/A	Animation

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## LETTER FROM THE BOARD

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Based on the above, the Board considered that Beijing Joy Leader has the relevant comedy film production experiences in the PRC and is a suitable party to provide Film Production Services to the Company.

### BACKGROUND INFORMATION ABOUT MR. XU ZHENG

Mr. Xu Zheng graduated in Shanghai Theatre Academy in 1994. According to its official website, Shanghai Theatre Academy is a comprehensive university of performing arts with focus on theatre training and studies, and has a history of almost 70 years. Mr. Xu Zheng is a renowned actor, director, screenwriter and producer in the PRC movie industry who has won various awards in the PRC and international film festivals. Mr. Xu Zheng participated in (i) not less than 32 films with a role of actor; (ii) not less than 2 films with a role of director; (iii) not less than 3 films with a role of screenwriter; and (iv) not less than 5 films with a role of producers, since 1998.

Mr. Xu Zheng is a prestigious and successful director, screenwriter and actor in the PRC movie industry who was awarded the best leading actor by Taiwan Golden Horse (金馬獎) for his performance in “Dying to Survive” 《我不是藥神》 in 2018. The film awards and nominations of Mr. Xu Zheng are set out below:

No.	Year	Award	Category	Name of film	Result
1.	2008	Hundred Flowers Awards 大眾電影百花獎	Best supporting actor 最佳男配角	Crazy Stone 癡狂的石頭	Nominated
2.	2009	China Movie Channel Media Awards 電影頻道傳媒大獎	Favourite actor 最受關注男演員獎	One Night in Supermarket 夜•店	Won
3.	2013	Huabiao Awards 中國電影華表獎	Outstanding young director 優秀青年導演獎	Lost in Thailand 人再囧途之泰囧	Won
4.	2013	Huading Awards 華鼎獎	Best new director 最佳新銳導演獎	Lost in Thailand 人再囧途之泰囧	Won
5.	2013	Beijing College Student Film Festival 北京大學生電影節	Favourite director 最受大學生歡迎導演	Lost in Thailand 人再囧途之泰囧	Won
6.	2013	Youth Film Handbook Awards 青年電影手冊	Best new director 年度新導演	Lost in Thailand 人再囧途之泰囧	Won
7.	2013	Youth Film Handbook Awards 青年電影手冊	Best actor 最佳男主角	Lost in Thailand 人再囧途之泰囧	Nominated

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## LETTER FROM THE BOARD

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No.	Year	Award	Category	Name of film	Result
8.	2013	China Film Director's Guild Awards 中國電影導演協會表彰評選	Special Jury Award 年度評委特別表彰	Lost in Thailand 人再囧途之泰囧	Won
9.	2013	China Film Director's Guild Awards 中國電影導演協會表彰評選	Best actor 年度男演員	Lost in Thailand 人再囧途之泰囧	Nominated
10.	2014	Hundred Flowers Awards 大眾電影百花獎	Best actor 最佳男主角	Lost in Thailand 人再囧途之泰囧	Nominated
11.	2014	China Film Director's Guild Awards 中國電影導演協會表彰評選	Best actor 年度男演員	No Man's Land 無人區	Won
12.	2015	Chinese American Film Festival 中美電影節	Best actor 最佳男主角	Lost in Hong Kong 港囧	Won
13.	2018	Changchun Film Festival 長春電影節	Best actor 最佳男主角	Dying to Survive 我不是藥神	Won
14.	2018	Golden Horse Awards 金馬獎	Best leading actor 最佳男主角	Dying to Survive 我不是藥神	Won
15.	2019	Asian Film Awards 亞洲電影大獎	Best actor 最佳男主角	Dying to Survive 我不是藥神	Nominated

### IMPLICATIONS UNDER THE LISTING RULES

As at the date of the Latest Practicable Date, Beijing Joy Leader was owned as to 51% by Mr. Xu Zheng and 25% by Mr. Xu Zheng's spouse. Mr. Xu Zheng is a non-executive Director of the Company and the sole ultimate beneficial owner of Tairong Holdings, a substantial Shareholder which holds 438,625,528 Shares, representing approximately 13.90% of the issued share capital of the Company as at the date of the Latest Practicable Date. As such, each of Mr. Xu Zheng and Beijing Joy Leader (being an associate of Mr. Xu Zheng) is a connected person of the Company under the Listing Rules.

Accordingly, the transactions contemplated under the Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Agreements are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### SGM

The SGM is convened to be held at 11:00 a.m. on Wednesday, 12 June 2019 at Strategic Financial Relations Limited, 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong, the notice of which is set out on pages 61 to 63 of this circular, for the Independent Shareholders to consider, and if thought fit, to approve the Agreements and the transactions contemplated thereunder.

As at the Latest Practicable Date, Tairong Holdings, a company wholly owned by Mr. Xu Zheng, held 438,625,528 Shares, representing approximately 13.90% of the issued share capital of the Company as at the Latest Practicable Date. Beijing Joy Leader, a connected person of the Company, is 51% owned by Mr. Xu Zheng and 25% by the spouse of Mr. Xu Zheng. Due to Tairong Holdings' and Beijing Joy Leader's relationship with Mr. Xu Zheng, Tairong Holdings and its associates (if applicable) are regarded as having material interest in the Agreements and are required to abstain from voting on the ordinary resolution in relation to the Agreements at the SGM.

As at the Latest Practicable Date, Mr. Xu Zheng and Tairong Holdings did not have other associates who have shareholding in the Company.

Mr. Xu Zheng has a material interest in the Agreements and has abstained from voting on the board resolution approving the Agreements and the transactions contemplated therein. Save for the aforesaid, none of the Directors has a material interest in the transactions contemplated therein and hence none of them has abstained from voting on the board resolution approving the Agreements and the transactions contemplated therein.

The ordinary resolution as set out in the notice of the SGM will be put to the vote of the Independent Shareholders by way of poll.

### CLOSURE OF REGISTER OF MEMBERS

To ascertain the Shareholders' entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Thursday, 6 June 2019 to Wednesday, 12 June 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the entitlement to attend and vote at the SGM, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on Wednesday, 5 June 2019.

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## LETTER FROM THE BOARD

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A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 11:00 a.m. on Monday, 10 June 2019 or not less than 48 hours before the time appointed for holding any adjourned SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish, and in such case, the form of proxy previously submitted shall be deemed to be revoked.

### RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 30 to 31 of this circular which contains its recommendation to the Independent Shareholders in respect of the Agreements and transactions contemplated thereunder and the letter from Shinco Capital set out on pages 32 to 48 of this circular which contains its independent financial advice to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and transactions contemplated thereunder.

The Directors consider that the terms of the Agreements are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Agreements and the transactions contemplated thereunder.

### ADDITIONAL INFORMATION

Your attention is also drawn to the notice of the SGM set out on page 61 to 63 of this circular and the information set out in the appendix to this circular.

By Order of the Board  
**Huanxi Media Group Limited**  
**Xiang Shaokun, Steven**  
*Executive Director and Chief Executive Officer*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter of advice from the Independent Board Committee setting out its recommendation to the Independent Shareholders for the purpose of inclusion in this circular.*



### 歡喜傳媒集團有限公司\* HUANXI MEDIA GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1003)**

23 May 2019

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTIONS:  
THE FILM PRODUCTION AGREEMENT,  
THE DIRECTOR AGREEMENT,  
THE PRODUCER AGREEMENT,  
THE SCREENWRITER AGREEMENT  
AND THE ACTOR AGREEMENT**

We refer to the circular of the Company dated 23 May 2019 (the “**Circular**”) of which this letter forms part. Capitalised terms used in this letter shall have the same meanings in the Circular unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to advise you in connection with the Agreements and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” in the Circular.

We wish to draw your attention to the “Letter from the Board”, as set out on pages 6 to 29 of the Circular, and the letter of advice from Shinco Capital to the Independent Board Committee and the Independent Shareholders, as set out on pages 32 to 48 of the Circular. Having considered the terms of the Agreements, and the advice of Shinco Capital and the principal factors and reasons taken into consideration by Shinco Capital in arriving at its advice, we are of the opinion that (i) the entering of Agreements is in the ordinary and usual course of business of the Group; and (ii) the terms of Agreements are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

\* *For identification purposes only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Agreements and the transactions contemplated thereunder.

