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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

**If you have sold or transferred** all your shares Huan Yue Interactive Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the transferee or to the banker, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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# Huan Yue Interactive Holdings Limited

## 歡悅互娛控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 505)

### (I) DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING OFF-MARKET SHARE BUY-BACK; AND (II) NOTICE OF EGM

Financial Adviser to the Company



Independent Financial Adviser to  
the Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders



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Capitalised terms used on this cover shall have the same meanings as those defined in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 7 to 26 of this circular. A letter from the Listing Rules IBC is set out on pages 27 to 28 of this circular. A letter from the Takeovers Code IBC is set out on pages 29 to 30 of this circular. A letter from the Independent Financial Adviser, containing its advice and recommendation to the Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders is set out on pages 31 to 56 of this circular.

A notice convening the EGM to be held at Room 1106, Tower A, Lvdihai-waitan Building, No. 818, Longhua East Road, Huangpu District, Shanghai, the PRC on Monday, 9 March 2020 at 2:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

13 February 2020

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## DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 23 January 2020 in relation to the Settlement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Auditor”	KPMG, certified public accountants
“Board”	the board of Directors
“Bostone”	bostone Group Limited (博石集團有限公司), a company incorporated in Hong Kong with limited liability, a substantial shareholder of the Company, which is owned by Ms. Ma Jiafeng and Mr. Xie Shicai as to approximately 65.67% and 34.33 % equity interests respectively as at the Latest Practicable Date
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“Buy-back Price”	HK\$0.80 per Sale Share under the Share Buy-back
“BVI”	the British Virgin Islands
“Cancellation Price”	HK\$0.80 per Unissued Share
“Charity Foundation”	Si Ming Care for the Aged and Children Charitable Foundation Limited (四明敬老扶幼慈善基金會有限公司), a non-profit charity foundation incorporated in Hong Kong which is a company limited by guarantee and founded by Mr. Hu Changyuan, an executive Director and the chairman of the Company
“Companies Law”	the Companies Law (Revised) of the Cayman Islands
“Company”	Huan Yue Interactive Holdings Limited (歡悅互娛控股有限公司) (stock code: 505), an exempted company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Unissued Share Cancellation and the Share Buy-back, and the taking effect of the Residual Repayment Arrangement pursuant to the terms and conditions of the Settlement Deed

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## DEFINITIONS

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“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration Shares”	77,777,778 Shares, of which (i) 44,442,223 Shares has been issued and allotted by the Company to the Vendor; (ii) 6,424,734 Shares are the Unissued Shares; and (iii) the remainder Shares have not been issued and allotted by the Company to the Vendor as the Funnytime Group had not fulfilled its performance target for the year ended 31 December 2018 pursuant to the terms of the SPA, and each a “Consideration Share”
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened on Monday, 9 March 2020 for the Independent Shareholders to consider and, if thought fit, to approve the resolutions approving the Settlement Deed and the transactions contemplated thereunder, including but not limited to the Unissued Share Cancellation, the Share Buy-back and the Residual Repayment Arrangement
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“Funnytime”	Funnytime Limited, a company incorporated in the BVI with limited liability, which is a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Funnytime Group”	Funnytime and its subsidiaries
“Group”	the Company and its subsidiaries
“Guarantors”	Mr. Ren and Mr. Yang, being the Vendor’s guarantors to guarantee the due performance of the Vendor’s obligations under the Settlement Deed
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hu Family Trust”	the AI XIN BAO ZHANG TRUST established by Mr. Hu Changyuan as the settlor, who is an executive Director and the chairman of the Company

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## DEFINITIONS

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“Independent Financial Adviser”	Red Sun Capital Limited, a corporation licenced by the SFC to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Listing Rules IBC and the Takeovers Code IBC and the Independent Shareholders (as applicable) in connection with the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back)
“Independent Shareholder(s)”	the Shareholder(s) of the Company other than (i) the Vendor, the Guarantors and the parties acting in concert with each of them; (ii) the Shareholders who are involved in or interested in the Settlement Deed and the transactions contemplated thereunder, which include Mr. Zhu, and (iii) Shareholders who have a material interest in the Settlement Deed and the transactions contemplated thereunder which is different from the interest of all other Shareholders, and who are required to abstain from voting on the relevant resolutions at the EGM
“Last Trading Day”	23 January 2020, being the last trading day of the Shares immediately before the issue of the Announcement
“Latest Practicable Date”	11 February 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Listing Rules IBC”	the independent committee of the Board, comprising Mr. Chai Chaoming, Dr. Lou Dong and Ms. Lu Hong, being all the independent non-executive Directors, established to give recommendations to the Independent Shareholders in respect of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back)
“Long Stop Date”	30 April 2020
“Mr. Ren”	Mr. Ren Hao (任灝), a former Director, the controlling shareholder of the Vendor and a director of one of the subsidiaries of the Company
“Mr. Tong”	Mr. Tong Xin (佟鑫)
“Mr. Yang”	Mr. Yang Jiong (楊問), a shareholder of the Vendor and a supervisor of one of the subsidiaries of the Company

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## DEFINITIONS

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“Mr. Zhu”	Mr. Zhu Wenjun (朱文俊), the chief financial officer of the Company and an executive Director
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Relevant Period”	the period commencing 6 months preceding the date of the Announcement and up to and including the Latest Practicable Date
“Repayment Amount”	the amount of HK\$40,135,567 which the Vendor shall repay Xingye with respect to the cash portion of the consideration pursuant to terms of the SPA
“Residual Repayment Arrangement”	the undertaking to repay the Residual Repayment Amount in cash to the Company by the Vendor within one month after Completion or before 30 June 2020, whichever is the later, pursuant to the terms and conditions of the Settlement Deed, as more particularly described in the paragraph headed “Settlement of the Repayment Amount” under the section headed “The Settlement Deed” in this circular above
“Residual Repayment Amount”	the amount of HK\$2,195,779.80 in cash which the Vendor shall repay the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	41,000,000 Shares beneficially owned by the Vendor and to be transferred to the Company for cancellation at Completion as part of the settlement of the Repayment Amount pursuant to the terms and conditions of the Settlement Deed, and each a “Sale Share”
“Settlement”	the Unissued Share Cancellation, the Share Buy-back, the Residual Repayment Arrangement, and the transactions contemplated thereunder, all of which are in relation to the settlement of the Repayment Amount
“Settlement Deed”	a settlement deed entered into between the Company, Xingye, the Vendor, and the Guarantors on 23 January 2020 (after trading hours) in relation to the Settlement
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“Share Award Scheme”	“The Xingye Copper Share Award Scheme”, which is the share award scheme of the Company as resolved by the Board to be established on 18 April 2016, details of which are set out in the announcement of the Company dated 18 April 2016
“Share Buy-back”	the buy-back of the Sale Shares by the Company from the Vendor for cancellation pursuant to the terms and conditions of the Settlement Deed, which constitutes an off-market share buy-back by the Company under Rule 2 of the Share Buy-back Code
“Share Buy-back Code”	the Hong Kong Code on Share Buy-backs
“Share(s)”	the ordinary share(s) of par value HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Shenzhen ZQ”	Shenzhen ZQGame Co., Ltd. (深圳中青寶互動網絡股份有限公司), a company incorporated in the PRC with limited liability and the shares of which are listed on the Shenzhen Stock Exchange
“SPA”	the sale and purchase agreement dated 21 June 2016 entered into amongst Xingye, the Vendor, the Guarantors and Mr. Tong in relation to the sale and purchase of the entire issued share capital of Funnytime
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Takeovers Code IBC”	the independent committee of the Board, comprising Mr. Dai Jianchun, Mr. Chai Chaoming, Dr. Lou Dong and Ms. Lu Hong, being all the non-executive Director and independent non-executive Directors, all of whom are not involved in the Share Buy-back, established to give recommendations to the Independent Shareholders in respect of the Share Buy-back
“Unissued Shares”	the 6,424,734 Shares which were due to be issued to the Vendor but issuance of which is being withheld by the Company and to be cancelled at Completion, and that the Company shall be relieved from the obligation of such issuance, as part of the settlement of the Repayment Amount pursuant to the terms and conditions of the Settlement Deed, and each an “Unissued Share”

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## DEFINITIONS

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“Unissued Share Cancellation”	the cancellation of the issuance of the Unissued Shares and the relief of the Company from the obligation of such issuance pursuant to the terms and conditions of the Settlement Deed
“Vendor”	Mobilefun Limited, a company incorporated in the BVI with limited liability, which is owned by Mr. Ren and Mr. Yang as to 72% and 28% equity interests respectively as at the Latest Practicable Date
“Warranties”	the representations, undertakings and warranties provided by the Vendor under the Settlement Deed
“Xingye”	Xingye Investment Holdings Limited, a company incorporated in the BVI and a wholly-owned subsidiary of the Company
“%”	per cent



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LETTER FROM THE BOARD

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**Huan Yue Interactive Holdings Limited**

**歡悅互娛控股有限公司**

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

**(Stock Code: 505)**

*Executive Directors:*

Mr. HU Changyuan (*Chairman*)  
Mr. HU Minglie (*Chief Executive Officer*)  
Mr. ZHU Wenjun

*Non-executive Director:*

Mr. DAI Jianchun

*Independent Non-executive Directors:*

Mr. CHAI Chaoming  
Dr. LOU Dong  
Ms. LU Hong

*Registered office:*

Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal place of business  
in the PRC:*

No. 68, Jin Xi Road  
Hangzhou Bay New Zone  
Ningbo  
Zhejiang Province  
315336, PRC

*Principal place of business  
in Hong Kong:*

Flat 11, 11th Floor  
Hung Tai Industrial Building  
37-39 Hung To Road, Kwun Tong  
Kowloon, Hong Kong

13 February 2020

*To the Shareholders*

Dear Sir/Madam,

**(I) DISCLOSEABLE AND CONNECTED TRANSACTION  
INVOLVING OFF-MARKET SHARE BUY-BACK; AND  
(II) NOTICE OF EGM**

Reference is made to the Announcement in relation to the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

The purpose of this circular is to provide you with, among other things (i) further details of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back); (ii) the letter from the Listing Rules IBC giving its recommendation to the Independent Shareholders on the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share

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## LETTER FROM THE BOARD

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Buy-back); (iii) the letter from the Takeovers Code IBC giving its recommendation to the Independent Shareholders on the Share Buy-back; (iv) the letter from the Independent Financial Adviser containing its advice to the Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders in the same regard; (v) the notice of the EGM and (vi) other information as required under the Listing Rules, the Share Buy-back Code and the Takeovers Code.

### BACKGROUND OF THE SETTLEMENT DEED

Reference is made to the announcements of the Company dated 21 June 2016, 5 August 2016 and 29 March 2019, 15 April 2019 and 16 August 2019 in relation to, among others, the acquisition of the entire issued share capital of Funnytime by the Group and the Repayment Amount.

On 21 June 2016, Xingye (as purchaser and being a wholly-owned subsidiary of the Company), the Vendor (as vendor), and the Guarantors, together with Mr. Tong (as guarantors), entered into the SPA, pursuant to which Xingye conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire issued share capital of Funnytime at the consideration of HK\$186,000,000.20 subject to certain consideration adjustment mechanism. Such consideration shall be satisfied (i) as to HK\$116,000,000 in cash; and (ii) as to HK\$70,000,000.20 by issuance of 77,777,778 Consideration Shares at the issue price of HK\$0.90 each.

Under the SPA, the Funnytime Group shall achieve performance targets of adjusted net profit of RMB18,000,000, RMB22,000,000 and RMB30,000,000 for the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 respectively, and that its total anticipated adjusted net profit shall be RMB70,000,000. As the Funnytime Group had fulfilled its performance targets for the two years ended 31 December 2016 and 2017, the Company duly allotted and issued a total of 44,442,223 Consideration Shares and paid the entire cash portion of HK\$116,000,000 (inclusive of the transaction costs) to the Vendor.

The Guarantors and Mr. Tong were the then shareholders of the Vendor and pursuant to the SPA, each of them has unconditionally and irrevocably guaranteed the due observance and performance by the Vendor under the SPA, and agreed to indemnify the Company and Xingye in respect of all losses and damages as a result of any failure by the Vendor to perform or comply with its obligations under the SPA. In July 2018, Mr. Tong was relieved from acting as one of the guarantors under the SPA after his disposal of all his interest in the Vendor to Mr. Ren. The Guarantors remain as the guarantors under the SPA.

Given the Funnytime Group has failed to meet its performance target for the year ended 31 December 2018, according to the consideration adjustment mechanism under the SPA, the Vendor shall repay Xingye the Repayment Amount of HK\$40,135,567 with respect to the cash portion, and the remaining number of Consideration Shares to be issued to the Vendor has been reduced to 6,424,734 Shares, being the Unissued Shares which are withheld by the Company pending the settlement of the Repayment Amount.

As disclosed in the announcement of the Company dated 16 August 2019, the Vendor was considering to settle the Repayment Amount on a one-off basis by raising capital on its own. At the time, it was stated in the announcement that the Company was also considering to buy back the Consideration Shares issued under the SPA if the Vendor was unable to raise sufficient capital to settle the Repayment Amount within a reasonable timeframe. In addition, it was also mentioned in the announcement that the Unissued Shares might be used to settle part of the Repayment Amount. During the last few months, the

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## LETTER FROM THE BOARD

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parties to the SPA held various rounds of negotiations and the discussions to come to a resolution of the matter. In particular, the parties to the SPA had come to the realisation that the Vendor would have serious difficulties in raising capital on its own to finance the Repayment Amount and therefore the negotiations had eventuated into the Settlement Deed involving the Unissued Share Cancellation, the Share Buy-back and the Residual Repayment Arrangement, which was agreed and regarded by the parties to the SPA as the optimal solution to resolve the long-standing issue associated with the settlement of the Repayment Amount. Given the Guarantors are the existing guarantors to the SPA (save for Mr. Tong), in fulfilment of their obligations as guarantors to the SPA to unconditionally and irrevocably guarantee the due observance and performance of the Vendor under the SPA, they have also been closely involved in the negotiations of the Settlement Deed with the Company, and agreed to continue to act as Guarantors to the Vendor under the Settlement Deed.

### THE SETTLEMENT DEED

#### Subject Matter

On 23 January 2020 (after trading hours), the Company, Xingye, the Vendor, and the Guarantors entered into the Settlement Deed with respect to the settlement of the Repayment Amount owed by the Vendor to Xingye, pursuant to which: (i) the Company shall cancel the issuance of, and be relieved from the obligation to issue, the Unissued Shares at the Cancellation Price of HK\$0.80 per Share (i.e. the Unissued Share Cancellation); (ii) the Company shall buy back the Sale Shares from the Vendor at the Buy-back Price of HK\$0.80 per Share (i.e. the Share Buy-back); and (iii) the Vendor shall repay the Residual Repayment Amount in cash to the Company (i.e. the Residual Repayment Arrangement).

#### Date

23 January 2020 (after trading hours)

#### Parties

- (i) the Vendor;
- (ii) the Company;
- (iii) Xingye; and
- (iv) the Guarantors.

The Vendor is a company incorporated in the BVI with limited liability and is beneficially owned by Mr. Ren and Mr. Yang as to 72% and 28% respectively. The principal business activity of the Vendor is investment holding.

As disclosed in the announcement of the Company dated 18 October 2016, Mr. Ren is the head of the Company's online gaming business. He joined the Group since completion of the SPA in August 2016. Before joining the Group, he had set up various gaming companies, including Hefei Zhangyue Network Technology Co., Ltd. (合肥掌悦網絡科技有限公司) (“**Zhangyue**”). He was also the general manager of the

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## LETTER FROM THE BOARD

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web game division of Shenzhen ZQ, a gaming company which is listed on the Shenzhen Stock Exchange. Mr. Yang is a senior executive of the Company's online gaming business. He joined the Group together with Mr. Ren in August 2016. He also worked in Shenzhen ZQ as an executive of the company's web game division.

As at the Latest Practicable Date, the Vendor is beneficially interested in 44,442,223 Shares, representing approximately 5.19% of the existing issued share capital of the Company. Furthermore, Mr. Ren was a Director within 12 months before the date of the Announcement and a director of one of the subsidiaries of the Company. Accordingly, each of the Vendor and Mr. Ren is a connected person of the Company.

### **Settlement of the Repayment Amount**

On Completion, subject to the satisfaction of the conditions precedent pursuant to the Settlement Deed, the Repayment Amount of HK\$40,135,567 owed by the Vendor in favor of the Company shall be fully set off in the manner as follows:

- (i) the Vendor shall surrender its entitlement to the issuance of, and the Company shall cancel the issuance of, and be relieved from the obligation to issue, the Unissued Shares at the consideration of the Cancellation Price of HK\$0.80 per Unissued Share, totaling HK\$5,139,787.20, which amount shall be set off against the equivalent amount of the Repayment Amount (i.e. the Unissued Share Cancellation);
- (ii) the Vendor shall sell, and the Company shall purchase, the Sale Shares at the consideration of the Buy-back Price of HK\$0.80 per Sale Share, totaling HK\$32,800,000, which amount shall be set off against the equivalent amount of the Repayment Amount (i.e. the Share Buy-back); and
- (iii) the Vendor undertakes to repay to the Company the Residual Repayment Amount of HK\$2,195,779.80 within one (1) month after Completion or before 30 June 2020, whichever is later. Any delay in repayment by the Vendor would be subject to default interest at a daily rate of 0.1% in respect of the accrued amount (i.e. the Residual Repayment Arrangement).

### **The Sale Shares and the Unissued Shares**

The 41,000,000 Sale Shares and 6,424,734 Unissued Shares represent approximately 4.79% and 0.75% respectively of the issued share capital of the Company as at the Latest Practicable Date.

The number of Sale Shares to be bought back is determined by the parties to the Settlement Deed to be the maximum number of Shares to be bought back and cancelled to the extent not to trigger any mandatory general obligation on the part of any of the Shareholder under Rules 26.1(c) and 26.1(d) of the Takeover Code, meaning that none of the Shareholder(s) and/or with his/her/its concert parties would have acquired additional voting rights in the Company that would have the effect of increasing the voting rights in the Company held by such Shareholder(s) and/or his/her/its concert parties by more than 2% from the lowest percentage holding in the 12 month period ending on and inclusive of the date of the Settlement Deed, rounded down to the nearest million number of Shares.

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## LETTER FROM THE BOARD

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### Basis for the Buy-back Price/Cancellation Price

The Cancellation Price of HK\$0.80 per Unissued Share and the Buy-back Price of HK\$0.80 per Sale Share were both determined after arm's length negotiations between the parties to the Settlement Deed with reference to, among other things, (i) the volume-weighted average Share price for the period starting from 8 August 2016 (being the first trading day after completion of the SPA) and up to and including the Last Trading Day (the period of which covers the time period post-completion to the SPA which the Group operating both the copper processing business and the online gaming business) of HK\$0.92 per Share (the "VWAP"); (ii) the issue price of the Consideration Shares of HK\$0.90 per Consideration Share; (iii) the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2019 per Share of approximately HK\$1.47; and (iv) the Comparable Companies' (as defined below) price-to-book ratios (the "P/B ratios"). The consideration for the Unissued Share Cancellation of HK\$5,139,787.20 is the product of the Cancellation Price of HK\$0.80 per Unissued Share and the number of Unissued Shares of 6,424,734. The consideration for the Share Buy-back of HK\$32,800,000 is the product of the Buy-back Price of HK\$0.80 per Sale Share and the number of Sale Shares of 41,000,000.

Regarding the determining factor (iv) above, the Company has exhaustively obtained the P/B ratios<sup>1</sup>, as at the Last Trading Day, of nine comparable listed companies (the "Comparable Companies")<sup>2</sup> listed in Hong Kong and the PRC with approximately 70.0% or more of their revenue derived from copper processing, which ranged from approximately 1.0x to approximately 3.2x with an average of approximately 2.1x. The Company's P/B ratio as implied by the Buy-back Price/Cancellation Price is approximately 0.6x which is significantly below the average P/B ratio of the Comparable Companies. A lower P/B ratio implied by the Buy-back Price/Cancellation Price compared to those of the Comparable Companies means the Buy-back Price/Cancellation Price is determined in such a way that is below the prevailing share price level of the Comparable Companies. It is favourable to the Company because this means the Company is buying back Sale Shares, cancelling the issuance of the Unissued Shares and being relieved from the obligation of such issuance, at a price level below market price level as proxied by the Comparable Companies. Set out below are the Comparable Companies together with the relevant P/B ratios:

1. Given that the Company's earnings fluctuated wildly in the three financial years immediately preceding the entering into of the Settlement Deed, it is considered impracticable to use price-to-earnings ratio ("P/E ratios") or other earnings-based valuation indicators to assess the fairness and reasonableness of the Buy-back Price/Cancellation Price. Other than P/E ratio, P/B ratio is another most commonly used valuation indicators the Board turned to. Taking into account the capital-intensive nature of the copper processing business of the Company and the fact that the Group's latest reported assets as at 30 June 2019 were comprised predominantly of: (i) property, plant and equipment; (ii) inventories; (iii) trade and other receivables; and (iv) cash and bank deposits, the Board considered the use of P/B ratios to be an appropriate approach to assess the fairness and reasonableness of the Buy-back Price/Cancellation Price.
2. The Board considered that, regardless where the Comparable Companies' are listed, though not entirely identical, the Comparable Companies are similar in terms of, among others, the capital intensive nature of their businesses, the supply and demand of copper products and other metal-based materials and the correlation of the business's performance with the general global pricing trends of copper and other non-ferrous metals, and therefore the fundamentals of such companies engaged in copper processing, are in general affected by similar macro-economic factors. Based on the foregoing, the Board considered the Comparable Companies to be meaningful and representative sample for the Company and therefore to be useful for the assessment of the fairness and reasonableness of the Buy-back Price/Cancellation Price. The fact that there is only one Comparable Company listed in Hong Kong reinforced the need for the Board to expand the search into Greater China for the search of more comparables and it found another eight Comparable Companies as a result. The large sample (i.e. nine) of the Comparable Companies provided further comfort to the Board during its assessment of the fairness and reasonableness of the Buy-back Price/Cancellation Price. In light of the sufficiently large sample of the Comparable Companies, the Board had not expanded the search into other stock exchanges outside of Greater China.

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## LETTER FROM THE BOARD

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No.	Company name (stock code)	Company description	Market capitalisation (HK\$' million) <i>(Note 1)</i>	Net asset value attributable to shareholders (HK\$' million) <i>(Notes 2 and 3)</i>	P/B ratio (x)
1	Ningbo Boway Alloy Material Company Limited (601137.CH)	The company develops, produces and sells nonferrous alloy rods and wire materials. The company's main products are copper alloy rods and wires.	9,047	4,317	2.10
2	Anhui Truchum Advanced Materials & Technology Company Limited (002171.CH)	The company produces copper and other metal-based materials. The company manufactures copper alloy plates, strips, sheets, rods, and wires, etc.	10,756	5,092	2.11
3	Anhui Zhongyuan New Materials Company Limited (603527.CH)	The company operates as a copper products manufacturing company. The company produces and sells high precision purple copper belts, copper rings, and other products. The company markets its products throughout the PRC.	2,208	989	2.23
4	Zhejiang Hailiang Company Limited (002203.CH)	The company manufactures and distributes steel pipes and copper rods.	22,435	9,143	2.45
5	Kingswood Enterprise Company Limited (600255.CH)	The company operates copper processing and film production businesses. The company produces, develops, and markets copper strips, copper alloy wires, copper rods, electric wires and cables, and other products. Kingswood Enterprise also engages in film development, production, investments, and related businesses.	3,290	2,513	1.31

## LETTER FROM THE BOARD

No.	Company name (stock code)	Company description	Market capitalisation (HK\$' million) <i>(Note 1)</i>	Net asset value attributable to shareholders (HK\$' million) <i>(Notes 2 and 3)</i>	P/B ratio (x)
6	Tongling Nonferrous Metals Group Company Limited (000630.CH)	The company refines and markets copper products. The company manufactures copper flat wires, low oxygen copper rods, anode phosphor copper, enameled round copper wires, copper alloy, copper plates, electronic copper foils, and other products.	27,344	20,414	1.34
7	Yunnan Copper Company Limited (000878.CH)	The company manufactures and processes electrolytic copper. The company's products include tough cathode, copper wire base, gold, silver, sulphuric acid, and other by-products.	25,387	8,759	2.90
8	Infund Holding Company Limited (002141.CH)	The company manufactures copper wires. The company mainly develops, produces, and sells fine enameled copper round wires, enameled copper flat wires, and more.	4,891	1,527	3.20
9	Jiangxi Copper Company Limited (358.HK)	The company mines and distributes metal products. The company produces nonferrous metals, ferrous metals, rare metals, and other products.	54,222	56,666	0.96
	<b>Maximum</b>				<b>3.20</b>
	<b>Minimum</b>				<b>0.96</b>
	<b>Average</b>				<b>2.07</b>
	<b>The Company (505.HK)</b>		<b>684</b> <i>(Note 4)</i>	<b>1,198</b>	<b>0.57</b>

Sources: *Bloomberg and the Stock Exchange*

Notes:

1. *The market capitalisations as at the Last Trading Day.*
2. *The net asset value attributable to shareholders were extracted from the respective latest published interim reports or annual reports of the Comparable Companies.*
3. *The above net asset value attributable to shareholders figures were translated from RMB to HK\$, if applicable, by applying an exchange rate of RMB1=HK\$1.139 (as per Bloomberg).*

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## LETTER FROM THE BOARD

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4. *The implied market capitalisation of the Company is calculated by multiplying the Buy-back Price/Cancellation Price and the number of issued Shares of 855,558,173 Shares as at the date of the Announcement.*

The Buy-back Price and the Cancellation Price of approximately HK\$0.80 respectively per Sale Share and Unissued Share represents:

- (i) a premium of approximately 25.0% over the closing price of HK\$0.64 per Share as quoted on the Stock Exchange on the Last Trading Day, being the date of the Settlement Deed;
- (ii) a premium of approximately 29.0% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day of approximately HK\$0.62 per Share;
- (iii) a premium of approximately 33.3% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day of approximately HK\$0.60 per Share;
- (iv) a premium of approximately 31.1% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day of approximately HK\$0.61 per Share;
- (v) a premium of approximately 45.5% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 90 trading days up to and including the Last Trading Day of approximately HK\$0.55 per Share;
- (vi) a premium of approximately 37.9% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 180 trading days up to and including the Last Trading Day of approximately HK\$0.58 per Share;
- (vii) a premium of approximately 40.4% over the closing price of HK\$0.57 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (viii) a discount of approximately 11.1% to the issue price of the Consideration Shares of HK\$0.9 per Consideration Share;
- (ix) a discount of approximately 45.6% to the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$1.47 per Share (or approximately RMB1.29 per Share based on an exchange rate of RMB0.8797: HK\$1) (based on the unaudited consolidated net assets attributable to the Shareholders as at 30 June 2019 of approximately RMB1,106.6 million (equivalent to approximately HK\$1,257.9 million based on an exchange rate of RMB0.8797: HK\$1) and 855,558,173 Shares in issue as at Latest Practicable Date); and
- (x) a discount of approximately 42.9% to the audited consolidated net asset value attributable to the Shareholders of approximately HK\$1.40 per Share (or approximately RMB1.23 per Share based on an exchange rate of RMB0.8762: HK\$1) (based on the audited consolidated net



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## LETTER FROM THE BOARD

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assets attributable to the Shareholders as at 31 December 2018 of approximately RMB1,051.9 million (equivalent to approximately HK\$1,200.5 million based on an exchange rate of RMB0.8762: HK\$1) and 855,558,173 Shares in issue as at 31 December 2018.

### Conditions precedent

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

- (i) the Executive having approved the Share Buy-back pursuant to Rule 2 of the Share Buy-back Code (and such approval not having been withdrawn) and the condition(s) of such approval, if any, having been satisfied;
- (ii) the passing of the necessary resolutions (if required) at the EGM by poll, including by at least three-fourths of the votes cast by the Independent Shareholders present at the EGM in respect of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back);
- (iii) all consents or approvals of any relevant government authorities or other relevant regulatory bodies which are required by the Vendor for entering into and the implementation of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) having been obtained;
- (iv) all consents or approvals of any relevant government authorities or other relevant regulatory bodies which are required by the Company for entering into and the implementation of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) having been obtained;
- (v) the Company having sufficient lawfully available funds to effect the Share Buy-back;
- (vi) each of the Warranties remaining true and accurate in all respects up to Completion; and
- (vii) the due performance and observance by the Vendor of all its undertakings and obligations under the Settlement Deed.