Yours faithfully  
**Independent Board Committee**

**Mr. Wong Tak Chuen**  
*Independent non-executive  
Director*

**Mr. Su Tuong Sing, David**  
*Independent non-executive  
Director*

**Mr. Li Xiaolong**  
*Independent non-executive  
Director*

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## LETTER FROM SHINCO CAPITAL

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*The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Shinco Capital Limited dated 23 May 2019 prepared for the purpose of inclusion in the Circular.*



Room 1106, 11/F  
Office Plus@Sheung Wan  
No. 93-103 Wing Lok Street  
Sheung Wan  
Hong Kong

23 May 2019

*To the Independent Board Committee  
and the Independent Shareholders of  
Huanxi Media Group Limited*

Dear Sirs,

**CONNECTED TRANSACTIONS:  
THE FILM PRODUCTION AGREEMENT,  
THE DIRECTOR AGREEMENT,  
THE PRODUCER AGREEMENT,  
THE SCREENWRITER AGREEMENT  
AND THE ACTOR AGREEMENT**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreements, details of which are set out in the section headed “Letter from the Board” (the “**Letter from the Board**”) in the Company’s circular dated 23 May 2019 to the Shareholders (the “**Circular**”), of which this letter forms part. Our appointment as the independent financial adviser has been approved by the Independent Board Committee. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As disclosed in the Letter from the Board, on 26 February 2019, (i) Shou Ying, an indirect wholly-owned subsidiary of the Company, entered into the Film Production Agreement with Beijing Joy Leader, pursuant to which Beijing Joy Leader has conditionally agreed to provide the Film Production Services to Shou Ying in relation to the Film; and (ii) Huan Huan Xi Xi, an indirect wholly-owned subsidiary of the Company, entered into (a) the Director Agreement with Mr. Xu Zheng pursuant to which Mr. Xu Zheng has conditionally agreed to act as the director of the Film; (b) the Producer Agreement with Mr. Xu Zheng pursuant to which Mr. Xu Zheng has conditionally agreed to act as the producer of the Film; (c) the Screenwriter Agreement with Mr. Xu Zheng pursuant to which Mr. Xu Zheng has conditionally agreed to act as the screenwriter of

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the Film; and (d) the Actor Agreement with Mr. Xu Zheng pursuant to which Mr. Xu Zheng has conditionally agreed to act as the leading actor of the Film.

As at the date of the Agreements and the Latest Practicable Date, Beijing Joy Leader is owned as to 51% by Mr. Xu Zheng and 25% by Mr. Xu Zheng's spouse and 24% by Ms. Liu Ruifang, an Independent Third Party. Mr. Xu Zheng is a non-executive Director and the sole ultimate beneficial owner of Tairong Holdings, a substantial Shareholder which holds 438,625,528 Shares, representing approximately 13.90% of the issued share capital of the Company as at the Latest Practicable Date. As such, each of Mr. Xu Zheng, Mr. Xu Zheng's spouse and Beijing Joy Leader (being an associate of Mr. Xu Zheng) is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Agreements are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The SGM will be convened for the Independent Shareholders to consider, and if thought fit, to approve the Agreements and the transactions contemplated thereunder. As at the Latest Practicable Date, Tairong Holdings, a company wholly owned by Mr. Xu Zheng, holds 438,625,528 Shares, representing approximately 13.90% of the issued share capital of the Company. Beijing Joy Leader, a connected person of the Company, is 51% owned by Mr. Xu Zheng and 25% by the spouse of Mr. Xu Zheng. Due to Tairong Holdings' and Beijing Joy Leader's relationship with Mr. Xu Zheng, Tairong Holdings and its associates (if applicable) are regarded as having material interest in the Agreements and are required to abstain from voting on the ordinary resolution in relation to the Agreements at the SGM.

As at the Latest Practicable Date, Mr. Xu Zheng and Tairong Holdings did not have other associates who have shareholding in the Company. Mr. Xu Zheng has a material interest in the Agreements and has abstained from voting on the board resolution approving the Agreements and the transactions contemplated therein. Save for the aforesaid, none of the Directors has a material interest in the transactions contemplated therein and hence none of them has abstained from voting on the board resolution approving the Agreements and the transactions contemplated therein.

The Independent Board Committee (which consists all the independent non-executive Directors) has been established to consider the terms of the Agreements and to advise the Independent Shareholders as to whether the terms of the Agreements and the transactions contemplated thereunder are on normal commercial terms, 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, taking into account the recommendations on the same to be given by the independent financial adviser. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Agreements and the transactions contemplated thereunder.

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We are independent from, and are not connected with the Company, its substantial shareholder(s) or connected person(s) as defined under Rule 13.84 of the Listing Rules, and accordingly are considered eligible to give independent advice in connection with the Agreements and the transactions contemplated thereunder. Save for this appointment as the independent financial adviser in respect of the Agreements and the transactions contemplated thereunder, during the past two years immediately preceding and up to the date of our appointment, there were no other engagements between the Group and Shinco Capital Limited. Apart from normal professional fees for our services to the Company in connection with this appointment, no other arrangement exists whereby we will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Our appointment as the independent financial adviser has been approved by the Independent Board Committee.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements of belief and intention made by the Directors and the Management in the Circular were made after due enquiries. We have no reason to believe that any information or representation relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed in the Circular, having made all reasonable inquiries, that to the best of their knowledge, opinion expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter.

We consider that we have reviewed sufficient information, including relevant information and documents provided by the Company, the Directors and the Management, and the information published by the Company, to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular to provide a reasonable basis for our opinions and recommendations. We have not, however, carried out any independent verification of the information provided by the Company and the Directors, nor have we conducted an independent in-depth investigation into the business and affairs, financial condition and future prospects of the Group.

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation in respect of the terms of each of the Agreements, we have taken into account the following principal factors and reasons:

#### I. Background information on the Group and the connected persons

##### 1. The Group

According to the Letter from the Board, the Company is a company incorporated in Bermuda with limited liability. It is an investment holding company and its subsidiaries are principally engaged in media and entertainment related businesses and other businesses.

Set out below the summary of financial highlights of the Group as extracted from the annual reports of the Company for the year ended 31 December 2017 (“FY2017”) (the “AR2017”) and the year ended 31 December 2018 (“FY2018”) (the “AR2018”):

	For the year ended 31 December		
	2018	2017	2016
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Revenue	174,632	53,209	16,112
Gross profit/(Gross loss)	89,315	(5,863)	(4,453)
Loss for the year	(444,693)	(95,159)	(1,253,745)
Net assets	658,668	792,167	826,911
Bank balances and cash	158,528	39,169	309,062

As disclosed in AR2017, the revenue of the Company increased from approximately HK\$16.11 million for the year ended 31 December 2016 (“FY2016”) to approximately HK\$53.21 million for FY2017, in which contribution from the business segment of investments in film and TV rights increased from approximately HK\$5.07 million (which represents approximately 31.47% to the revenue of the Company) for FY2016 to approximately HK\$52.77 million for FY2017 (which represents approximately 99.17% to the revenue of the Company). The gross loss of the Group increased from approximately HK\$4.45 million for FY2016 to approximately HK\$5.86 million for FY2017 which represents an increase of approximately 31.68%. The loss of the Group decreased from approximately HK\$1,253.75 million for FY2016 to approximately HK\$95.16 million for FY2017. The decrease in loss of the Group in FY2017 was mainly due to the absence of the share-based payments in FY2017 (FY2016: approximately HK\$1,120.47 million).

According to the AR2018, the revenue for the Company increased substantially from approximately HK\$53.21 million for FY2017 to approximately HK\$174.63 million

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for FY2018 was mainly from the box office receipts of “Us and Them”《後來的我們》 and the blockbuster “Dying to Survive”《我不是藥神》. The contribution from the business segment of investments in film and TV programmes rights is approximately HK\$174.35 million (which represents approximately 99.83% to the revenue of the Company) for FY2018. The gross profit of the Group increased substantially to approximately HK\$89.32 million for FY2018 (whereas the Group recorded gross loss of approximately HK\$5.86 million for FY2017). The loss of the Group increased from approximately HK\$95.16 million for FY2017 to approximately HK\$444.69 million for FY2018 was mainly due to (i) the share-based payments of approximately HK\$270.0 million (non-cash in nature) for the allotment and issuance of 150,000,000 new shares in FY2018 in respect of the cooperation with a film director; and (ii) the share-based compensation for Directors and employees of the Company of approximately HK\$85.37 million (non-cash in nature) for granting 130,700,000 share options in FY2018.