Save and except for conditions (vi) and (vii) which can be waived unilaterally by the Company, none of the conditions precedent set out above are capable of being waived by the parties to the Settlement Deed. Save and except for conditions (iv) and (v), the Vendor shall use its best endeavors to fulfil all the conditions precedent set out above. If the conditions set out above are not fulfilled on or before the Long Stop Date, the Settlement Deed shall lapse and be of no further effect automatically and thereafter neither party to the Settlement Deed shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof and for the avoidance of doubt, the obligations of the Vendor under the SPA, including its obligation to repay the Repayment Amount to the Company or Xingye, shall remain effective.

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## LETTER FROM THE BOARD

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In relation to condition (iv), as at the Latest Practicable Date, the Company confirms that it has sufficient lawfully available funds to effect the Share Buy-back and expects to continue to be so satisfied until Completion.

With reference to conditions (iii) and (iv), as at the Latest Practicable Date and to the best knowledge of the Company, save for the requirements under conditions (i) and (ii), the Company is not aware of any necessary consents or approvals required to be obtained from any relevant government authorities or other relevant regulatory bodies by the Company or the Vendor for entering into and the implementation of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back). The Company would make necessary disclosure in the circular in the event there are material updates in relation to such requirement.

As at the Latest Practicable Date, none of the above conditions precedent has been fulfilled.

### **Completion**

Completion is expected to take place on the third Business Day after satisfaction of the above conditions precedent which, in the absence of any unforeseeable circumstances, is expected to be within one month after the date of the EGM.

Immediately upon Completion, the Company shall cancel the Sale Shares and the issuance of the Unissued Shares and be relieved from the obligation of such issuance, and any rights attaching thereto shall cease with effect from Completion. The Unissued Share Cancellation, the Share Buy-back and the Residual Repayment Arrangement shall take place simultaneously.

### **EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY**

The following table illustrates the Company's shareholding structure (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Share Buy-back and the Unissued Share Cancellation, assuming there will be no other change in the issued share capital and the shareholding structure of the Company between the Latest Practicable Date and the date on which the Share Buy-back and the Unissued Share Cancellation are completed.

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## LETTER FROM THE BOARD

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	As at the Latest Practicable Date		Immediately after completion of the Share Buy-back and the Unissued Share Cancellation	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Hu Changyuan <sup>(Note 1)</sup>	278,713,000	32.58%	278,713,000	34.22%
Hu Minglie <sup>(Note 2)</sup>	2,603,000	0.30%	2,603,000	0.32%
Hu Mingda <sup>(Note 3)</sup>	3,269,000	0.38%	3,269,000	0.40%
Charity Foundation <sup>(Note 4)</sup>	9,000,000	1.05%	9,000,000	1.10%
Trustee of the Share Award Scheme <sup>(Note 5)</sup>	3,497,000	0.41%	3,497,000	0.43%
<b>Subtotal – Hu Changyuan and his concert parties</b>	<b>297,082,000</b>	<b>34.72%</b>	<b>297,082,000</b>	<b>36.47%</b>
Vendor <sup>(Note 6)</sup>	44,442,223	5.19%	3,442,223	0.42%
Mr. Ren <sup>(Note 7)</sup>	300,000	0.04%	300,000	0.04%
Mr. Yang <sup>(Note 8)</sup>	105,000	0.01%	105,000	0.01%
<b>Subtotal – the Vendor and its concert parties</b>	<b>44,847,223</b>	<b>5.24%</b>	<b>3,847,223</b>	<b>0.47%</b>
Bostone <sup>(Note 9)</sup>	128,379,000	15.01%	128,379,000	15.76%
Mr. Zhu <sup>(Note 10)</sup>	300,000	0.04%	300,000	0.04%
Other directors of the Group <sup>(Note 11)</sup>	15,434,000	1.80%	15,434,000	1.90%

## LETTER FROM THE BOARD

	As at the Latest Practicable Date		Immediately after completion of the Share Buy-back and the Unissued Share Cancellation	
	Number of Shares	Approximate %	Number of Shares	Approximate %
<b>Subtotal – Other connected persons of the Company</b>	<b>144,113,000</b>	<b>16.85%</b>	<b>144,113,000</b>	<b>17.70%</b>
Other public Shareholders	369,515,950	43.19%	369,515,950	45.36%
<b>Total</b>	<b>855,558,173</b>	<b>100.00%</b>	<b>814,558,173</b>	<b>100.00%</b>

Notes:

1. *These 278,713,000 Shares' nature of interests are as below:*
  - (i) *as to 265,200,000 Shares are held by Luckie Strike Limited and Come Fortune International Limited which were wholly owned by Dynamic Empire Holdings Limited. The entire issued share capital of Dynamic Empire Holdings Limited is beneficially owned by the Hu Family Trust which was founded by Mr. Hu Changyuan, an executive Director and the chairman of the Company. Mr. Hu Changyuan is deemed to be interested in these Shares in these Shares by virtue of the SFO;*
  - (ii) *as to 13,213,000 Shares are held by Regency Success Limited, which is 100% controlled by Mr. Hu Changyuan; and*
  - (iii) *as to 300,000 Shares are directly held by Mr. Hu Changyuan.*
2. *These 2,603,000 Shares are directly held by Mr. Hu Minglie, an executive Director and the Chief Executive Officer of the Company. Mr. Hu Minglie is the son of Mr. Hu Changyuan.*
3. *These 3,269,000 Shares are directly held by Mr. Hu Mingda. Mr. Hu Mingda is a son of Mr. Hu Changyuan.*
4. *These 9,000,000 Shares are directly held by the Charity Foundation which was founded by Mr. Hu Changyuan. There is no restriction under the constitutional documents of the Charity Foundation on the exercise of voting rights by the Charity Foundation in respect of the Shares held by it.*
5. *These 3,497,000 Shares are the award Shares which are held on trust for the benefits of the grantees under the Share Award Scheme and Mr. Hu Changyuan and Mr. Hu Minglie could be two of the three members of the administration committee of the Share Award Scheme. Under the terms of the trust deed of the Share Award Scheme, the trustee of the Share Award Scheme is prohibited from exercising the voting rights in respect of the unvested award Shares held by it.*
6. *These 44,442,223 Shares are held by the Vendor, which is in turn beneficially owned as to 72% by Mr. Ren and as to 28% by Mr. Yang. Mr. Ren and Mr. Yang are the Guarantors under the Settlement Deed and were also two of the guarantors to the SPA. Since Mr. Ren is a director of one of the subsidiaries of the Company, both Mr. Ren and the Vendor are regarded as core connected persons of the Company under the Listing Rules.*
7. *These 300,000 Shares are directly held by Mr. Ren, which were vested to Mr. Ren pursuant to the Share Award Scheme on 31 December 2017.*

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## LETTER FROM THE BOARD

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8. *These 105,000 Shares are directly held by Mr. Yang, a shareholder of the Vendor and a supervisor of one of the subsidiaries of the Company. The 105,000 Shares were vested to Mr. Yang pursuant to the Share Award Scheme, among which 400,000 Shares were vested on 15 June 2017 and 300,000 Shares were vested on 15 June 2018. Mr. Yang disposed of an aggregate of 595,000 Shares in the period from June to August 2018.*
9. *These 128,379,000 Shares are held by Bostone, which is in turn beneficially owned as to approximately 65.67% and 34.33% by Ms. Ma Jiafeng and Mr. Xie Shicai respectively. Both Ms. Ma Jiafeng and Mr. Xie Shicai are independent from and not connected with Mr. Hu Changyuan, the Company, its connected persons and their respective associates.*
10. *These 300,000 Shares are directly held by Mr. Zhu, the chief financial officer of the Company and an executive Director. Mr. Zhu is a core connected person of the Company.*
11. *These 15,434,000 Shares are held by the various directors of the Company and its subsidiaries other than Mr. Hu Changyuan, Mr. Hu Minglie, Mr. Ren and Mr. Zhu whose interests in the Company are separately shown in the table above. These directors of the Group are core connected persons of the Company.*

As at the Latest Practicable Date, there are 855,558,173 issued Shares. The Company does not have any outstanding options, derivatives, warrants or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) which are convertibles or exchangeable into Shares or other types of equity interests of the Company as at the Latest Practicable Date.

Upon Completion, pursuant to the Share Buy-back and the Unissued Share Cancellation, the Sales Shares and the issuance of the Unissued Shares will be cancelled and the Company will be relieved from the obligation of such issuance in accordance with the Companies Law and the number of Shares in issue following the Share Buy-back and the Unissued Share Cancellation will be reduced from 855,558,173 (being the number of issued Shares as at the Latest Practicable Date) to 814,558,173 and the shareholding interest of the Shareholders will be increased proportionately. The percentage interest of all other Shareholders in the issued Shares will be proportionally increased following the cancellation of the Sale Shares and the issuance of the Unissued Shares, the relief of the Company from the obligation of such issuance and the resulting reduction in the number of issued Shares. The Shares held by Vendor will be reduced to 3,442,223 Shares, representing 0.42% in the total issued share capital of the Company upon Completion. No less than 25% of the issued Shares will remain in public following Completion.

### **PUBLIC FLOAT**

The Company intends to maintain its listing on the Stock Exchange and to continue to meet the public float requirements under Rule 8.08 of the Listing Rules. It is expected that the Company will meet the said public float requirement after completion of the Share Buy-back.

### **FINANCIAL EFFECTS OF THE SETTLEMENT**

Set out below are the financial effects, the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) have on the financial performance and financial position of the Group.

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## LETTER FROM THE BOARD

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### **Net assets per Share**

Assuming Completion had taken place on 30 June 2019, the unaudited consolidated net asset value attributable to the Shareholders would decrease by approximately RMB27.4 million, on a per Share basis, would increase the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2019 per Share by approximately 2.33% from approximately RMB1.29 per Share to approximately RMB1.32 per Share.

### **Basic earnings per Share**

Assuming that the Completion had taken place on 1 January 2018 and the Sale Shares have been bought back in full and cancelled, the Company's basic earnings per Share for the year ended 31 December 2018 would have increased by approximately 33.3% from approximately RMB0.03 per Share to approximately RMB0.04 per Share.

### **Total liabilities**

As the Settlement is expected to eliminate the contingent payable associated with the Unissued Shares currently accounted for as liabilities on the financial statements of the Company (although marginally offset by the creation of transactions costs payable), assuming Completion had taken place on 30 June 2019, Completion would reduce the liabilities of the Group as at 30 June 2019 from approximately RMB1,329.7 million to approximately RMB1,327.3 million, being a reduction of approximately RMB2.4 million.

### **Working capital**

Since the total consideration for the Unissued Share Cancellation and the Share Buy-back would be satisfied by setting off against most of the Repayment Amount, there would be no Shares to be issued to the Vendor and no cash outflow or payment to be made by the Company to the Vendor for the purpose of Completion, the Company is therefore expected to be able to meet its working capital requirements and pay its debts as they fall due in the ordinary course of its business.

Based on the above, the Company considers that the Share Buy-back will have no material adverse effect on the Company's net assets per Share, basic earnings per Share, total liabilities and working capital.

### **INFORMATION ON THE GROUP**

The Company is principally engaged in investment holding activities, with its principal subsidiaries engaged in manufacturing and sales of high precision copper plates and strips, trading of copper raw materials, provision of copper products processing services, and the management of a portfolio of investment and development, operation and distribution of online games predominantly in the PRC.

For the two years ended 31 December 2017 and 31 December 2018, the audited consolidated profits of the Company before taxation were approximately RMB177.9 million and RMB51.4 million respectively. For the same periods, the profits attributable to the Shareholders after taxation were approximately RMB135.5 million and RMB27.5 million respectively.

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## LETTER FROM THE BOARD

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As at 30 June 2019, the unaudited net asset value attributable to the Shareholders was approximately RMB1,106.6 million.

### REASONS FOR AND BENEFITS OF THE SETTLEMENT

Given that the performance target for the year ended 31 December 2018 could not be achieved by the Funnytime Group, the Company had been considering different possibilities to deal with the settlement of the Repayment Amount including reducing the Consideration Shares to be allotted to the Vendor by withholding the Unissued Shares, as disclosed in the announcements of the Company dated 15 April 2019 and 16 August 2019. However, as the Vendor had serious difficulties in raising capital on its own to repay the Repayment Amount by cash, the Company considers that the Settlement involving the Share Buy-back and the Unissued Share Cancellation would be an optimal solution for the Vendor to repay the Repayment Amount as it does not extensively call on the funding resources of the Vendor. The terms of the Settlement Deed are also generally in line with the original terms under the SPA given that (i) the sum of the Repayment Amount under the Settlement Deed is equal to the sum required to be repaid by the Vendor under the SPA should the Funnytime Group fail to meet its performance target for the year ended 31 December 2018; (ii) the number of Unissued Shares mirrors the amount of Shares the Company is entitled to withhold under the SPA; (iii) the SPA allows the Company to take action to seek repayment of the Repayment Amount and according to the dispute resolution clause of the SPA, to resolve any disputes between the parties, the parties have to first resolve through consultations for a certain period of time. During such period, the parties have explored various settlement proposals and finally agreed on the settlement arrangement under the Settlement Deed; and (iv) the existing guarantors of the Vendor under the SPA (save for Mr. Tong) continue to act as the Guarantors of the Vendor under the Settlement Deed.

In addition, the Share Buy-back is expected to bring about positive effects on the net asset value per Share attributable to the Shareholders which is in the interests of the Company and the Shareholders as a whole. The Company also believes that it is more favourable in the interest of the Company and its Shareholders as a whole to resolve the Repayment Amount by way of the Settlement instead of protracted legal proceedings which, although could be taken shortly after 15 April 2019, being the cut-off date on which the Vendor should and the guarantors to the SPA should procure and guarantee the Vendor, to repay the Repayment Amount, could potentially last for an uncertain period of time with unforeseeable cost implications, enforcement outcome and procedural complications as certain parties are located outside Hong Kong, thus potentially causing difficulties in, for instance, the service and discovery of documents and overall conduct of such proceedings. Further, given Mr. Ren and Mr. Yang are also key employees of the Group, resolving the disputes by way of a mutually-agreed settlement is a more amicable solution without adversely affecting the relationship with employees and business operations of the Group.

In considering to proceed with the Share Buy-back, the Company has taken into consideration that: (i) the Share Buy-back is part and parcel of the Settlement, which is considered an optimal solution for the Vendor to repay the Repayment Amount which does not extensively call on the funding resources of the Vendor and create excessive funding burden; (ii) the Share Buy-back would enhance consolidated net asset value attributable to the Shareholders per Share and bring about other positive financial effects as discussed in the section headed “Financial effects of the Settlement” above; (iii) it is a good opportunity for the Company to buy-back and cancel a significant block of Shares in a single transaction without significantly affecting the normal trading of the Shares in terms of price and volume as opposed to conducting a large number of daily on-market buy-back transactions under a general buy-back mandate over a period of time;

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## LETTER FROM THE BOARD

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and (iv) albeit the fact that the Buy-back Price/Cancellation Price of HK\$0.80 per Share seemingly represents a premium over the current inactively-traded Share price of approximately HK\$0.60, it is highlighted in the paragraph headed “Basis for the Buy-back Price/Cancellation Price” under section headed “The Settlement Deed” above that the Buy-back Price/Cancellation Price of HK\$0.80 per Share reflects a lower comparative value when compared to a wide array of valuation indicators (i.e. the VWAP of HK\$0.92 per Share, the issue price of the Consideration Shares of HK\$0.90 per Consideration Share, the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2019 per Share of approximately HK\$1.47 and the fact that the Company’s P/B ratio as implied by the Buy-back Price/Cancellation Price is approximately 0.6x which is significantly below the average P/B ratio of the Comparable Companies of approximately 2.1x), the Board (including members of the Listing Rules IBC and the Takeovers Code IBC whose views are set out in their respective letters after having considered the advice and recommendation of the Independent Financial Adviser) believes that the terms and conditions of the Settlement Deed are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. Having taken into account the reasons for and benefits of the Settlement set out above and in the section headed “Principal Factors and Reasons Considered” of the letter from the IFA, the Listing Rules IBC, the Takeovers Code IBC and the IFA are of the view that, albeit not entered into in the ordinary and usual course of business of the Group, the terms of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

Despite the failure by the Funnytime Group in meeting the performance targets under the SPA for the year ended 31 December 2018, the online gaming business operated through the Funnytime Group would still be a part of the Group’s principal business. According to the terms of the SPA, the Guarantors, namely Mr. Ren and Mr. Yang, would remain their employment with the Group until June 2021. As disclosed in the announcement of the Company dated 16 August 2019, the Directors were of the view that the failure by the Funnytime Group in achieving the abovementioned performance targets was mainly due to the overall business environment of the game industry in the PRC and the tightened domestic laws and regulations on the online gaming industry, which were unforeseeable to the Vendors at the time when the SPA was entered.

It is the intention of the Company to maintain and uphold the existing operational model of Funnytime, including but not limited to the continuance of the current management team of the Funnytime Group. Going forward, the Company will continue to monitor and review the operating and financial performance of Funnytime from time to time to determine its best course of strategies, positioning and scale of operation which will also taking into account the overall strategic development of the Group.

### REGULATORY REQUIREMENTS

#### Share Buy-back Code

The Share Buy-back constitutes an off-market share buy-back by the Company. The Company has made an application to the Executive for approval of the Share Buy-back pursuant to Rule 2 of the Share Buy-back Code. The Executive’s approval, if granted, will be conditional upon, among other things, the approval of the Share Buy-back by at least three-fourths of the votes cast on a poll by the Independent Shareholders present in person or by proxy at the EGM.



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## LETTER FROM THE BOARD

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Completion of the Share Buy-back is subject to the condition precedent that the Share Buy-back having been approved by the Executive. Therefore, the Company will not proceed with the Share Buy-back unless the Executive approves the Share Buy-back pursuant to Rule 2 of the Share Buy-back Code. However, there is no assurance that such approval will be granted or that all other conditions precedent to the Settlement Deed will be fulfilled.

### Takeovers Code

As at the Latest Practicable Date, other than (a) the approximately 5.19% interest in the existing total issued share capital of the Company owed by the Vendor; (b) the Unissued Shares, which were originally proposed to be allotted and issued to the Vendor pursuant to the SPA but would be subject to the Unissued Share Cancellation contemplated under the Settlement Deed as disclosed in this circular; (c) the 300,000 Shares owned by Mr. Ren, who holds 72% of the shareholding of the Vendor; and (d) the 105,000 Shares held by Mr. Yang, who is one of the Guarantors and also one of the guarantors to the SPA, none of the Vendor, or its parties acting in concert with it:

- (i) holds, owns, controls or directs any Shares, convertible securities, warrants, options or derivatives in respect of the Shares;
- (ii) has secured an irrevocable commitment to vote in favour of or against the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back);
- (iii) holds outstanding warrants, options or securities convertible into Shares or derivatives in respect of the Shares;
- (iv) save for the SPA, has any arrangement (whether by way of option, indemnity or otherwise) or contracts under Note 8 to Rule 22 of the Takeovers Code in relation to the Shares which might be material to the Settlement Deed and/or the Share Buy-back;
- (v) save for the Settlement Deed, has any agreement or arrangement to which the Vendor and parties acting in concert with it is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Settlement Deed and/or the Share Buy-back; or
- (vi) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

### Listing Rules

As more than one of the applicable percentage ratios in respect of the Settlement exceed 5% but all of the applicable percentage ratios are less than 25%, the Settlement constitutes a discloseable transaction of the Company and is therefore subject to the announcement requirement under Chapter 14 of the Listing Rules. In addition, Mr. Ren was a Director within 12 months before the date of the Announcement, who is also beneficially interested in 72% of the existing issued share capital of the Vendor and a director of one of the subsidiaries of the Company. Accordingly, each of the Vendor and Mr. Ren is a connected person of the

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## LETTER FROM THE BOARD

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Company. The Settlement constitutes a connected transaction for the Company and is therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **Closure of Register of Members**

The register of members of the Company will be closed from Wednesday, 4 March 2020 to Monday, 9 March 2020 (both dates inclusive) during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the EGM, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 3 March 2020 for registration.

### **Voting**

The voting in respect of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) at the EGM will be conducted by way of poll. As at the Latest Practicable Date, the Vendor, Mr. Ren, Mr. Yang and Mr. Zhu directly holds respectively 44,442,223, 300,000, 105,000 and 300,000 Shares, representing approximately 5.19%, 0.04%, 0.01% and 0.04% of the existing issued share capital of the Company respectively. The Vendor, Mr. Ren and Mr. Yang, together with their respective associates and parties acting in concert and those who are interested in or involved in the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back), which includes Mr. Zhu who is the chief financial officer of the Company, an executive Director, and participated in the negotiation of the Settlement Deed with the Vendor, has abstained from voting on the Board resolution approving the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back), will be required under the Share Buy-back Code and the Listing Rules to abstain from voting on the resolution approving the same at the EGM.

### **GENERAL**

The Independent Financial Adviser has been appointed to advise the Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders on the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

The Listing Rules IBC comprising Mr. Chai Chaoming, Dr. Lou Dong and Ms. Lu Hong, being all the independent non-executive Directors, has been established under the Listing Rules to give recommendations to the Independent Shareholders as to how to vote on the resolution to be proposed at the EGM in respect of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

The Takeovers Code IBC comprising Mr. Dai Jianchun, Mr. Chai Chaoming, Dr. Lou Dong and Ms. Lu Hong, being all the non-executive Director and independent non-executive Directors, has been established under the Takeovers Code to give recommendations to the Independent Shareholders as to how to vote on the resolution to be proposed at the EGM in respect of the Share Buy-back and the underlying transactions.

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## LETTER FROM THE BOARD

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### EGM

A notice convening the EGM to be held at Room 1106, Tower A, Lvdi Hai-waitan Building, No. 818, Longhua East Road, Huangpu District, Shanghai, the PRC on Monday, 9 March 2020 at 2:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular. The purpose of the EGM is to consider and, if thought fit, approve the resolution approving the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

A form of proxy for use at the EGM is enclosed with this circular. Such form is also available at the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

All votes at the EGM will be taken by poll pursuant to Rule 2 of the Share Buy-back Code.

### RECOMMENDATIONS

The Directors (including members of the Listing Rules IBC and the Takeovers Code IBC whose views are set out in their respective letters after having considered the advice and recommendation of the Independent Financial Adviser) are of the opinion that, albeit not entered into in the ordinary and usual course of business of the Group, the terms of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

Having taken into account the advice of the Independent Financial Adviser, the Listing Rules IBC recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back). Your attention is drawn to the letter from the Listing Rules IBC as set out on pages 27 to 28 of this circular and the letter from the Independent Financial Adviser as set out on pages 31 to 56 of this circular which contain their recommendations to the Independent Shareholders regarding the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back). The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the relevant resolution to be proposed at the EGM.

Having taken into account the advice of the Independent Financial Adviser, the Takeovers Code IBC recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back). Your attention is drawn to the letter from the Takeovers Code IBC as set out on pages 29 to 30 of this circular and the letter from the Independent Financial Adviser as set out on pages 31 to 56 of this circular which contain their recommendations to the Independent Shareholders regarding the

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## LETTER FROM THE BOARD

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Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back). The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the relevant resolution to be proposed at the EGM.

### FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.,

### MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of its interpretation.

Yours faithfully,  
For and on behalf of  
**Huan Yue Interactive Holdings Limited**  
**HU Minglie**  
*Chief Executive Officer and Executive Director*



**Huan Yue Interactive Holdings Limited**

**歡悅互娛控股有限公司**

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

**(Stock Code: 505)**

13 February 2020

*To the Independent Shareholders*

Dear Sir/Madam,

**(I) DISCLOSEABLE AND CONNECTED TRANSACTION  
INVOLVING OFF-MARKET SHARE BUY-BACK; AND  
(II) NOTICE OF EGM**

We have been appointed to form the Listing Rules IBC to consider and advise the Independent Shareholders as to our opinion on the terms of the Settlement Deed and the transactions contemplated under (including but not limited to the Share Buy-back) in accordance with the Listing Rules, the details of which are set out in the circular issued by the Company to the Shareholders dated 13 February 2020 (the “Circular”), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

We wish to draw the attention of the Independent Shareholders to the letter from the Board and the letter of advice from the Independent Financial Adviser.

Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise us on this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 31 to 56 of the Circular.

Having taken into account the principal factors and reasons considered by the Independent Financial Adviser, its conclusion and advice, we concur with the view of the Independent Financial Adviser and consider that, albeit not entered into in the ordinary and usual course of business of the Group, the terms of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE LISTING RULES IBC

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Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

Yours faithfully,

Listing Rules IBC

**Huan Yue Interactive Holdings Limited**

**CHAI Chaoming      LOU Dong      LU Hong**

*Independent non-executive Directors*



**Huan Yue Interactive Holdings Limited**

**歡悅互娛控股有限公司**

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

**(Stock Code: 505)**

13 February 2020

*To the Independent Shareholders*

Dear Sir/Madam,

**(I) DISCLOSEABLE AND CONNECTED TRANSACTION  
INVOLVING OFF-MARKET SHARE BUY-BACK; AND  
(II) NOTICE OF EGM**

We have been appointed to form the Takeovers Code IBC to consider and advise the Independent Shareholders as to our opinion on the terms of the Settlement Deed and the transactions contemplated under (including but not limited to the Share Buy-back) in accordance with Rule 2 of the Share Buy-back Code, the details of which are set out in the circular issued by the Company to the Shareholders dated 13 February 2020 (the “**Circular**”), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

We wish to draw the attention of the Independent Shareholders to the letter from the Board and the letter of advice from the Independent Financial Adviser.

Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise us on this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 31 to 56 of the Circular.

Having taken into account the principal factors and reasons considered by the Independent Financial Adviser, its conclusion and advice, we concur with the view of the Independent Financial Adviser and consider that, albeit not entered into in the ordinary and usual course of business of the Group, the terms of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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**LETTER FROM THE TAKEOVERS CODE IBC**

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Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

Yours faithfully,  
Takeovers Code IBC

**Huan Yue Interactive Holdings Limited**

**DAI Jianchun**

**CHAI Chaoming**

**LOU Dong**

**LU Hong**

*Non-executive Directors*



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice from Red Sun Capital Limited prepared for the purpose of inclusion in this circular, setting out its advice to Takeovers Code IBC in respect of the Share Buy-back, the Listing Rules IBC and the Independent Shareholders in respect of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back), which has been prepared for the purpose of inclusion in this circular.*



紅日資本有限公司  
RED SUN CAPITAL LIMITED

13 February 2020

*To: the Takeovers Code IBC, the Listing Rules IBC and the Independent Shareholders*

Dear Sir/Madam,

### **DISCLOSABLE AND CONNECTED TRANSACTION INVOLVING OFF-MARKET SHARE BUY-BACK**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Takeovers Code IBC in respect of the Share Buy-back, the Listing Rules IBC and the Independent Shareholders in relation to the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 13 February 2020 (the “**Circular**”), of which this letter forms part. Unless otherwise stated, terms used in this letter shall have the same meanings as defined in the Circular.

On 21 June 2016, Xingye (as purchaser and being a wholly-owned subsidiary of the Company), the Vendor (as vendor), and the Guarantors, together with Mr. Tong (as guarantors), entered into the SPA, pursuant to which Xingye conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire issued share capital of Funnytime at the consideration of HK\$186,000,000.20 subject to certain consideration adjustment mechanism. Such consideration shall be satisfied (i) as to HK\$116,000,000 in cash; and (ii) as to HK\$70,000,000.20 by issuance of 77,777,778 Consideration Shares at the issue price of HK\$0.90 each.

Under the SPA, the Funnytime Group shall achieve performance targets of adjusted net profit of RMB18,000,000, RMB22,000,000 and RMB30,000,000 for the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 respectively, and that its total anticipated adjusted net profit shall be RMB70,000,000. As the Funnytime Group had fulfilled its performance targets for the two years ended 31 December 2016 and 2017, the Company duly allotted and issued a total of 44,442,223 Consideration Shares and paid the entire cash portion of HK\$116,000,000 (inclusive of the transaction costs) to the Vendor.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Guarantors and Mr. Tong were the then shareholders of the Vendor and pursuant to the SPA, each of them has unconditionally and irrevocably guaranteed the due observance and performance by the Vendor under the SPA, and agreed to indemnify the Company and Xingye in respect of all losses and damages as a result of any failure by the Vendor to perform or comply with its obligations under the SPA. In July 2018, Mr. Tong was relieved from acting as one of the guarantors under the SPA after his disposal of all his interest in the Vendor to Mr. Ren. The Guarantors remain as the guarantors under the SPA.