According to the Company’s announcement dated 25 February 2019, the film “Crazy Alien”《瘋狂的外星人》, exclusively invested by the Group, has been officially released in cinema circuits and cinemas in the PRC on 5 February 2019. As advised by the Management and our search in internet, the gross box office receipts of the aforesaid film was over RMB2,200.0 million (equivalent to approximately HK\$2,547.6 million). As the Group has entered into a minimum guaranteed distribution agreement in relation to the aforesaid film on 5 July 2018, as at 25 February 2019, the Group has fully received the revenue of RMB700.0 million (equivalent to approximately HK\$810.6 million). This revenue together with the investment cost of the film of approximately RMB400.0 million (equivalent to approximately HK\$463.20 million) will be reflected in the interim results of the Group for the six months ending 30 June 2019.

### **2. *Beijing Joy Leader and Mr. Xu Zheng***

As at the date of the Film Production Agreement, Beijing Joy Leader is principally engaged in movie production and movie investments. It is owned as to 51% by Mr. Xu Zheng and 25% by Mr. Xu Zheng’s spouse. Mr. Xu Zheng is a non-executive Director and the sole ultimate beneficial owner of Tairong Holdings, a substantial Shareholder which holds 438,625,528 Shares, representing approximately 13.90% of the issued share capital of the Company as at the Latest Practicable Date. As such, Beijing Joy Leader is an associate of Mr. Xu Zheng and each of Beijing Joy Leader and Mr. Xu Zheng is a connected person of the Company under the Listing Rules.

## **II. Reasons for and benefits of entering into the Agreements**

As stated in the Letter from the Board, the Group is principally engaged in media and entertainment related businesses and other businesses. It plans to develop its existing business in the media and entertainment industry. It intends to produce and invest in

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different types of film. The film development and investment is in line with the Group's development in the media and entertainment industry. Taking into account Beijing Joy Leader's extensive experience in movie production, its professional and competent production team and its successful track record in the production of films including but not limited to "Lost in Thailand"《人再囧途之泰囧》, "Lost in Hong Kong"《港囧》, "How Long Will I Love You"《超時空同居》, "A or B"《幕後玩家》 and "Dying to Survive"《我不是藥神》 and Mr. Xu Zheng is a prestigious and successful director, screenwriter and actor in the PRC movie industry who was awarded the best leading actor by Taiwan Golden Horse (金馬獎) for his performance in "Dying to Survive"《我不是藥神》 in 2018, the participation of Mr. Xu Zheng in the Film would be beneficial to the Group's development in the media and entertainment industry, the Directors consider that the Agreements would be beneficial to the Group. Please refer to Table 1 below for the track record of Beijing Joy Leader and Table 2 below for the working experiences and the awards of Mr. Xu Zheng.

According to the financial reports of the Company, the contribution from the business segment of investments in film and TV rights increased in recent years. As disclosed in AR2017, the revenue of the Company increased from approximately HK\$16.11 million for FY2016 to approximately HK\$53.21 million for FY2017, in which contribution from the business segment of investments in film and TV rights increased from approximately HK\$5.07 million (which represents approximately 31.47% to the revenue of the Company) for FY2016 to approximately HK\$52.77 million for FY2017 (which represents approximately 99.17% to the revenue of the Company).

According to the AR2018, the revenue for the Company increased from approximately HK\$53.21 million for FY2017 to approximately HK\$174.63 million for FY2018. The contribution from the business segment of investments in film and TV programmes rights is approximately HK\$174.35 million (which represents approximately 99.83% to the revenue of the Company) for FY2018.

According to the AR2018, the PRC is the major market of the business of the Group as approximately 99.83% of the Group's revenue for FY2018 are derived from the PRC market.

As (i) the natures of the Agreements are related to the production of film; and (ii) the Film to be produced under the Agreements is for the PRC market, we are of the view and concur with the view of the Management that the entering of the Agreements is in line with the business of the Company.

In order to understand the recent development of the film and film related industry in the PRC, we studied the statistical information from the website of the National Bureau of Statistics of China ([www.stats.gov.cn](http://www.stats.gov.cn)) (the "NBSC"). According to the latest information available from the website of the NBSC, (i) the box office revenue from domestic film increased from approximately RMB12.78 billion for 2013 to approximately RMB30.10 billion for 2017, representing an increase of approximately 1.36 times during the aforesaid period; (ii) national comprehensive revenue from film increased from approximately

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RMB21.77 billion for 2013 to approximately RMB55.91 billion for 2017, representing an increase of approximately 1.57 times during the aforesaid period; and (iii) the number of film screen increased from 18,195 pieces for 2013 to approximately 50,776 pieces for 2017, representing an increase of approximately 1.79 times.

Based on (i) the above official statistical information about the recent development of the film industry in the PRC and (ii) the positive result of the films as stated in the paragraph headed “Background information of the Group and the connected persons” above, we are of the view and concur with the view of the Management that the outlook of film industry in the PRC in the near future is positive.

In order to assess whether Beijing Joy Leader and Mr. Xu Zheng are suitable parties for role of the relevant Agreements, we studied the relevant experiences of Beijing Joy Leader and academic background, working experiences and award of Mr. Xu Zheng. Set out below are the relevant film production (where the role of Beijing Joy Leader in the relevant films is film production) in recent years:

**Table 1**

Year of launch in the PRC	Name of film	Genre of film	Box office (approximately RMB)
2012	Lost in Thailand 《人再囧途之泰囧》 (Shortlisted for Best Film (最佳影片) in the 32nd Hundred Flowers Awards 第32屆大眾電影百花獎)	Comedy	1,268 million
2015	Lost in Hong Kong 《港囧》 (Awarded for Best Actor (最佳男主角) in the 11th Chinese American Film Festival 第11屆中美電影節)	Comedy	1,614 million
2018	How Long Will I Love You 《超時空同居》 (Awarded for Outstanding Youth Filmmaking 優秀青年電影創作獎 in the 17th China Huabiao Film Awards 第17屆中國電影華表獎)	Comedy	900 million
2018	A or B 《幕後玩家》	Suspense	359 million
2018	Dying to Survive 《我不是藥神》 (Nominated for Best Feature Film (最佳劇情長片) in the 55th Taipei Golden Horse Film Festival 第55屆台北金馬影展)	Comedy	3,100 million
2018	The Wind Guardians 《風語咒》	Animation	113 million

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According to the Management, the role of Beijing Joy Leader in the films as stated in Table 1 above is film production and the target market of the aforesaid films is in the PRC. Since (i) the role of Beijing Joy Leader in the films as stated in Table 1 is film production which is the same as that in the Film; (ii) the target market of the aforesaid films is in the PRC which is the same as that of the Film; (iii) four out of six of the genre of the films as stated in Table 1 is comedy which is same as the Film; and (iv) Beijing Joy Leader has participated in the previous two “Lost” series movies with the role of film production, we are of the view and concur with the view of the Management that Beijing Joy Leader has the relevant film production experiences in the PRC and is a suitable party to provide Film Production Services to the Company.

As set out in the Letter from the Board, Mr. Xu Zheng graduated in Shanghai Theatre Academy in 1994. According to its official website, Shanghai Theatre Academy is a comprehensive university of performing arts with focus on theatre training and studies, and has a history of almost 70 years. Mr. Xu Zheng is actor, director, screenwriter and producer in the PRC movie industry who has won various awards in the PRC and international film festivals. According to the information provided by the Management, Mr. Xu Zheng participated in (i) not less than 32 films with a role of actor; (ii) not less than 2 films with a role of director; (iii) not less than 3 films with a role of screenwriter; and (iv) not less than 5 films with a role of producers, since 1998.