Given the Funnytime Group has failed to meet its performance target for the year ended 31 December 2018, according to the consideration adjustment mechanism under the SPA, the Vendor shall repay Xingye the Repayment Amount of HK\$40,135,567 with respect to the cash portion, and the remaining number of Consideration Shares to be issued to the Vendor has been reduced to 6,424,734 Shares, being the Unissued Shares which are withheld by the Company pending the settlement of the Repayment Amount.

As disclosed in the announcement of the Company dated 16 August 2019, the Vendor was considering to settle the Repayment Amount on a one-off basis by raising capital on its own. At the time, it was stated in the announcement that the Company was also considering to buy back the Consideration Shares issued under the SPA if the Vendor was unable to raise sufficient capital to settle the Repayment Amount within a reasonable timeframe. In addition, it was also mentioned in the announcement that the Unissued Shares might be used to settle part of the Repayment Amount. During the last few months, the parties to the SPA held various rounds of negotiations and the discussions to come to a resolution of the matter. In particular, the parties to the SPA had come to the realisation that the Vendor would have serious difficulties in raising capital on its own to finance the Repayment Amount and therefore the negotiations had eventuated into the Settlement Deed involving the Unissued Share Cancellation, the Share Buy-back and the Residual Repayment Arrangement, which was agreed and regarded by the parties to the SPA as the optimal solution to resolve the long-standing issue associated with the settlement of the Repayment Amount. Given the Guarantors are the existing guarantors to the SPA (save for Mr. Tong), in fulfilment of their obligations as guarantors to the SPA to unconditionally and irrevocably guarantee the due observance and performance of the Vendor under the SPA, they have also been closely involved in the negotiations of the Settlement Deed with the Company, and agreed to continue to act as Guarantors to the Vendor under the Settlement Deed.

On 23 January 2020 (after trading hours), the Company, Xingye, the Vendor, and the Guarantors entered into the Settlement Deed with respect to the settlement of the Repayment Amount owed by the Vendor to Xingye, pursuant to which: (i) the Company shall cancel the issuance of, and be relieved from the obligation to issue, the Unissued Shares at the Cancellation Price of HK\$0.80 per Share (i.e. the Unissued Share Cancellation); (ii) the Company shall buy back the Sale Shares from the Vendor at the Buy-back Price of HK\$0.80 per Share (i.e. the Share Buy-back); and (iii) the Vendor shall repay the Residual Repayment Amount in cash to the Company (i.e. the Residual Repayment Arrangement).

### **Share Buy-back Code implications**

The Share Buy-back constitutes an off-market share buy-back by the Company. The Company has made an application to the Executive for approval of the Share Buy-back pursuant to Rule 2 of the Share Buy-back Code. The Executive's approval, if granted, will normally be conditional upon, among other things, the approval of the Share Buy-back by at least three-fourths of the votes cast on a poll by the Independent Shareholders present in person or by proxy at the EGM.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **Listing Rules implications**

As more than one of the applicable percentage ratios in respect of the Settlement exceed 5% but all the applicable percentage ratios are less than 25%, the Settlement constitutes a disclosable transaction of the Company and is therefore subject to the announcement requirement under Chapter 14 of the Listing Rules. In addition, Mr. Ren was a Director within 12 months before the date of the Announcement, who is also beneficially interested in 72% of the existing issued share capital of the Vendor and a director of one of the subsidiaries of the Company. Accordingly, each of the Vendor and Mr. Ren is a connected person of the Company. The Settlement constitutes a connected transaction for the Company and is therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **EGM**

The voting in respect of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) at the EGM will be conducted by way of poll. As at the Latest Practicable Date, the Vendor, Mr. Ren, Mr. Yang and Mr. Chu directly holds 44,442,223, 300,000, 105,000 and 300,000 Shares, respectively, representing approximately 5.19%, 0.04%, 0.01% and 0.04% of the existing issued share capital of the Company, respectively. The Vendor, Mr. Ren and Mr. Yang, together with their respective associates and parties acting in concert and those who are interested in or involved in the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back), which includes Mr. Zhu who is the chief financial officer of the Company, an executive Director, and participated in the negotiation of the Settlement Deed with the Vendor, has abstained from voting on the Board resolution approving the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back), will be required under the Share Buy-back Code and the Listing Rules to abstain from voting on the resolution approving the same at the EGM.

### **The Takeovers Code IBC and the Listing Rules IBC**

The Listing Rules IBC comprising Mr. Chai Chaoming, Dr. Lou Dong and Ms. Lu Hong, being all the independent non-executive Directors, has been established under the Listing Rules to give recommendations to the Independent Shareholders as to how to vote on the resolution to be proposed at the EGM in respect of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

The Takeovers Code IBC comprising Mr. Dai Jianchun, Mr. Chai Chaoming, Dr. Lou Dong and Ms. Lu Hong, being all the non-executive Director and independent non-executive Directors, has been established under the Takeovers Code to give recommendations to the Independent Shareholders as to how to vote on the resolution to be proposed at the EGM in respect of the Share Buy-back and the underlying transactions.

We, Red Sun Capital Limited, have been appointed as the Independent Financial Adviser, with the approval of the Takeovers Code IBC pursuant to the relevant Share Buy-back Code and the Listing Rules IBC pursuant to the relevant Listing Rules, to advise the Takeovers Code IBC and the Listing Rules IBC and the Independent Shareholders on the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### OUR INDEPENDENCE

As at the Latest Practicable Date, we are independent from the Company, the Vendor, Xingye, the Guarantors, their respective close associates or core connected persons and any parties acting, or presumed to be acting, in concert with any of them or any company controlled by any of them. As at the Latest Practicable Date, Red Sun Capital Limited did not have any relationship with or interest in, financial or otherwise, the Company or its controlling shareholders, within two years prior to the date of the Announcement, of a kind reasonably likely to create, or to create the perception of, a conflict of interest or reasonably likely to affect our objectivity. In the last two years, there was no engagement between the Group and Red Sun Capital Limited. Apart from normal professional fees paid or payable to us in connection with our appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company, the Vendor, Xingye, the Guarantors, their respective close associates or core connected persons and any parties acting, or presumed to be acting, in concert with any of them or any company controlled by any of them. Accordingly, we are considered eligible to give independent advice in relation to the Settlement Deed and transactions contemplated thereunder (including but not limited to the Share Buy-back).

### BASIS OF OUR OPINION

In formulating our advice and recommendation, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Group, the Directors and/or its senior management staff (the “**Management**”). We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular or otherwise provided or made or given by the Group, the Directors and/or the Management, for which they are solely responsible, were true, accurate and complete in all material respects at the time they were made and given and continue to be true, accurate and complete in all material respects as at the Latest Practicable Date and the Shareholders will be notified of any material changes (if any) subsequent to the Latest Practicable Date as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have assumed that all the opinions, beliefs and representations for matters relating to the Group made or provided by the Directors and/or the Management contained in the Circular have been reasonably made after due and careful enquiry.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have taken reasonable steps, including but not limited to, reviewed published annual report for the year ended 31 December 2018 and interim report for the six months ended 30 June 2019 of the Group, obtained and reviewed the relevant documents, held discussions with the Management, conducted our own analysis and research in connection with the Settlement Deed and the transactions contemplated thereunder (including the Share Buy-back), with a view to ensure that there is no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group, the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Company, the Vendor, Xingye, and the Guarantors and their respective shareholder(s) and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations, we have taken into account the following principal factors and reasons:

#### 1. Background information of the Group

The Company is an investment holding company and the Group is principally engaged in (i) manufacturing and sales of high precision copper plates and strips; (ii) trading of copper raw materials; (iii) provision of copper products processing services; (iv) the management of a portfolio of investment and development; and (v) operation and distribution of internet and mobile gaming products predominantly in the PRC.

Set out below is a summary of (i) the unaudited consolidated financial statement of profit or loss for the six months ended 30 June 2018 and 2019 as extracted from the interim report of the Group for the six months ended 30 June 2019 (the “**2019 Interim Report**”); and (ii) the audited consolidated financial statement of profit or loss for the years ended 31 December 2017 and 2018 as extracted from the annual report of the Group for the year ended 31 December 2018 (the “**2018 Annual Report**”).

	<b>For the six months ended 30 June</b>		<b>For the year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>
	(unaudited)	(unaudited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>				
Sales of high precision copper plates and strips	1,819,703	2,240,406	4,448,029	4,004,431
Processing services fees	90,827	89,904	194,857	203,616
Trading of raw materials	22,445	210,611	316,232	245,089
Technical service income	–	149	–	12,572
Publishing and operating online games	15,476	15,879	35,548	28,015
Others	462	348	1,391	1,278
	<u>1,948,913</u>	<u>2,557,297</u>	<u>4,996,057</u>	<u>4,495,001</u>
<b>Total revenue</b>	<u>1,948,913</u>	<u>2,557,297</u>	<u>4,996,057</u>	<u>4,495,001</u>
<b>Gross profit</b>	<u>186,461</u>	<u>193,792</u>	<u>418,378</u>	<u>524,434</u>
<b>Profit for the year/ period attributable to Shareholders</b>	<u>54,496</u>	<u>47,730</u>	<u>27,529</u>	<u>135,544</u>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Financial performance for the six months ended 30 June 2019 and 2018*

As set out in the 2019 Interim Report, the Group recorded total revenue of approximately RMB1,948.9 million for the six months ended 30 June 2019, representing a decrease of approximately 23.8% or RMB608.4 million as compared to the total revenue of approximately RMB2,557.3 million for the six months ended 30 June 2018. Such decrease was mainly due to a decrease in sales volume of copper products and copper price. The principal source of revenue is the sales of high precision copper plates and strips, which accounted for approximately 93.4% and 87.6% of the total revenue for the six months ended 30 June 2018 and 2019, respectively.

The gross profit of the Group decreased by approximately RMB7.3 million or 3.8% from approximately RMB193.8 million for the six months ended 30 June 2018 to approximately RMB186.5 million for the six months ended 30 June 2019. The lower percentage decrease in gross profit as compared to the percentage decrease in revenue was mainly attributable to the decrease in the cost for raw materials for the high precision copper plates and strips.

The profit for the period attributable to Shareholders increased by approximately RMB6.8 million or 14.2% from approximately RMB47.7 million for the six months ended 30 June 2018 to approximately RMB54.5 million for the six months ended 30 June 2019. Such increase was mainly attributable to the combined effect of (i) the decrease in gross profit as mentioned above; (ii) the increase in other income of approximately HK\$4.7 million mainly as a result of additional government grants; (iii) the decrease in other expenses of approximately HK\$20.6 million primarily due to the decrease in impairment loss on goodwill; and (iv) the increase in administrative expenses of approximately HK\$14.4 million mainly due to the increase in research and development expenses, which was primarily for the technique and quality improvement research programs, and the development of new products, conducted by the Group's provincial-level enterprise technology centre mainly for its high precision copper plates and strips with a view to improve the ongoing competitiveness of the Group's high precision copper plates and strips and related products.

### *Financial performance for the years ended 31 December 2018 and 2017*

As set out in the 2018 Annual Report, the Group recorded total revenue of approximately RMB4,996.1 million for the year ended 31 December 2018, representing an increase of approximately 11.1% or RMB501.1 million as compared to the total revenue of approximately RMB4,495.0 million for the year ended 31 December 2017. Such increase in revenue was mainly due to the increase in sales volume of copper products. The principal source of revenue is from the sales of high precision copper plates and strips, which accounted for approximately 89.1% and 89.0% of the total revenue for the years ended 31 December 2017 and 2018, respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The gross profit of the Group, however, decreased by approximately RMB106.0 million or 20.2% from approximately RMB524.4 million for the year ended 31 December 2017 to approximately RMB418.4 million for the year ended 31 December 2018, which was mainly the result of increase in cost of raw materials.

The profit for the year attributable to Shareholders decreased by approximately RMB108.0 million or 79.7% from approximately RMB135.5 million for the year ended 31 December 2017 to approximately RMB27.5 million for the year ended 31 December 2018. Such increase was mainly attributable to the combined effect of (i) the decrease in gross profit as mentioned above; (ii) the increase in other income of approximately HK\$11.9 million mainly as a result of gains from derivative financial instruments; (iii) the increase in other expenses of approximately HK\$39.9 million primarily due to the impairment loss on goodwill; and (iv) the increase in administrative expenses of approximately HK\$35.0 million mainly due to the increase in research and development expenses.

### **2. Reasons for and benefits of the Settlement**

As set out in the Letter from the Board, given that the performance target for the year ended 31 December 2018 could not be achieved by the Funnytime Group, the Company had been considering different possibilities to deal with the settlement of the Repayment Amount including reducing the Consideration Shares to be allotted to the Vendor by withholding the Unissued Shares, as disclosed in the announcements of the Company dated 15 April 2019 and 16 August 2019. However, as the Vendor had serious difficulties in raising capital on its own to repay the Repayment Amount by cash, the Company considers that the Settlement involving the Share Buy-back and the Unissued Share Cancellation would be an optimal solution for the Vendor to repay the Repayment Amount as it does not extensively call on the funding resources of the Vendor. The terms of the Settlement Deed are also generally in line with the original terms under the SPA given that (i) the sum of the Repayment Amount under the Settlement Deed is equal to the sum required to be repaid by the Vendor under the SPA should the Funnytime Group fail to meet its performance target for the year ended 31 December 2018; (ii) the number of Unissued Shares mirrors the amount of Shares the Company is entitled to withhold under the SPA; (iii) the SPA allows the Company to take action to seek repayment of the Repayment Amount and according to the dispute resolution clause of the SPA, to resolve any disputes between the parties, the parties have to first resolve through consultations for a certain period of time. During such period, the parties have explored various settlement proposals and finally agreed on the settlement arrangement under the Settlement Deed; and (iv) the existing guarantors of the Vendor under the SPA (save for Mr. Tong) continue to act as the Guarantors of the Vendor under the Settlement Deed.

In addition, the Share Buy-back is expected to bring about positive effects on the net asset value per Share attributable to the Shareholders which is in the interests of the Company and the Shareholders as a whole. The Company also believes that it is more favourable and in the interest of the Company and its Shareholders as a whole to resolve the Repayment Amount by way of the Settlement instead of protracted legal proceedings which, although could be taken shortly after 15 April 2019, being the cut-off date on which the Vendor should and the guarantors to the SPA should procure and guarantee the Vendor, to repay the Repayment Amount, could potentially last for an uncertain period of time with unforeseeable cost implications, enforcement outcome and procedural

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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complications as certain parties are located outside Hong Kong, thus potentially causing difficulties in, for instance, the service and discovery of documents and overall conduct of such proceedings. Further, given Mr. Ren and Mr. Yang are also key employees of the Group, resolving the disputes by way of a mutually-agreed settlement is a more amicable solution without adversely affecting the relationship with employees and business operations of the Group.

As set out in the Letter from the Board, in considering to proceed with the Share Buy-back, the Company has taken into consideration that: (i) the Share Buy-back is part and parcel of the Settlement, which is considered an optimal solution for the Vendor to repay the Repayment Amount which does not extensively call on the funding resources of the Vendor and create excessive funding burden; (ii) the Share Buy-back would enhance consolidated net asset value attributable to the Shareholders per Share and basic earnings per Share and bring about other positive financial effects as discussed under the section headed “Financial effects of the Settlement” in the Letter from the Board; (iii) it is a good opportunity for the Company to buy-back and cancel a significant block of Shares in a single transaction without significantly affecting the normal trading of the Shares in terms of price and volume as opposed to conducting a large number of daily on-market buy-back transactions under a general buy-back mandate over a period of time; and (iv) albeit the fact that the Buy-back Price/Cancellation Price of HK\$0.80 per Share seemingly represents a premium over the current inactively-traded Share price of approximately HK\$0.60, it is highlighted in the paragraph headed “Basis for the Buy-back Price/Cancellation Price” under section headed “The Settlement Deed” in the Letter from the Board that the Buy-back Price/Cancellation Price of HK\$0.80 per Share reflects a lower comparative value when compared to a wide array of valuation indicators (i.e. the volume-weighted average Share price for the period starting from 8 August 2016 (being the first trading day after completion of the SPA) and up to and including the Last Trading Day (the period of which covers the time period post-completion to the SPA which the Group operating both the copper processing business and the online gaming business) of HK\$0.92 per Share (i.e. the VWAP), the issue price of the Consideration Shares of HK\$0.90 per Consideration Share, the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2019 per Share of approximately HK\$1.47 and the fact that the Company’s P/B ratio as implied by the Buy-back Price/Cancellation Price is approximately 0.6 times which is significantly below the average P/B ratio of the Comparable Companies of approximately 2.1 times) as disclosed in the Letter from the Board.

Despite the failure by the Funnytime Group in meeting the performance targets under the SPA for the year ended 31 December 2018, the online gaming business operated through the Funnytime Group would still be a part of the Group’s principal business. According to the terms of the SPA, the Guarantors, namely Mr. Ren and Mr. Yang, would remain their employment with the Group until June 2021. As disclosed in the announcement of the Company dated 16 August 2019, the Directors were of the view that the failure by the Funnytime Group in achieving the abovementioned performance targets was mainly due to the overall business environment of the game industry in the PRC and the tightened domestic laws and regulations on the online gaming industry, which were unforeseeable to the Vendors at the time when the SPA was entered.

It is the intention of the Company to maintain and uphold the existing operational model of Funnytime, including but not limited to the continuance of the current management team of the Funnytime Group. Going forward, the Company will continue to monitor and review the operating



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and financial performance of Funnytime from time to time to determine its best course of strategies, positioning and scale of operation which will also take into account the overall strategic development of the Group.

Having considered the information as set out above, in particular (i) the Vendor's lack of available financial resources and its difficulties of capital raising to satisfy the Repayment Amount; (ii) under the Settlement Deed, if consummated, the Group would have greater certainty in terms of timing and actual recoverable amount from the Vendor, compared to the alternative of a protracted legal proceedings, of which the final settlement amount by the Vendor would be uncertain and subject to the financial capability of the Vendor at the relevant time; (iii) the Unissued Share Cancellation and the Share Buy-back, being an integral part of the Settlement, would substantially reduce the Repayment Amount due from the Vendor to approximately HK\$2.2 million (i.e. the Residual Repayment Amount), which shall be settled in cash by the Vendor within one month after Completion or before 30 June 2020; (iv) the prolonged negotiation between the parties to the SPA in the past few months without being able to agree on a better suit alternative settlement plan; (v) the expected positive effects on the net asset value attributable to the Shareholders per Share and basic earnings attributable to the Shareholders per Share upon Completion; and (vi) no material cash outflow from the Group in respect of the Unissued Share Cancellation and the Share Buy-back, save for transaction related costs, we concur with the view of the Directors that, albeit not entered into in the ordinary and usual course of business of the Group, the terms of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole. Further analysis on the Settlement Deed by us is set out under section headed "4. Our analysis on the Cancellation Price/Buy-back Price" in this letter below.

### 3. Principal terms of the Settlement Deed

#### *Subject Matter*

On 23 January 2020 (after trading hours), the Company, Xingye, the Vendor, and the Guarantors entered into the Settlement Deed with respect to the settlement of the Repayment Amount owed by the Vendor to Xingye, pursuant to which: (i) the Company shall cancel the issuance of, and be relieved from the obligation to issue the Unissued Shares at the Cancellation Price of HK\$0.80 per Share (i.e. the Unissued Share Cancellation); (ii) the Company shall buy back the Sale Shares from the Vendor at the Buy-back Price of HK\$0.80 per Share (i.e. the Share Buy-back); and (iii) the Vendor shall repay the Residual Repayment Amount of in cash to the Company (i.e. the Residual Repayment Arrangement).

<b>Date</b>	23 January 2020 (after trading hours)
<b>Parties</b>	(i) the Vendor; (ii) the Company; (iii) Xingye; and (iv) the Guarantors.

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The Vendor is a company incorporated in the BVI with limited liability and is beneficially owned by Mr. Ren and Mr. Yang as to 72% and 28%, respectively. The principal business activity of the Vendor is investment holding.

As disclosed in the Letter from the Board, Mr. Ren is the head of the Company's online gaming business. He joined the Group since completion of the SPA in August 2016. Before joining the Group, he had set up various gaming companies, including Hefei Zhangyue Network Technology Co., Ltd. He was also the general manager of the web game division of Shenzhen ZQ, a gaming company which is listed on the Shenzhen Stock Exchange. Mr. Yang is a senior executive of the Company's online gaming business. He joined the Group together with Mr. Ren in August 2016. He also worked in Shenzhen ZQ as an executive of the company's web game division.

As at the Latest Practicable Date, the Vendor is beneficially interested in 44,442,223 Shares, representing approximately 5.19% of the existing issued share capital of the Company. Furthermore, Mr. Ren was a Director within 12 months before the day of the Announcement and a director of one of the subsidiaries of the Company. Accordingly, each of the Vendor and Mr. Ren is a connected person of the Company.

### *Settlement of the Repayment Amount*

On Completion, subject to the satisfaction of the conditions precedent pursuant to the Settlement Deed, the Repayment Amount of HK\$40,135,567 owed by the Vendor in favour of the Company shall be fully set off in the manner as follows:

- (i) the Vendor shall surrender its entitlement to the issuance of, and the Company shall cancel the issuance of, and be relieved from the obligation to issue, the Unissued Shares at the consideration of the Cancellation Price of HK\$0.80 per Unissued Share, totaling HK\$5,139,787.20, which amount shall be set off against the equivalent amount of the Repayment Amount (i.e. the Unissued Share Cancellation);
- (ii) the Vendor shall sell, and the Company shall purchase, the Sale Shares at the consideration of the Buy-back Price of HK\$0.80 per Sale Share, totaling HK\$32,800,000, which amount shall be set off against the equivalent amount of the Repayment Amount (i.e. the Share Buy-back); and
- (iii) the Vendor undertakes to repay to the Company the Residual Repayment Amount of HK\$2,195,779.80 within one (1) month after Completion or before 30 June 2020, whichever is later. Any delay in repayment by the Vendor would be subject to default interest at a daily rate of 0.1% in respect of the accrued amount (i.e. the Residual Repayment Arrangement).

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### *The Sale Shares and the Unissued Shares*

The 41,000,000 Sale Shares and 6,424,734 Unissued Shares represent approximately 4.79% and 0.75% respectively of the issued share capital of the Company as at the Latest Practicable Date.

The number of Sale Shares to be bought back is determined by the parties to the Settlement Deed to be the maximum number of Shares to be bought back and cancelled to the extent not to trigger any mandatory general obligation on the part of any of the Shareholder under Rules 26.1(c) and 26.1(d) of the Takeover Code, meaning that none of the Shareholder(s) and/or with his/her/its concert parties would have acquired additional voting rights in the Company that would have the effect of increasing the voting rights in the Company held by such Shareholder(s) and/or his/her/its concert parties by more than 2% from the lowest percentage holding in the 12 month period ending on and inclusive of the date of the Settlement Deed, rounded down to the nearest million number of Shares.

### *Basis for the Buy-back Price and the Cancellation Price*

The Cancellation Price of HK\$0.80 per Unissued Share and the Buy-back Price of HK\$0.80 per Sale Share were both determined after arm's length negotiations between the parties to the Settlement Deed with reference to, among other things, (i) the VWAP of HK\$0.92 per Share; (ii) the issue price of the Consideration Shares of HK\$0.90 per Consideration Share; (iii) the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2019 per Share of approximately HK\$1.47; and (iv) the Comparable Companies' P/B ratios as disclosed in the Letter from the Board. The consideration for the Unissued Share Cancellation of HK\$5,139,787.20 is the product of the Cancellation Price of HK\$0.80 per Unissued Share and the number of Unissued Shares of 6,424,734. The consideration for the Share Buy-back of HK\$32,800,000 is the product of the Buy-back Price of HK\$0.80 per Sale Share and the number of Sale Shares of 41,000,000.

### *Conditions precedent*

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

- (i) the Executive having approved the Share Buy-back pursuant to Rule 2 of the Share Buy-back Code (and such approval not having been withdrawn) and the condition(s) of such approval, if any, having been satisfied;
- (ii) the passing of the necessary resolutions (if required) at the EGM by poll, including by at least three-fourths of the votes cast by the Independent Shareholders present at the EGM in respect of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back);

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- (iii) all consents or approvals of any relevant government authorities or other relevant regulatory bodies which are required by the Vendor for entering into and the implementation of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) having been obtained;
- (iv) all consents or approvals of any relevant government authorities or other relevant regulatory bodies which are required by the Company for entering into and the implementation of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) having been obtained;
- (v) the Company having sufficient lawfully available funds to effect the Share Buy-back;
- (vi) each of the Warranties remaining true and accurate in all respects up to Completion; and
- (vii) the due performance and observance by the Vendor of all its undertakings and obligations under the Settlement Deed.

Save and except for conditions (vi) and (vii) which can be waived unilaterally by the Company, none of the conditions precedent set out above are capable of being waived by the parties to the Settlement Deed. Save and except for conditions (iv) and (v), the Vendor shall use its best endeavours to fulfil all the conditions precedent set out above. If the conditions set out above are not fulfilled on or before the Long Stop Date, the Settlement Deed shall lapse and be of no further effect automatically and thereafter neither party to the Settlement Deed shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof and for the avoidance of doubt, the obligations of the Vendor under the SPA, including its obligation to repay the Repayment Amount to the Company or Xingye, shall remain effective.

In relation to condition (iv), as at the Latest Practicable Date, the Company confirms that it has sufficient lawfully available funds to effect the Share Buy-back and expects to continue to be so satisfied until Completion.

With reference to conditions (iii) and (iv), as at the Latest Practicable Date, save for the requirements under conditions (i) and (ii), the Company is not aware of any necessary consents or approvals required to be obtained from any relevant government authorities or other relevant regulatory bodies by the Company or the Vendor for entering into and the implementation of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back). The Company would make necessary disclosure in the circular in the event there are material updates in relation to such requirement.

As at the Latest Practicable Date, none of the above conditions precedent has been fulfilled.

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### *Completion*

Completion is expected to take place on the third Business Day after satisfaction of the above conditions precedent which, in the absence of any unforeseeable circumstances, is expected to be within one month after the date of the EGM.

Immediately upon Completion, the Company shall cancel the Sale Shares and the issuance of the Unissued Shares and be relieved from the obligation of such issuance, and any rights attaching thereto shall cease with effect from Completion. The Unissued Share Cancellation, the Share Buy-back and the Residual Repayment Arrangement shall take place simultaneously.

#### **4. Our analysis on the Cancellation Price/Buy-back Price**

Set out below is how the Repayment Amount shall be satisfied under the Settlement Deed and a simplified calculation of Residual Repayment Amount.

	<i>HK\$</i>
Repayment Amount	40,135,567.00
Less: The value of Unissued Shares	(5,139,787.20)
Less: The value of Sale Shares	<u>(32,800,000.00)</u>
 Residual Repayment Amount	 <u><u>2,195,779.80</u></u>

#### **4.1 Analysis on the Cancellation Price**

As disclosed in the Letter from the Board, the Cancellation Price is HK\$0.8 per Unissued Share was determined after arm's length negotiations between the parties to the Settlement Deed.

We note that the Cancellation Price of HK\$0.8 per Unissued Share represented a discount of approximately 11.1% to the original issue price of Consideration Shares of HK\$0.9 per Share. Pursuant to the SPA, the Company is obligated, but is not voluntary, to issue 6,424,734 Shares to the Vendor on 15 April 2019. As advised by the Management, given that the Vendor has difficulties in capital raising to settle the Repayable Amount, the issuance of such Shares is being withheld.