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As set out in the Letter from the Board and information from internet, the following film awards and nominations of Mr. Xu Zheng in recent years:

*Table 2*

No.	Year	Award	Category	Name and genre of film	Result
1.	2008	Hundred Flowers Awards 大眾電影百花獎	Best supporting actor 最佳男配角	Crazy Stone 《瘋狂的石頭》 (Comedy)	Nominated
2.	2009	China Movie Channel Media Awards 電影頻道傳媒大獎	Favourite actor 最受關注男演員獎	One Night in Supermarket 《夜·店》 (Comedy)	Won
3.	2013	Huabiao Awards 中國電影華表獎	Outstanding young director 優秀青年導演獎	Lost in Thailand 《人再囧途之泰囧》 (Comedy)	Won
4.	2013	Huading Awards 華鼎獎	Best new director 最佳新銳導演獎	Lost in Thailand 《人再囧途之泰囧》 (Comedy)	Won
5.	2013	Beijing College Student Film Festival 北京大學生電影節	Favourite director 最受大學生歡迎導演	Lost in Thailand 《人再囧途之泰囧》 (Comedy)	Won
6.	2013	Youth Film Handbook Awards 青年電影手冊	Best new director 年度新導演	Lost in Thailand 《人再囧途之泰囧》 (Comedy)	Won
7.	2013	Youth Film Handbook Awards 青年電影手冊	Best actor 最佳男主角	Lost in Thailand 《人再囧途之泰囧》 (Comedy)	Nominated
8.	2013	China Film Director's Guild Awards 中國電影導演協會表彰 評選	Special Jury Award 年度評委特別表彰	Lost in Thailand 《人再囧途之泰囧》 (Comedy)	Won

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No.	Year	Award	Category	Name and genre of film	Result
9.	2013	China Film Director's Guild Awards 中國電影導演協會表彰評選	Best actor 年度男演員	Lost in Thailand 《人再囧途之泰囧》 (Comedy)	Nominated
10.	2014	Hundred Flowers Awards 大眾電影百花獎	Best actor 最佳男主角	Lost in Thailand 《人再囧途之泰囧》 (Comedy)	Nominated
11.	2014	China Film Director's Guild Awards 中國電影導演協會表彰評選	Best actor 年度男演員	No Man's Land 《無人區》 (Drama/Thriller)	Won
12.	2015	Chinese American Film Festival 中美電影節	Best actor 最佳男主角	Lost in Hong Kong 《港囧》 (Comedy)	Won
13.	2018	Changchun Film Festival 長春電影節	Best actor 最佳男主角	Dying to Survive 《我不是藥神》 (Comedy)	Won
14.	2018	Golden Horse Awards 金馬獎	Best leading actor 最佳男主角	Dying to Survive 《我不是藥神》 (Comedy)	Won
15.	2019	Asian Film Awards 亞洲電影大獎	Best actor 最佳男主角	Dying to Survive 《我不是藥神》 (Comedy)	Nominated

Based on the above, we understand that apart from his relevant experience in the area of actor, director, screenwriter and producer in film which the target market is in the PRC, he was also awarded with prizes in the area of actor and director.

The Film “Lost in Russia” 《囧媽》 is the fourth film of the “Lost” series (《囧》系列電影) Mr. Xu Zheng has been the leading actor or/and director of the previous films in the “Lost” series, namely:

1. “Lost on Journey” 《人在囧途》 (starring Mr. Xu Zheng) (launched in 2010 with box office of approximately RMB37.6 million);

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2. “Lost in Thailand” 《人再囧途之泰囧》(directed by Mr. Xu Zheng and starring Mr. Xu Zheng) (launched in 2012 with box office of approximately RMB1,268 million) and
3. “Lost in Hong Kong” 《港囧》(directed by Mr. Xu Zheng and starring Mr. Xu Zheng)(launched in 2015 with box office of approximately RMB1,614 million).

The Board considered that the “Lost” series is well-known in the PRC and has accumulated a large audience base and the Company is of the view that the new movie “Lost in Russia”《囧媽》has a high probability of continuing the prior track record and achieving a satisfactory box office and a good economic return for the Company. Mr. Xu Zheng has been the leading actor for all the previous three “Lost” movies and director for the last two “Lost” movies and is essential to the intellectual property. Mr. Xu Zheng, being the icon of “Lost” series, is critical to the success of the Film. With his experience in the prior three “Lost” movies and recent achievement in China film industry demonstrated by awards and box office successes, the Board believes that he will continue to drive the success of the new movie “Lost in Russia” 《囧媽》.

In view of the above, we are of the view and concur with the view of the Management that Mr. Xu Zheng has the relevant academic qualification and working experience in relation to actor, director, screenwriter and producer in the PRC film and Mr. Xu Zheng, being the icon of “Lost” series, is critical to the success of the Film, being the fourth film of “Lost” series.

### III. Details of the Agreements

We request the Company to provide the copy of the Agreements and reviewed the terms of the aforesaid agreements. In order to perform our independent work in assessing the fairness and reasonableness of the terms of the Agreements, we intend to compare the terms of the Agreements with the terms of agreement of other similar transactions conducted by other listed companies, who are independent third parties with the Company, in the Stock Exchange within a twelve months period before the date of the Agreements. However, based on our search in the website of the Stock Exchange and the internet, we cannot find other similar transaction that disclose the terms of the relevant agreement. Therefore, we extend the search period to eighteen months period before the date of the Agreements, we still cannot find other similar transaction that disclose the terms of the relevant agreements. As a result, we intend to compare the terms of the Agreements with other films that the Company invests exclusively or with majority interest (as the Film related to the Agreements is exclusively invested in 100% by the Company), (i) with similar investment budget to the Film, i.e. around RMB380 million as stated in the Letter from the Board (the “**Film Budget**”), (ii) with same genre, i.e. comedy and (iii) launched to the PRC market (as the target market of the Film is also in the PRC) within twelve months before the date of the Agreements. Based on the aforesaid selection criteria, we can only identify one comparable film, “*Crazy Alien*” 《瘋狂的外星人》 (the “**Comparable Film A**”),

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which is a comedy film launched in February 2019 and exclusively invested by the Company with investment budget similar to that of the Film and the target market is also the PRC, based on the information provided by the Management. Therefore, we relax our selection criteria to invest exclusively or with majority interest and with investment budget not less than RMB90 million. Based on the aforesaid revised selection criteria, we identify two comparable films, one is the Comparable Film A, and the other is Comparable Film B (collectively “**Comparable Films**”) which is a drama film to be launched in 2019 and invested with majority interest by the Company with investment budget around RMB96 million and the target market is also the PRC.

As stated above, we intended to compare the terms of the Agreements with the terms of agreement of other similar transactions conducted by other listed companies in the Stock Exchange within an eighteen-month period before the date of the Agreements in order to compare the terms of the Agreements with market, however, based on our search in the website of the Stock Exchange and the internet, we cannot find other similar transaction that disclose the terms of the relevant agreement.

Although there are only two Comparable Films, we are of the view that as (i) there are no other similar transactions conducted by other listed companies in the Stock Exchange within an eighteen-month period before the date of the Agreements as stated above; (ii) the Comparable Films are invested exclusively or with majority interest by the Company; (iii) the target market of the Comparable Films is also the PRC which is the same as the Film; and (iv) each of the launch date of the Comparable Film A and Comparable Film B is within 2019 (the launch date of Comparable Film B is expected in 2019, close to the date of the Agreements) which can serve as a recent reference, we are of the view that the adoption of Comparable Films is justifiable.

### *The Film Production Agreement*

Please refer to paragraph headed “Principal Terms of the Film Production Agreement” in the Letter from the Board for the major terms of the Film Production Agreement.

Based on the information provided by the Management, and our review of the relevant terms in relation to film production of the Comparable Films, we noted that the film production services in the Comparable Films are similar to the Film Production Services under the Film Production Agreement. Also, there is similar arrangement in the Comparable Films with that of the Film Production Agreement, i.e. Shou Ying may request Beijing Joy Leader to sign contract with third parties (“**Third Party Contracts**”) on behalf of Shou Ying in relation to the shooting of the Film and Shou Ying agrees to pay to Beijing Joy Leader the sum payable to all such third parties under the Third Party Contracts. The terms of copyright, distribution rights and income rights of the Film Production Agreement are similar to those of the Comparable Films.

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As stated in the Letter from the Board, as at the Latest Practicable Date, other than the Agreements, the Company has entered into certain agreements with Independent Third Parties with aggregate commitment of approximately RMB44 million in relation to the Film including approximately RMB18 million for project planning and development and approximately RMB26 million for production in the PRC (including approximately RMB20 million for obtaining various services; approximately RMB2 million for rental expense; and approximately RMB4 million for miscellaneous expenses). The Company will finance the investment cost of the Film through its internal resources. Since the Company is the exclusive investor of the Film, all the investment cost of the Film will be borne by the Company. The Company monitors the production and progress and the cost of the Film closely through the control of payment procedures and contracts negotiation and signing. The Company will bear the extra cost of the Film in the event the actual investment cost of the Film exceed the Film Budget. The Company has set up a working team led by a vice president of the Group who is experienced in film production to monitor the development and production of the Film through measures including but not limited to (i) conducting regular meetings with Beijing Joy Leader and conducting spot checks at the locations of shooting to assess the production progress of the Film; and (ii) performing regular review and analysing the actual cost and Film Budget. The Board considers that the measures above are effective and adequate to monitor the production and development of the Film. As at the Latest Practicable Date, the Company expected the actual investment cost of the Film would not exceed its budget. The Company will publish further announcement in the event the actual investment cost of the Film substantially deviates from the Film Budget.