For reasons as further set out under paragraph headed "4.3 Analysis on the Comparable Transactions" in this letter below, including our analysis on the Comparable Transactions (defined hereafter) selected based on specified criteria, in particular, two of the Comparable Transactions, being the share buy-back conducted by Alpha Professional Holdings Limited and New Silkroad Culturaltainment Limited respectively, both are considered to be similar transactions to the Company's Share Buy-back as they were all linked to a previous acquisition, whereby part/whole of the consideration was settled by the issuance of

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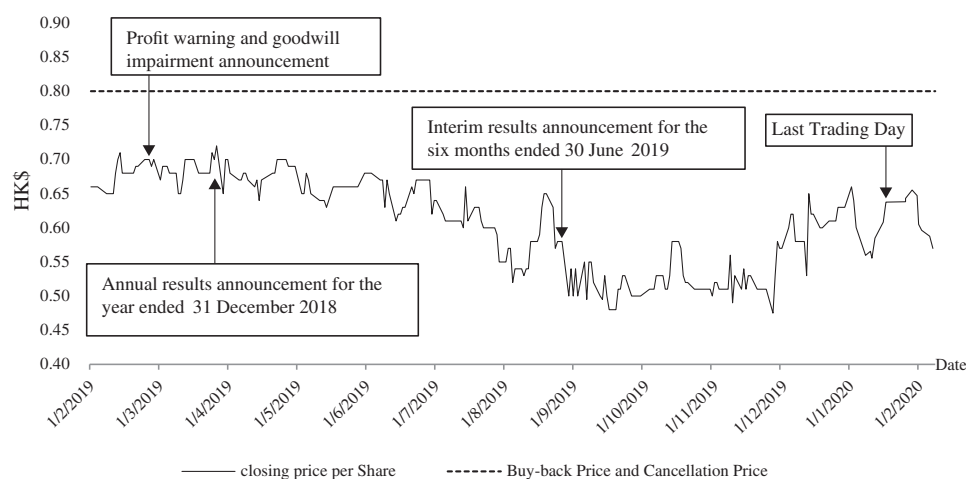
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consideration shares. Under the aforesaid two Comparable Transactions, the buy-back prices were higher than the respective closing share price of the subject listed company at the relevant time, and were both determined with reference to and being equivalent to the issue price of the consideration share (i.e. the Basis of Buy-back Price (defined hereafter)), but not determined with reference to the then prevailing share prices of the subject companies. As such, we considered the original issue price of HK\$0.9 per Share to be an appropriate benchmark for assessing the fairness and reasonableness of the Cancellation Price of the Unissued Share and that if these Unissued Shares were to be issued to the Vendor instead of being cancelled, the Unissued Shares would have been issued at the issue price of HK\$0.9 per Share. Nonetheless, in addition to the analysis above, we also conducted further analysis to assess the fairness and reasonableness of the Buy-back Price, which is equivalent to the Cancellation Price below.

### 4.2 Analysis on the Buy-back Price

#### *Closing price per Share over the Review Period*

Set out below is a chart setting out movements in the closing prices of the Shares as quoted on the Stock Exchange from 1 February 2019 up to and including the Latest Practicable Date (the “**Review Period**”), which is considered to be a reasonable period of time to provide a general overview of the recent price performance of the Shares.



As shown in the chart above, the closing prices of the Shares fluctuated between HK\$0.475 and HK\$0.720 with an average quoted price of approximately HK\$0.608 during the Review Period. It is noted that the Buy-back Price is above the closing prices of the Shares during the Review Period. The Buy-back Price of HK\$0.8 represents a premium of approximately 31.6% to the average closing price of the Shares during the Review Period.

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In addition, the Buy-back Price of approximately HK\$0.80 per Sale Share also represents:

- (i) a premium of approximately 40.4% over the closing price of HK\$0.57 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 25.0% over the closing price of HK\$0.64 per Share as quoted on the Stock Exchange on the Last Trading Day, being the date of the Settlement Deed;
- (iii) a premium of approximately 31.1% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day of approximately HK\$0.61 per Share;
- (iv) a premium of approximately 45.5% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 90 trading days up to and including the Last Trading Day of approximately HK\$0.55 per Share;
- (v) a discount of approximately 11.1% to the issue price of the Consideration Shares of HK\$0.9 per Consideration Share;
- (vi) a discount of approximately 45.6% to the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$1.47 per Share (or approximately RMB1.29 per Share based on an exchange rate of RMB0.8797: HK\$1) (based on the audited consolidated net assets attributable to the Shareholders as at 30 June 2019 of approximately RMB1,106.6 million (equivalent to approximately HK\$1,257.9 million based on an exchange rate of RMB0.8797: HK\$1) and 855,558,173 Shares in issue as at the Latest Practicable Date; and
- (vii) a discount of approximately 42.9% to the audited consolidated net asset value attributable to the Shareholders of approximately HK\$1.40 per Share (or approximately RMB1.23 per Share based on an exchange rate of RMB0.8762: HK\$1) (based on the audited consolidated net assets attributable to the Shareholders as at 31 December 2018 of approximately RMB1,051.9 million (equivalent to approximately HK\$1,200.5 million on an exchange rate of RMB0.8762: HK\$1) and 855,558,173 Shares in issue as at 31 December 2018.

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### *Historical liquidity of the Shares*

Further to our analysis on the closing Share price over the Review Period, we also conducted analysis on the historical liquidity of the Shares. The following table sets out the number of trading days in each month, the monthly total trading volume, the average daily trading volume and the percentage of average daily trading volume as compared to the total number of Shares in issue held by the public Shareholders during the Review Period:

	Number of trading days	Total trading volume	Average daily trading volume	Approximate percentage of average daily trading volume to total number of Shares held by the public Shareholders <i>(Note 1)</i>
<b>2019</b>				
February <i>(Note 2)</i>	17	822,666	48,392	0.01%
March	21	1,015,300	48,348	0.01%
April	19	2,173,200	114,379	0.03%
May	21	454,300	21,633	0.01%
June	19	1,094,200	57,589	0.01%
July	22	1,770,000	80,455	0.02%
August	22	2,970,100	135,005	0.04%
September	21	2,651,400	126,257	0.03%
October	21	554,000	26,381	0.01%
November	21	681,000	32,429	0.01%
December	20	1,559,100	77,955	0.02%
<b>2020</b>				
January	20	1,161,000	58,050	0.02%
February <i>(Note 3)</i>	7	79,000	11,286	Less than 0.01%
<b>Average for the Review Period</b>	<b>19</b>	<b>1,306,559</b>	<b>64,474</b>	<b>0.02%</b>

Source: *the website of the Stock Exchange*

*Notes:*

- (1) *Based on total issued Shares as at the Last Trading Day of 855,558,173 Shares, excluding the Shares held by Hu Changyuan, Hu Minglie, Hu Mingda, Charity Foundation, trustee of the Share Award Scheme, the Vendor, Mr. Ren, Mr. Yang, Bostone, Mr. Zhu and other directors of the Group (together the “**Connected Persons**”).*
- (2) *The Review Period commenced on 1 February 2019.*
- (3) *The Review Period is up to and including 11 February 2020, being the Latest Practicable Date.*



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The above table indicated that during the Review Period, the average daily trading volume of the Shares as a percentage of the total number of the Shares held by the public Shareholders (i.e. other than Shares held by the Connected Persons) ranged from less than 0.01% (February 2020) to approximately 0.04% (August 2019) with an average of approximately 0.02%. The above statistics indicated that trading volume in the Shares was very thin during the Review Period and Shares were illiquid in the open market during the Review Period. As such, if the Company were to allow the Vendor to dispose the Shares it holds in the open market instead of conducting the Share Buy-back, such disposal would take a lengthy period of time, during such period the Company would subject to further uncertainty. Given the thin trading volume of the Shares, the disposal of 41,000,000 Sale Shares may impact the supply and demand of the Shares in the open market, thereby creating an imbalance, which may not be in the interests of the other existing Shareholders.

For illustration purposes, having considered the total number of Sale Shares of 41,000,000 Shares and based on the average historical daily trading volume during the Review Period of approximately 64,474 Shares as set out in the above table, it would take the open market approximately 636 trading days to absorb the 41,000,000 Sale Shares. As per the website of the Stock Exchange, there were 246 trading days in year 2019, considering the aforesaid approximately 636 trading days being over 2.5 times the number of trading days in year 2019, we are of the view that it is impracticable to allow the Vendor a prolonged period to dispose all of the Sale Shares in the open market and use the proceeds raised thereunder and the Unissued Share Cancellation to settle a significant portion of the Repayment Amount as such would create significant uncertainty for the Company in respect of the Repayment Amount over a lengthy period of time based on the aforesaid analysis.

Furthermore, given the limited historical liquidity of the Shares, an increase in trading volume in a short period of time may cause material fluctuations to the Share price, as evidenced by, among others, (i) the notable decrease in closing Share price from HK\$0.65 per Share on 23 August 2019 to HK\$0.50 per Share on 2 September 2019 within six trading days with approximately 1.3 million Shares traded during the aforesaid period; and (ii) the notable increase in closing Share price from HK\$0.475 per Share on 2 December 2019 to HK\$0.62 per Share on 10 December 2019 within six trading days with approximately 0.3 million Shares traded during the aforesaid period. On this basis, we considered the closing Share price as a benchmark to assess the Buy-back Price, if analysed on a standalone, has its limitations, and that other benchmarks may be more appropriate.

### *Net asset value ("NAV") per Share*

In view of the above analysis, we have also considered conducting analysis on price-to-earnings ratio and price-to-book ratio, both being commonly used valuation indicators. However, we have noted that the Company's earnings have experienced significant fluctuations during the years ended 31 December 2016, 2017 and 2018, being the three financial years immediately preceding the entering into of the Settlement

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Deed, it is therefore considered inappropriate to use price-to-earnings ratio or other earnings-based valuation indicators to assess the fairness and reasonableness of the Buy-back Price/Cancellation Price. As for the suitability of the price-to-book ratio, having considered that (i) the analysis on P/B ratio is more suitable for capital intensive businesses; and (ii) the size of the Group's operations and its total assets balance, which mainly comprised of property, plant and equipment and inventories, as well as the nature of the copper processing business, which indicated that the Group's business is capital intensive in nature, we concur with the Board that P/B ratio comparison is an appropriate approach to assess the fairness and reasonableness of the Buy-back Price/Cancellation Price.

In this connection, we have primarily focused our analysis on the implied price-to-book ratio (the "**P/B Ratio**") based on the Buy-back Price/Cancellation Price and the NAV attributable to Shareholders as at 31 December 2018 and 30 June 2019 in this section, the summary of which are set out below:

	<b>NAV per Share</b> <i>(Note 1&amp;2)</i> <i>(HK\$)</i>	<b>Buy-back Price/ Cancellation Price to NAV per Share (i.e. implied P/B Ratio)</b> <i>(Note 3)</i> <i>(times)</i>
Unaudited NAV attributable to Shareholders as at 30 June 2019	1.47	0.54
Audited NAV attributable to Shareholders as at 31 December 2018	1.40	0.57

*Notes:*

- (1) *The functional currency of the Group is RMB. For illustrative purposes in relation to this table, conversion of RMB into HK\$ in relation to the NAV attributable to Shareholders, which are denominated in RMB, are calculated at the approximate exchange rate of RMB0.8797 to HK\$1 as at 30 June 2019 and approximate exchange rate of RMB0.8762: HK\$1 as at 31 December 2018. The exchange rates are for illustration purpose only and do not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.*
- (2) *The NAV per Share as at 30 June 2019 and 31 December 2018 was calculated based on (i) unaudited NAV attributable to Shareholders as at 30 June 2019 of approximately RMB1,106.6 million (equivalent to approximately HK\$1,257.9 million) divided by number of issued Shares of 855,558,173 as at 30 June 2019; and (ii) audited NAV attributable to Shareholders as at 31 December 2018 of approximately RMB1,051.9 million (equivalent to approximately HK\$1,200.5 million) divided by number of issued Shares of 855,558,173 as at 31 December 2018.*
- (3) *The implied P/B Ratio was calculated based on the Buy-back Price/Cancellation Price of HK\$0.8 per Share divided by the NAV per Share of approximately HK\$1.47 and HK\$1.40 as at 30 June 2019 and 31 December 2018, respectively.*

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As set out in the table above, the NAV per Share was approximately HK\$1.40 per Share and HK\$1.47 per Share as at 31 December 2018 and 30 June 2019, respectively. The Buy-back Price and Cancellation Price represented an implied P/B Ratio of approximately 0.57 times to 0.54 times, respectively, such implied P/B Ratios are lower than the bottom range of the P/B Ratio of the Comparable Companies of approximately 0.96 times to 3.20 times as set out in the Letter from the Board, indicating that each of the Buy-back Price and Cancellation Price is no less favourable than the prevailing trading share price of the Comparable Companies as at the Last Trading Day, from the perspective of the P/B Ratio. Furthermore, as the Buy-back Price is notably lower than the aforesaid NAV per Share, the Share Buy-back shall result in a NAV per Share enhancement.

As set out in the Letter from the Board, the selection criteria of the Comparable Companies are companies listed in Hong Kong and the PRC with 70% or more of their respective revenue derived from copper processing. After our discussion with the Management, we understand that such criteria were determined on the basis that the Comparable Companies would, in general, be subject to similar opportunities, risks and factors affecting the copper processing industry as a whole and we concur with their view that the Comparable Companies can provide a general reference for comparison purposes to the implied P/B Ratio of the Company under the Buy-back Price/Cancellation Price.

### *4.3 Analysis on the Comparable Transactions*

We have also reviewed and conducted analysis on transactions which (i) were announced by companies listed on the Main Board of the Stock Exchange during the Review Period; and (ii) constituted off-market share buy-back transactions pursuant to Rule 2 of the Buy-back Code (together the “**Criteria**”). Based on the Criteria, on a best-effort basis, we have identified an exhaustive list of four comparable transactions (the “**Comparable Transactions**”). Details of the Comparable Transactions are summarised below.

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Company name (stock code)	Date of initial transaction announcement	Share buy- back price (HK\$)	Share price as at the last trading date (HK\$)	Premium of the share buy-back price over the share price as at the last trading date at the relevant time	Summary of the reasons for the share buy-back as stated in the relevant announcement
China Development Bank Financial Leasing Co., Ltd. ("CDBFL") (1606)	26 September 2019	2.2443	1.4000	60.3%	To comply with certain regulations and implementing measures issued by the China Banking Regulatory Commission of the PRC
Alpha Professional Holdings Limited ("Alpha Professional") (948)	18 September 2019	1.8570	1.6300	13.9%	In relation to a previous acquisition, to unwind the transaction due to a triggering event involving potential breaches of certain warranties and undertakings in the sale and purchase agreement
Tern Properties Company Limited ("Tern Properties") (277)	16 May 2019	5.1000	3.9700	28.5%	To restore the public float of the shares of Tern Properties pursuant to the Listing Rules

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Company name (stock code)	Date of initial transaction announcement	Share buy- back price (HK\$)	Share price as at the last trading date (HK\$)	Premium of the share buy-back price over the share price as at the last trading date at the relevant time	Summary of the reasons for the share buy-back as stated in the relevant announcement
New Silkroad Culturaltainment Limited (“New Silkroad”) (472)	2 May 2019	1.3000	0.4500	188.9%	In relation to a previous acquisition, to unilaterally exercise its rights to unwind the transaction due to a triggering event whereby the acquired company was unable to obtain the necessary licenses to continue its business
			<b>Maximum</b>	188.9%	
			<b>Minimum</b>	13.9%	
			<b>Average</b>	72.9%	
The Company				25.0%	

Based on the table above, all the share buy-back price under the respective Comparable Transactions exceeded the subject closing share price as at the last trading day, such premium ranged from approximately 13.9% to 188.9%, with an average premium of approximately 72.9%. The premium of the Buy-back Price to the closing Share price as at the Last Trading Day under the Share Buy-back was approximately 25.0%, which is towards the bottom range and below the average of the Comparable Transactions.