Since (i) the film production services in the Comparable Films are similar to the Film Production Services under the Film Production Agreement; and (ii) the Company is the exclusive investor of the Film and has set up a working team led by a vice president of the Group who is experienced in film production to monitor the development and production of the Film through measures as stated above, we are of the view and concur with the view of the Management that the aforesaid arrangement is justifiable.

The Production Fee is RMB30.0 million, which is approximately 7.89% of the Film Budget. The ratio of the production fee of the Comparable Films to their budget range from 5.00% approximately 7.41% with average of approximately 6.21% which is slightly lower than that of the Production Fee to the Film Budget. Given (i) percentage of the Production Fee to the Film Budget is within the range of the Comparable Films; (ii) the film production experience and the awards of Beijing Joy Leader as stated in Table 1 under the section headed “Reasons for and benefits of entering into the Agreements” above; (iii) the aggregate fee under the Agreements is approximately RMB117 million (i.e. acted as film production, film director, producer, screenwriter and actor of the Film) which represent approximately 30.79% of the Film Budget, and is slightly lower than that of the Comparable Film A (approximately 31.54%) and Comparable Film B (approximately 33.73%) (please refer to discussion

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below); and (iv) the Film Production Services are similar to those of the Comparable Films, we are of the view and concur with the view of the Management that the terms of the Film Production Agreement are fair and reasonable.

### *The Director Agreement, the Producer Agreement and the Screenwriter Agreement*

Please refer to paragraphs headed “Principal Terms of the Director Agreement”, the “Principal Terms of the Producer Agreement” and “Principal Terms of the Screenwriter Agreement” in the Letter from the Board for the major terms of the Director Agreement, the Producer Agreement and the Screenwriter Agreement respectively.

Based on the information provided by the Management, and our review of the relevant terms in relation to director, producer and screenwriter of the Comparable Films, we noted that there is no separate position of producer in the Comparable Films and the function of the producer is performed by the director. In addition, the role of screenwriter in Comparable Film B is also performed by the director in Comparable Film B. Therefore, we (i) compare the terms of the Director Agreement and the Producer Agreement with the terms of the director agreement in the Comparable Film A, (ii) compare the terms of the Screenwriter Agreement with the terms of the screenwriter agreement in the Comparable Film A and (iii) compare the terms of the Director Agreement, the Producer Agreement and Screenwriter Agreement with the terms of the director agreement in the Comparable Film B. We noted that (i) the services to be provided under the Director Agreement and the Producer Agreement are similar to the director agreement of the Comparable Film A; (ii) the services to be provided under the Screenwriter Agreement are similar to that of the Comparable Film A and (iii) the services to be provided under the Director Agreement, the Producer Agreement and Screenwriter Agreement are similar to the terms of the director agreement in the Comparable Film B.

The aggregate fee under the Director Agreement and the Producer Agreement is RMB37.0 million, which is approximately 9.74% of the Film Budget. The ratio of the director fee (with the roles of director and producer) of the Comparable Film A to its budget is approximately 7.50% which is slightly lower than that of the aggregate fee under the Director Agreement and the Producer Agreement to the Film Budget.

The Screenwriter Fee is RMB10.0 million, which is approximately 2.63% of the Film Budget. The ratio of the screenwriter fee of the Comparable Film A to its budget is approximately 1.72% which is slightly lower than that of the Screenwriter Fee to the Film Budget.

The aggregate fee under the Director Agreement, the Producer Agreement and the Screenwriter Fee is RMB47.0 million, which is approximately 12.36% of the Film Budget. The ratio of the director fee (with the roles of director, producer and screenwriter) of the Comparable Film B to its budget is approximately 20.81%, which

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is higher than that of the aggregate fee under the Director Agreement, the Producer Agreement and Screenwriter Agreement to the Film Budget.

Given (i) the working experience of Mr. Xu Zheng in the area of film directorship and the awards (including nomination) as stated in Table 2 under the section headed “Reasons for and benefits of entering into the Agreements” above; (ii) the aggregate fee under the Agreements is RMB117 million (i.e. acted as film production, film director, producer, screenwriter and actor of the Film) which represent approximately 30.79% of the Film Budget and is slightly lower than to that of the Comparable Film A (approximately 31.54%) and Comparable Film B (approximately 33.73%) (please refer to discussion below); (iii) the ratio of the aggregate fee under the Director Agreement, the Producer Agreement and Screenwriter Agreement to the Film Budget is lower than that of the director fee (with the roles of director, producer and screenwriter) of the Comparable Film B and (iv) the services under the Director Agreement, the Producer Agreement and Screenwriter Agreement are similar to those of the Comparable Films, we are of the view and concur with the view of the Management that the terms of the Director Agreement, the Producer Agreement and the Screenwriter Agreement are fair and reasonable.

### *The Actor Agreement*

Please refer to paragraph headed “Principal Terms of the Actor Agreement” in the Letter from the Board for the major terms of the Actor Agreement.

Based on the information provided by the Management, and our review of the relevant terms in relation to leading actor of the Comparable Films, we noted that the services under the Comparable Films are similar to the services under the Actor Agreement.

The Actor Fee is RMB40.0 million, which is approximately 10.53% of the Film Budget. The ratio of the leading actors fee (the role is performed by two actors in Comparable Film A) of the Comparable Films to their budget range from approximately 5.51% to approximately 17.32% with an average of approximately 11.41%, which is slightly higher than that of the Actor Fee to the Film Budget. Given (i) the working experience in actor area and the awards (including nomination) of Mr. Xu Zheng as stated under the section headed “Reasons for and benefits of entering into the Agreements” above; (ii) the ratio of the fee of the Actor Agreement to the Film Budget (approximately 10.53%) is lower than that the average of the aggregate fees of the relevant parties of the Comparable Films (approximately 11.41%); and (iii) the service under the Actor Agreement is similar to that of the Comparable Films, we are of the view and concur with the view of the Management that the terms of the Actor Agreement is fair and reasonable.

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Since Beijing Joy Leader and Mr. Xu Zheng would act as several role of the Film, in addition to comparing the cost of each of the Agreements with that of the Comparable Films, it is more reasonable to compare the aggregate cost of the Agreements with the Comparable Films. We noted that the aggregate fee under the Agreements is RMB117 million (i.e. acted as film production, director, producer, screenwriter and actor of the Film) which represents approximately 30.79% of the Film Budget whereas that for the Comparable Film A and Comparable Film B is approximately 31.54% and approximately 33.73% in aggregate respectively. Based on the above, we understand that, given the same roles, the aggregate fee to Beijing Joy Leader and Mr. Xu Zheng under the Agreements is lower than that of the Comparable Film A and Comparable Film B in terms of percentage of the cost to budget of the film.

Given (i) the services of the relevant agreements of the Comparable Films are similar to those of the Agreements as stated above and (ii) the ratio of the fee of the Film Production Services, the fee of Director Agreement and Producer Agreement and the fee of Screenwriter Agreement to the Film Budget is slightly higher than that of the relevant agreements of the Comparable Films respectively but the aggregate fee under the Agreements (i.e. RMB117 million) which represent approximately 30.79% of the Film Budget which is slightly lower than that of the Comparable Film A (approximately 31.54%) and Comparable Film B (approximately 33.73%) as stated above, we are of the view that the terms of the Agreements are fair and reasonable.

### *Source of funding*

According to the AR2018, as at 31 December 2018, the unaudited bank balances and cash of the Company amounted to approximately HK\$158.53 million. The Company also completed a fund raising on 19 March 2019 to raise approximately HK\$390.0 million. Given the aforesaid bank balances and cash of the Company and the recent fund raising exercise and the aggregate fees of the Agreements are RMB117.0 million, we are of the view and concur with the view of the Management that the Company has sufficient internal resources to fund the fees of the Agreements.

## **IV. Conclusion**

Given (i) the increase in revenue and positive gross profit for FY2018 as stated in the paragraph headed “I. Background information on the Group and the connected party” above; (ii) the entering of the Agreements are in line with the business of the Company as stated in the paragraph headed “II. Reasons for and benefits of entering into the Agreements” above; (iii) the outlook of the film industry as stated in the paragraph headed “II. Reasons for and benefits of entering into the Agreements” above; (iv) the relevant experience and awards of Mr. Xu Zheng as stated in paragraph headed “II. Reasons for and benefits of entering into the Agreements” above; (v) the relevant experience of Beijing Joy Leader as stated in paragraph headed “II. Reasons for and benefits of entering into the Agreements” above; (vi) the track records of high box office receipts of the previous three

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“Lost” series; (vii) the terms of the Agreements are fair and reasonable as stated in the paragraph headed “III. Details of the Agreements” above; and (viii) the Company has sufficient internal resources to fund the fees of the Agreements, we are of the view that the terms of Agreements are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

### RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the entering of Agreements is in the ordinary and usual course of business of the Group; and (ii) the terms of Agreements are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Agreements and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

**Shinco Capital Limited**

**Bobby Chow**

*Managing Director*

**Teresa Tsang**

*Director*

*Mr. Bobby Chow is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the Securities Futures Ordinance and has over 10 years of experience in corporate finance industry.*

*Ms. Teresa Tsang is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the Securities Futures Ordinance and has over 10 years of experience in corporate finance industry.*

\* *The English translation of the Chinese name(s) in this letter, where indicated (\*), is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short position of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

#### *Long position in the Shares*

Name of Director	Capacity/nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company's issued share capital (Note 1)
Mr. Dong Ping	Beneficial owner	16,610,000	0.53%
	Interest of controlled corporations	554,553,298 (Note 2)	17.58%
	A concert party to an agreement to buy shares described in s.317(1)(a) of the SFO	877,251,056 (Note 3)	27.81%
	Total:	1,448,414,354	45.91%

Name of Director	Capacity/nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company's issued share capital (Note 1)
Mr. Ning Hao	Interest of controlled corporation	438,625,528 (Note 4)	13.90%
	A concert party to an agreement to buy shares described in s.317(1)(a) of the SFO	1,009,788,826 (Note 5)	32.01%
	Total:	<u>1,448,414,354</u>	<u>45.91%</u>
Mr. Xu Zheng	Interest of controlled corporation	438,625,528 (Note 6)	13.90%
	A concert party to an agreement to buy shares described in s.317(1)(a) of the SFO	1,009,788,826 (Note 7)	32.01%
	Total:	<u>1,448,414,354</u>	<u>45.91%</u>
Mr. Li Xiaolong	Interest of a controlled corporation	15,060,000 (Note 8)	0.48%

## Notes:

- (1) The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at the Latest Practicable Date (i.e. 3,154,655,408 Shares).
- (2) These Shares include Shares held by Newwood Investments Limited (“**Newwood**”) as to 461,711,082 Shares, Numerous Joy Limited (“**Numerous Joy**”) as to 92,342,216 Shares and Highrise Castle Limited (“**Highrise**”) as to 500,000 Shares which are companies incorporated in the British Virgin Islands with limited liability and directly wholly owned by Mr. Dong Ping.

- (3) On 14 April 2015, Mr. Dong Ping, Newwood, Pacific Wits Limited (“**Pacific Wits**”), Mr. Ning Hao, Tairong Holdings and Mr. Xu Zheng entered into a shareholders agreement (the “**Shareholders Agreement**”), which sets forth certain rights and obligations of each of the parties in respect of the governance of the Company following completion of the subscription for new shares in the Company pursuant to a subscription agreement dated 14 April 2015, details of which are set out in the Company’s circular dated 5 August 2015. As Mr. Dong Ping is a party to the Shareholders Agreement, Mr. Dong Ping is therefore deemed to be interested in all the Shares in which Mr. Ning Hao, Pacific Wits, Mr. Xu Zheng and Tairong Holdings are interested by virtue of section 317 of the SFO. Please refer to note (4) for the Shares directly held by Pacific Wits and note (6) for the Shares directly held by Tairong Holdings. 877,251,056 Shares includes 438,625,528 Shares owned by Pacific Wits and 438,625,528 Shares owned by Tairong Holdings.
- (4) These 438,625,528 Shares are directly held by Pacific Wits, which is a company incorporated in the British Virgin Islands with limited liability and directly wholly owned by Mr. Ning Hao.
- (5) Mr. Ning Hao is a party to the Shareholders Agreement and is therefore deemed to be interested in all the Shares in which Mr. Dong Ping (who is interested in 19,310,000 Shares and underlying shares as a beneficial owner and is interested in 554,553,298 Shares through his directly wholly owned corporations, Newwood, Numerous Joy and Highrise), Mr. Xu Zheng and Tairong Holdings are interested by virtue of section 317 of the SFO. Please refer to note (6) for the Shares directly held by Tairong Holdings.
- (6) These 438,625,528 Shares are directly held by Tairong Holdings, which is a company incorporated in the British Virgin Islands with limited liability and directly wholly owned by Mr. Xu Zheng.
- (7) Mr. Xu Zheng is a party to the Shareholders Agreement and is therefore deemed to be interested in all the Shares in which Mr. Dong Ping (who is interested in 19,310,000 Shares and underlying shares as a beneficial owner and is interested in 554,553,298 Shares through his directly wholly owned corporations, Newwood, Numerous Joy and Highrise), Mr. Ning Hao and Pacific Wits are interested by virtue of section 317 of the SFO. Please refer to note (4) for the Shares directly held by Pacific Wits.
- (8) These 15,060,000 Shares are held by Panfaith Investments Limited, which is a company incorporated in the British Virgin Islands with limited liability and directly wholly owned by Mr. Li Xiaolong.

*Long position in the underlying Shares*

Name of Director	Capacity/nature of interest	Number of underlying shares	Approximate percentage of shareholding in the Company’s issued share capital (Note 1)
Mr. Xiang Shaokun, Steven	Beneficial owner	27,000,000 (Note 2)	0.86%

Name of Director	Capacity/nature of interest	Number of underlying shares	Approximate percentage of shareholding in the Company's issued share capital (Note 1)
Mr. Dong Ping	Beneficial owner	2,700,000 (Note 3)	0.09%
Mr. Ning Hao	A concert party to an agreement to buy shares described in s.317(1)(a) of the SFO	2,700,000 (Note 4)	0.09%
Mr. Xu Zheng	A concert party to an agreement to buy shares described in s.317(1)(a) of the SFO	2,700,000 (Note 5)	0.09%

*Notes:*

- (1) The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at the Latest Practicable Date (i.e. 3,154,655,408 Shares)
- (2) These are 27,000,000 underlying Shares to be issued upon exercise of the unlisted physically settled share options of the Company granted to Mr. Xiang Shaokun, Steven on 27 April 2018 pursuant to the Company's share option scheme adopted on 17 June 2014 ("Share Option Scheme"). The exercise price of these options is HK\$2.08 per share and the exercise period of (i) 18,000,000 of such share options is from 27 April 2018 to 17 June 2024 (both days inclusive); and (ii) 9,000,000 of such share options is from 1 September 2018 to 17 June 2024 (both days inclusive) subject to the provisions for early termination contained in the Share Option Scheme and certain vesting conditions applicable to the relevant grantees. The exercise of such share options during the validity period is subject to certain exercise criteria applicable to the relevant grantees.
- (3) These are 2,700,000 underlying Shares to be issued upon exercise of the unlisted physically settled share options of the Company granted to Mr. Dong Ping on 27 April 2018 pursuant to the Share Option Scheme. The exercise price of these options is HK\$2.08 per share and the exercise period of (i) 1,800,000 of such share options is from 27 April 2018 to 17 June 2024 (both days inclusive); and (ii) 900,000 of such share options is from 2 September 2018 to 17 June 2024 (both days inclusive) subject to the provisions for early termination contained in the Share Option Scheme and certain vesting conditions applicable to the relevant grantees. The exercise of such share options during the validity period is subject to certain exercise criteria applicable to the relevant grantees.
- (4) Mr. Ning Hao is a party to the Shareholders Agreement and is therefore deemed to be interested in all the underlying Shares in which Mr. Dong Ping (who is interested in 2,700,000 underlying Shares) is interested by virtue of section 317 of the SFO.

- (5) Mr. Xu Zheng is a party to the Shareholders Agreement and is therefore deemed to be interested in all the underlying Shares in which Mr. Dong Ping (who is interested in 2,700,000 underlying Shares) is interested by virtue of section 317 of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executives and their respective associates had any interest or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, the following Directors were directors of company(ies) which has an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

- (a) Mr. Dong Ping, an executive Director, is the sole director of Newwood, Numerous Joy and Highrise;
- (b) Mr. Ning Hao, a non-executive Director, is the sole director of Pacific Wits; and
- (c) Mr. Xu Zheng, a non-executive Director, is the sole director of Tairong Holdings.

### **3. DIRECTOR'S INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP**

On 24 December 2018, Huan Huan Xi Xi, an indirect wholly-owned subsidiary of the Company, entered into the Movie Investment Agreement with Tibet Jindouyun, pursuant to which Huan Huan Xi Xi agreed to invest RMB12 million (equivalent to approximately HK\$13.896 million), being 10% of the estimated total production costs including project development cost, initiation cost of the project, filming costs, post-production costs and other costs for the release of the Target Film totalling approximately RMB120 million (equivalent to approximately HK\$138.96 million).

In case of over-expenditure caused by circumstances as stipulated below, the maximum investment amount of Huan Huan Xi Xi under the Movie Investment Agreement would be adjusted upward up to RMB14.4 million (equivalent to approximately HK\$16.675 million).

Huan Huan Xi Xi shall bear 10% of the over-expenditure of the Target Film if such over-expenditure is caused by exceptional circumstances (such as the case where the Target Film's creative team members are unable to participate temporarily or permanently in the film production of the Target Film for reasons which are not caused by Huan Huan Xi Xi and cannot be overcome), provided that the amount of the over-expenditure shall not be more than 10% of the total investment of the Target Film (i.e. such over-expenditure borne by Huan Huan Xi Xi shall not be more than RMB1.2 million (equivalent to approximately HK\$1.390 million)).

Huan Huan Xi Xi shall also bear 10% of the over-expenditure of the Target Film if such over-expenditure is caused by force majeure, and all of the over-expenditure of the Target Film if such over-expenditure is caused by breach, non-performance or failure of performance of the obligations under the Movie Investment Agreement (“**Default**”) by Huan Huan Xi Xi, provided that the amount of the over-expenditure due to the reasons mentioned above shall not be more than 10% of the total investment of the Target Film (i.e. such over-expenditure caused by force majeure borne by Huan Huan Xi Xi shall not be more than RMB1.2 million (equivalent to approximately HK\$1.390 million)). The over-expenditure caused by the Default shall not be included in the investment amount and the total production amount of the Target Film and shall not be deducted before the parties to the Movie Investment Agreement share their profits, nor affect the proportion of investment and the proportion of income distribution of the parties to the Movie Investment Agreement.

The promotion and distribution expenses of the Target Film shall be in the range of RMB50 million (equivalent to approximately HK\$57.90 million) to RMB80 million (equivalent to approximately HK\$92.64 million). If there is any adjustment to the amount of the expenses, it must be jointly determined in writing by the parties. Huan Huan Xi Xi agrees to pay 10% of the promotion and distribution expenses, i.e. RMB5 million (equivalent to approximately HK\$5.79 million) (subject to upward adjustment of up to RMB8 million (equivalent to approximately HK\$9.264 million), which is determined with reference to Huan Huan Xi Xi's investment ratio in the Target Film. The promotion and distribution expenses of the Target Film will be advanced by Tibet Jindouyun and will preferentially be recovered from the distribution income of the Target Film. It is expected that the promotion and distribution expenses payable by Huan Huan Xi Xi under the Movie Investment Agreement would be funded by internal resources of the Group.

Huan Huan Xi Xi shall have a right to the income which represents 10% of the profit of the Target Film (being Net Income (as defined below) of the Target Film after deduction of the major production team bonus (as explained below)), provided that such profit shall not include the income from the production and development of the film derivative product, the income of the Target Film (global income, business development and product implantation income, participating bonus) that Tibet Jindouyun has obtained before the signing of the Movie Investment Agreement. Huan Huan Xi Xi's income right is for a period of nine years commencing from the date of first commercial release of the Target Film.

The Net Income shall mean the total income including cinema distribution income, copyright income, overseas distribution income and other income of the Target Film after deduction of special fund contribution required by the PRC, various taxes, box office receipts shared by cinemas and cinema circuits, promotion and distribution agent fee, promotion and distribution expense of the Target Film and production cost.

Please refer to the announcement of the Company dated 24 December 2018 for the details of the Movie Investment Agreement and the transaction as contemplated under the Movie Investment Agreement.

Save as disclosed above and save for the Agreements, none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2018 (being the date to which the latest audited financial statements of the Group were made up) and up to the Latest Practicable Date, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

As at the Latest Practicable Date, save as disclosed above and save for the Agreements and 2015 Service Agreements (brief details of which are set out in the paragraph headed “6. Competing Interest” in this appendix), none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and subsisting which was significant in relation to the business of the Group.

#### **4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation)).

#### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable date, since 31 December 2018, being the date to which the latest audited financial statements of the Group were made up, the Directors confirmed that there has not been any material adverse change in the financial or trading position of the Group.

## 6. COMPETING INTEREST

As the Latest Practicable Date, save as disclosed below, none of the Directors nor their respective close associates (as if each of them was treated as a controlling shareholder under Rule 8.10 of the Listing Rules) had any interests in other business, which competes or may compete, either close directly or indirectly with the business of the Group.

<b>Directors</b>	<b>Companies which Directors held interests</b>	<b>Major nature of business</b>	<b>Nature of interest (including close associate's interest, if any)</b>
Mr. Ning Hao	Tianjin Dirty Monkey Films Company Limited* 天津壞猴子影業有限公司	TV and Movie Production	Ultimate Shareholder
	INJO Films Co. Ltd. 東陽映月影視文化傳播有限公司	TV and Movie Production	Ultimate Shareholder
	北京壞猴子文化產業發展有限公司	TV Production and Distribution	Ultimate Shareholder
	霍爾果斯壞猴子影視文化傳播有限公司	TV Production and Distribution	Ultimate Shareholder
	花滿山(上海)影業有限公司	TV and Movie Production	Ultimate Shareholder
	東陽壞猴子影視文化傳播有限公司	TV and Movie Production	Ultimate Shareholder
	壞猴子(上海)文化傳播有限公司	TV and Movie Production	Ultimate Shareholder
	Tibet Jindouyun Film Company Limited * 西藏筋斗雲影業有限公司	TV and Movie Production	Ultimate Shareholder
	天津筋斗雲文化傳媒有限公司	Movie Production	Ultimate Shareholder

Directors	Companies which Directors held interests	Major nature of business	Nature of interest (including close associate's interest, if any)
	上海定海神針影業有限公司	TV and Movie Production and Movie Distribution	Ultimate Shareholder
Mr. Xu Zheng	Beijing Joy Leader Culture Communication Co. Ltd.	Movie Production and Investments	Ultimate Shareholder

The Group is principally engaged in the media and entertainment related businesses and other businesses. The media and entertainment related businesses include, among others, development and/or investment in films and television drama series.

As at the Latest Practicable Date, Mr. Ning Hao, together with his family, was the ultimate shareholder of the above companies (together “**Mr. Ning Hao’s Companies**”). Mr. Ning Hao’s Companies were principally engaged in the TV and movie production and distribution in the PRC. Save as disclosed under section headed “Director’s Interests in the Group Assets or Contracts or Arrangement Significant to the Group” in this Appendix, as at the Latest Practicable Date, none of Mr. Ning Hao or his close associates was interested in any business in respect of film production, apart from his and/or his family’s interests in Mr. Ning Hao’s Companies.

As at the Latest Practicable Date, Beijing Joy Leader was owned as to 51% by Mr. Xu Zheng, 25% by Ms. Tao Hong, Mr. Xu Zheng’s spouse, and 24% by an Independent Third Party and was principally engaged in the production of films and movie investments in the PRC. As at the Latest Practicable Date, none of Mr. Xu Zheng or his close associates was interested in any business in respect of film production, apart from his interests in Beijing Joy Leader.

The Directors consider that the Group is capable of carrying on its businesses independently of, and at arm’s length from, the movie business of (i) Mr. Ning Hao’s Companies and (ii) Beijing Joy Leader ((i) and (ii) together, the “**Other Companies**”) as (i) there is a clear separation between the Group’s businesses and those of the Other Companies; (ii) the Group is not operationally or financially dependent on any of the Other Companies, or vice versa; and (iii) the Board operates independently from the boards of the Other Companies. As at the Latest Practicable Date, the Board consisted of seven members, comprising of two executive Directors, two non-executive Directors and three independent non-executive Directors. All of the Directors are aware of their fiduciary duties as a Director which require, among other things, that they act for the benefit and in the best interests of the Company and do not allow any conflict between their duties as a Director and their personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Group and the Directors

or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of the Company in respect of such transactions and shall not be counted in the quorum.

From time to time, the Group may consider possible co-investment opportunities with Mr. Ning Hao's Companies and/or Beijing Joy Leader in film or other projects. Any such investments and the definitive terms thereof would be subject to further negotiations at arm's length between the relevant parties. If any co-investment arrangement between the Group and Mr. Ning Hao's Companies or Beijing Joy Leader were to materialise, it could constitute a connected transaction of the Company under the Listing Rules. Further announcement(s) in relation to any such investments will be made as and when appropriate in compliance with the Listing Rules.

The Company has entered into the service agreements dated 14 April 2015 (the "**2015 Service Agreements**") with each of Mr. Ning Hao and Mr. Xu Zheng. The 2015 Service Agreements and the relevant annual caps have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 28 August 2015.

To avoid any potential direct or indirect competition with the Group, during the terms of the 2015 Service Agreements, save for the activities and transactions contemplated under the 2015 Service Agreements, unless with the written consent of the Company, Mr. Ning Hao and Mr. Xu Zheng shall not, directly or indirectly entrust or authorise any third party to undertake any of the following activities:

- (a) directly or indirectly (regardless of whether acting in the capacity of a shareholder, director, employee, partner, consultant or agent) undertake or participate or benefit from any business which is the same as, similar or competes with the business of the Company, including providing any services that are the same as or similar to the services to be provided under the 2015 Service Agreements;
- (b) seize any business opportunity of the Company or solicit any clients or potential clients of the Company, or interfere or damage any relationship or contracts between the Company and any clients or potential clients of the Company; or
- (c) assist or support any third person to undertake the activities set forth in paragraphs (a) and (b) above.

Notwithstanding the above non-compete obligations of Mr. Ning Hao and Mr. Xu Zheng, Mr. Ning Hao and Mr. Xu Zheng shall, through companies controlled by them, have the right to:

- (a) contract to produce the Director Shareholders' Productions which the Company invests in;
- (b) operate the Non-Director Shareholders' Productions;

- (c) operate the Director Shareholders' Productions that the Company does not invest in;
- (d) operate projects that have already commenced operations by the companies controlled by Mr. Ning Hao and Mr. Xu Zheng as at the date of the 2015 Service Agreements,

in each case, subject to compliance with any applicable connected transaction requirements under Chapter 14A of the Listing Rules.

The Board will consider allowing Mr. Ning Hao and Mr. Xu Zheng to engage in the activities mentioned in this section if, (a) Mr. Ning Hao and Mr. Xu Zheng have completed their obligations under their respective 2015 Service Agreements, and/or (b) in the view of the Board, the productions which Mr. Ning Hao and Mr. Xu Zheng wish to undertake would not be profitable or would otherwise not be suitable for the Company to undertake in light of the strategic direction of the Company, taking into account the factors such as (i) the projected cost of the relevant production; (ii) the lead actors or actresses who will participate in the relevant production; (iii) the projected length of film shooting of the relevant production; (iv) the estimated box office and popularity of the relevant production; (v) the genre of the film; (vi) the plot of the film; (vii) whether undertaking such a production could lead to other investment opportunities for the Company, such as exposure to and contact with other reputable and renowned players in the industry (including actors, actresses, screenwriters, directors, costume designers, film editors, makeup artists, visual effect and sound editors and other relevant personnel of the production team); and (viii) any other fair and reasonable considerations which the Board may take into account at the time of consideration of the relevant production.

Please refer to the circular of the Company dated 5 August 2015 for further details of the 2015 Service Agreements.

## 7. EXPERT AND CONSENT

The following are the name and qualification of the expert who has given its opinions or advice which is included in this circular:

<b>Name</b>	<b>Qualification</b>
Shinco Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, the expert named above:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letter, report and/or summary of its opinions and references to its name and logo in the form and context in which they are included;

- (b) was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) did not have any direct or indirect interest in any assets which had since 31 December 2018 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

## **8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 11/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, from the date of this circular up to and including the date of the SGM:

- (a) the Agreements; and
- (b) this circular.

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## NOTICE OF SPECIAL GENERAL MEETING

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### 歡喜傳媒集團有限公司\* HUANXI MEDIA GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1003)

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the special general meeting (“**Meeting**”) of Huanxi Media Group Limited (“**Company**”) will be held at 11:00 a.m. on Wednesday, 12 June 2019 at Strategic Financial Relations Limited, 24/F, Admiralty Centre I, 18 Harcourt Road, Hong Kong to consider and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

#### ORDINARY RESOLUTION

“**THAT:**

- (a) the film production agreement (“**Film Production Agreement**”) dated 26 February 2019 entered into between 北京歡喜首映文化有限公司(Beijing Huanxi Shou Ying Culture Company Limited\*) (“**Shou Ying**”), an indirect wholly-owned subsidiary of the Company and 北京真樂道文化傳播有限公司(Beijing Joy Leader Culture Communication Co. Ltd.) (“**Beijing Joy Leader**”) in relation to the film production services in respect of a film, “Lost in Russia” 《囧媽》 (“**Film**”) to be provided by Beijing Joy Leader to Shou Ying, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the director agreement (“**Director Agreement**”) dated 26 February 2019 entered into between Huan Huan Xi Xi (Tianjin) Culture Investment Company Limited\* (歡歡喜喜(天津)文化投資有限公司) (“**Huan Huan Xi Xi**”), an indirect wholly-owned subsidiary of the Company and Mr. Xu Zheng, pursuant to which Mr. Xu Zheng has conditionally agreed to act as the director of the Film, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

\* For identification purposes only

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## NOTICE OF SPECIAL GENERAL MEETING

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- (c) the producer agreement (“**Producer Agreement**”) dated 26 February 2019 entered into between Huan Huan Xi Xi and Mr. Xu Zheng, pursuant to which Mr. Xu Zheng has conditionally agreed to act as the producer of the Film, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (d) the screenwriter agreement dated (“**Screenwriter Agreement**”) dated 26 February 2019 entered into between Huan Huan Xi Xi and Mr. Xu Zheng, pursuant to which Mr. Xu Zheng has conditionally agreed to act as the screenwriter of the Film, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (e) the actor agreement (“**Actor Agreement**”) dated 26 February 2019 entered into between Huan Huan Xi Xi and Mr. Xu Zheng pursuant to which Mr. Xu Zheng has conditionally agreed to act as the leading actor of the Film, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (f) any one of the directors of the Company (“**Director**”) or a duly authorised committee of the board of Directors (“**Board**”) be and is hereby authorised to do all such acts and things as he/she/it may in his/her/its discretion consider as necessary, expedient or desirable for the purpose of or in connection with the implementation of the Film Production Agreement, the Director Agreement, the Producer Agreement, the Screenwriter Agreement, the Actor Agreement (the “**Agreements**”) and the transactions contemplated thereunder and execute and deliver all such documents, deeds or instruments (or where any documents are required to be executed under seal, any two Directors or one Director and the Company Secretary be and are hereby authorised to execute and deliver all such documents) and take all such steps as the Director consider necessary, appropriate or desirable to implement or give effect to the Agreements and the transactions contemplated thereunder and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally and materially different from those as provided for in the Agreements as are, in the opinion of the Directors or such duly authorised committee, in the interest of the Company and its shareholders as a whole.”

By Order of the Board  
**Huanxi Media Group Limited**  
**Xiang Shaokun, Steven**  
*Executive Director and Chief Executive Officer*

Hong Kong, 23 May 2019

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## NOTICE OF SPECIAL GENERAL MEETING

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*Registered office:*  
Canon's Court, 22 Victoria Street  
Hamilton HM12, Bermuda

*Principal Place of Business in Hong Kong:*  
11/F, Far East Finance Centre  
16 Harcourt Road  
Admiralty, Hong Kong

*Notes:*

1. All resolutions at the Meeting will be taken by poll pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rules**") and the results of the poll will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company in accordance with the Listing Rules.
2. To ascertain a member's entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Thursday, 6 June 2019 to Wednesday, 12 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to attend and vote at the Meeting, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on Wednesday, 5 June 2019.
3. Any shareholder of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more Shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company. On a poll, votes may be given either personally or by a duly authorised corporate representative or by proxy.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
5. The instrument appointing a proxy and (if required by the board of Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority shall be delivered to the office of the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M/F, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong by 11:00 a.m. on Monday, 10 June 2019 or not less than 48 hours before the time appointed for holding any adjourned Meeting.
6. No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in a case where the Meeting was originally held within twelve (12) months from such date.
7. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
8. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the Meeting or any adjournment thereof or upon the poll concerned, and in such event, the instrument appointing a proxy should be deemed to be revoked.

*As at the date of this notice, the Board comprises Mr. Dong Ping (Chairman) and Mr. Xiang Shaokun, Steven (Chief Executive Officer) as executive Directors, Mr. Ning Hao and Mr. Xu Zheng as non-executive Directors, and Mr. Wong Tak Chuen, Mr. Su Tuong Sing, David and Mr. Li Xiaolong as independent non-executive Directors.*