We considered that given the Comparable Transactions were selected based on the Criteria, they are considered to be an appropriate benchmark for assessing off-market share buy-backs under Rule 2 of the Buy-back Code as a whole due to (i) the Settlement Deed and the transactions contemplated thereunder and all the Comparable Transactions are subject to Rule 2 of the Buy-back Code; (ii) although the reasons for conducting the respective off-market buy-back transactions may vary, the fact that they are subject to Rule 2 of the Buy-back Code may provide insights to the fairness and reasonableness of the Buy-back Price and Cancellation Price; and (iii) all of the Comparable Transactions are recently announced, which provides an insight into the prevailing market practice.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In addition, we also conducted further work on each of the Comparable Transactions and assessed the reasons behind each Comparable Transactions' off-market share buy-back. Based on our analysis, we noted that while the off-market share buy-back by CDBFL and Tern Properties were standalone transactions as a result to comply with the relevant PRC regulations and Listing Rules, respectively, the off-market share buy-back by Alpha Professional and New Silkroad were similar to the Company's current Share Buy-back, as they were all linked to a previous acquisition, whereby part/whole of the consideration was settled by the issuance of consideration shares, subsequent to which, the subject consideration shares were subject to buy-back by the listed company from the vendor.

Upon further analysis into the off-market share buy-back conducted by Alpha Professional and New Silkroad, we noted that (i) the off-market share buy-back by Alpha Professional were to unwind the original acquisition due to the vendor's failure to remedy certain breaches of the subject sale and purchase agreement; and (ii) the off-market share buy-back by New Silkroad were conducted due to certain non-fulfilment of obligations on the vendor's part, each of the events under (i) and (ii) is individually a triggering event. In view of the above, we have performed further analysis on the share buy-back by Alpha Professional and New Silkroad and noted that Alpha Professional and New Silkroad's buy-back price were both determined with reference to and being equivalent to the issue price of the consideration share (the "**Basis of Buy-back Price**"), which are consistent with one of the reference points for determining the Buy-back Price under the Share Buy-back, namely, the issue price of the Consideration Shares of HK\$0.90 per Consideration Share. However, in the Company's case, the Directors were able to negotiate a discount to the original issue price of the Consideration Shares. As such, the Buy-back Price and Cancellation Price are on terms more favourable to the Company on the basis that the Buy-back Price and Cancellation Price: (i) are determined at a discount to the original issue price of the Consideration Shares; and (ii) represent a lower premium (25.0%) when compared to the average premium (72.9%) of the Comparable Transactions, the details of which are set out in the table above.

Furthermore, we have conducted additional market research with a view to determine whether the Basis of Buy-back Price is a common market practice. During the Review Period, we have identified two other listed companies, namely Xinhua News Media Holdings Limited ("**Xinhua News Media**") (stock code: 309) and China Biotech Services Holdings Limited ("**China Biotech Services**") (stock code: 8037), whereby each of Xinhua News Media and China Biotech Services conducted an acquisition, the subject consideration of which was settled by way of issuance of consideration shares, such consideration shares are also subject to buy-back by the listed company in the event of the occurrence of certain non-fulfilment of obligations on the vendor's part (i.e. a triggering event). According to the published information, if such buy-back were to materialise, the respective buy-back prices would be equivalent to the issue price of the consideration shares (i.e. being in line with the Basis of Buy-back Price).

In summary, (i) the buy-back price under the subject acquisition conducted by Alpha Professional was not set out in the subject sale and purchase agreement as per Alpha Professional's published transaction announcement, which is similar to the Company's case; and (ii) the respective buy-back prices or their basis of determination under the subject

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acquisition conducted by each of New Silkroad, Xinhua News Media and China Biotech Services were set out in the subject sale and purchase agreements as per the respective published transaction announcements, which is dissimilar to the Company's case, where the Buy-back Price was not specifically set out in the SPA, nonetheless we consider the above analysis to be relevant and meaningful as it further supports that the Basis of Buy-back Price is in line with market practice. In this connection, we considered the Basis of Buy-back Price (i.e. the buy-back price being equivalent to the issue price of the consideration share) to be in line with market practice.

Having considered the above factors, including, among others, (i) the Cancellation Price is lower than the original issue price of the Consideration Shares; (ii) the Buy-back Price is at notable discount to the consolidated NAV per Share; (iii) we are given to understand that the Vendor had serious difficulties in raising capital on its own to repay the Repayment Amount and it would be impracticable given the historical low trading volume of the Shares for the Vendor to raise funds via disposal of the Sale Shares in the open market together with the Unissued Share Cancellation in order to settle a significant portion of the Repayment Amount; (iv) the P/B Ratio represented by the Buy-back Price was notably below the average P/B Ratio of the Comparable Companies; (v) although the Buy-back Price represented a premium over the Share price as at the Last Trading Day, such premium is below the average premium of share buy-back price over the closing share price as at the last trading day of the Comparable Transactions; and (vi) the Basis of Buy-back Price (i.e. being equivalent to the original issue price of the consideration shares) is in line with market practice and given that each of the Cancellation Price and the Buy-back Price represent a discount to the original issue price of the consideration shares, which translates into a higher Residual Repayment Amount than if the Cancellation Price and the Buy-back Price were to be set at the original issue price per Consideration Share of HK\$0.90, such is considered to be on normal commercial terms or better, therefore we are of the view that the Cancellation Price and the Buy-back Price are fair and reasonable.

### **5. Effects on the shareholding interest of Shareholders**

As illustrated in the shareholding table under the section headed "Effects on The Shareholding Structure of the Company" in the Letter from the Board, immediately after completion of the Share Buy-back and the Unissued Share Cancellation and assuming there is no other change in the issued share capital of the Company between the Latest Practicable Date up to Completion, the shareholding interest of the other public Shareholders would increase from approximately 43.19% to 45.36%. As such, the Settlement would result in an increase in public float of the Company in terms of percentage shareholding interests in the public's hands.

Furthermore, as set out in the section headed "Potential financial effects of the Settlement" in the Letter from the Board, (i) no cash outflow or payment is to be made by the Company upon Completion; and (ii) the consolidated net asset value attributable to the Shareholders per Share would increase.

Taken into the effects stated above, we concur with the Directors' view that the entering into the Settlement Deed is in the interest of the Shareholders and the Company as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 6. Potential financial effects of the Settlement

As set out in the Letter from the Board, the followings are the financial effects of the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) on the financial performance and the financial position of the Group.

#### *Net assets per Share*

Assuming Completion had taken place on 30 June 2019, the consolidated net asset value attributable to the Shareholders would decrease by approximately RMB27.4 million, on a per Share basis would increase the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2019 per Share by approximately 2.33% from approximately RMB1.29 per Share to approximately RMB1.32 per Share.

#### *Basic earnings per Share*

Assuming that the Completion had taken place on 1 January 2018 and the Sale Shares have been bought back in full and cancelled, the Company's basic earnings per Share for the year ended 31 December 2018 would have increased by approximately 33.3% from approximately RMB0.03 per Share to approximately RMB0.04 per Share.

#### *Total liabilities*

As the Settlement is expected to eliminate the contingent payable associated with the Unissued Shares currently accounted for as liabilities on the financial statements of the Company (although marginally offset by the creation of transactions costs payable), assuming Completion had taken place on 30 June 2019, Completion would reduce the liabilities of the Group as at 30 June 2019 from approximately RMB1,329.7 million to approximately RMB1,327.3 million, being a reduction of approximately RMB2.4 million.

#### *Working capital*

Since the total consideration for the Unissued Share Cancellation and the Share Buy-back would be satisfied by setting off against most of the Repayment Amount, there would be no Shares to be issued to the Vendor and no cash outflow or payment to be made by the Company to the Vendor for the purpose of Completion, the Company is therefore expected to be able to meet its working capital requirements and pay its debts as they fall due in the ordinary course of its business.

Based on the above, the Company considers that the Share Buy-back will have no material adverse effect on the Company's net assets per Share, basic earnings per Share, total liabilities and working capital.



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### RECOMMENDATION

Having considered the above principal factors and reasons, in particular,

- (i) the Settlement Deed is a practical solution considering the difficulties faced by the Vendor in raising capital to settle the Repayable Amount and such would enable the Group to avoid a potentially protracted legal proceedings between the Vendor and the Group;
- (ii) the Cancellation Price is lower than the issue price of HK\$0.9 per Share pursuant to the SPA;
- (iii) the Buy-back Price represents a notable discount to the unaudited net asset value attributable to the Shareholders as at 30 June 2019 per Share of approximately HK\$1.47, as such, the Share Buy-back shall result in an increase in the consolidated net asset value attributable to the Shareholders per Share upon Completion;
- (iv) the implied P/B ratio of the Company under by the Buy-back Price is notably lower than the average P/B ratio of the Comparable Companies;
- (v) the Buy-back Price represented a premium of approximately 25.0% over the closing price of HK\$0.64 per Share as at the Last Trading Day, which is towards the bottom range and below the average premium of closing share price over the share price as at the last trading day of the Comparable Transactions;
- (vi) the Basis of Buy-back Price, whereby the buy-back price is equivalent to the original issue price of the consideration shares, is considered to be in line with market practice, and the Buy-back Price, which represented a discount of approximately 11.1% to the issue price of the Sale Shares and Cancellation Shares, thus each of the Cancellation Price and the Buy-back Price is considered to be on normal commercial terms or better;
- (vii) save for the Vendor, the respective existing Shareholders' equity interest in the Company would be increased upon completion of the Unissued Share Cancellation and the Share Buy-back, and
- (viii) the Settlement Deed and the transactions contemplated thereunder would not have a material effect on the consolidated net asset and working capital of the Group,

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we are of the view that, albeit the Settlement Deed is not entered into in the ordinary and usual course of business of the Group, the terms of the Settlement Deed are normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Takeovers Code IBC and the Listing Rules IBC to advise the Independent Shareholders, to vote in favour of the relevant resolution to be proposed in the EGM to approve the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back).

Yours faithfully  
For and on behalf of  
**Red Sun Capital Limited**  
**Lewis Lai**  
*Managing Director*

*Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 13 years of experience in the corporate finance industry.*



## Consolidated Assets and Liabilities

	As at 31 December		
	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Total assets	2,387,028	2,655,456	2,557,326
Total liabilities	<u>1,312,664</u>	<u>1,616,215</u>	<u>1,671,436</u>
Total equity	<u><u>1,074,364</u></u>	<u><u>1,039,241</u></u>	<u><u>885,890</u></u>
Equity attributable to the Shareholders			
Share capital	77,417	75,458	73,687
Reserves	974,496	936,714	784,444
Non-controlling interests	<u>22,451</u>	<u>27,069</u>	<u>27,759</u>
Total equity	<u><u>1,074,364</u></u>	<u><u>1,039,241</u></u>	<u><u>885,890</u></u>

None of the audited consolidated financial statements of the Group for the three years ended 31 December 2016, 2017 and 2018 contained a qualified opinion.

Save for (i) the impairment losses on the goodwill of the acquisition of the entire issued share capital of Funnytime by the Group in the amount of approximately RMB109.9 million recorded for the year ended 31 December 2018; and (ii) the impairment losses on the carrying value of certain machinery, equipment and production lines, which were then assessed to be obsolete, in the aggregated amount of approximately RMB105.1 million recorded for the year ended 31 December 2016, there were no income or expenses which were material recorded in the audited consolidated financial statements of the Group for the three years ended 31 December 2016, 2017, 2018.

## Interim Results

The following unaudited financial information is extracted from the Company's interim report for the six months ended 30 June 2019 (the "2019 Interim Report"):

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2019</b>	<b>2018</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<u>1,948,913</u>	<u>2,557,297</u>
Profit before taxation	62,687	56,254
Income tax	<u>(7,754)</u>	<u>(7,616)</u>
Profit for the period	<u>54,933</u>	<u>48,638</u>
Attributable to		
the Shareholders	54,496	47,730
the non-controlling interests	437	908
Total comprehensive income for the period	<u>54,979</u>	<u>44,762</u>
Attributable to		
the Shareholders	54,542	43,854
the non-controlling interests	437	908
	<b>RMB cents</b>	<b>RMB cents</b>
Earnings per Share		
Basic	6.39	5.60
Diluted	6.39	5.58
Dividend per Share	nil	nil

## 2. AUDITED AND UNAUDITED FINANCIAL STATEMENTS

The financial information of the Group for each of the three years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 together with the significant accounting policies and the relevant notes thereto are disclosed in the following documents which have been published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company at [www.huanyue.com.hk](http://www.huanyue.com.hk):

- (i) the annual report of the Company for the year ended 31 December 2016 published on 24 April 2017 (pages 59 to 138), which can be accessed via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0424/ltn20170424493.pdf>;
- (ii) the annual report of the Company for the year ended 31 December 2017 published on 27 April 2018 (pages 86 to 166), which can be accessed via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0427/ltn201804272442.pdf>;

- (iii) the annual report of the Company for the year ended 31 December 2018 published on 29 April 2019 (pages 92 to 186), which can be accessed via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltm20190429994.pdf> (the “**2018 Annual Report**”), whereby:
- (a) the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 can be referred to on pages 92 to 93 of the 2018 Annual Report;
  - (b) the consolidated statement of financial position for the year ended 31 December 2018 can be referred to on pages 94 to 95 of the 2018 Annual Report;
  - (c) the consolidated statement of changes in equity for the year ended 31 December 2018 can be referred to on pages 96 to 97 of the 2018 Annual Report;
  - (d) the consolidated statement of cash flows for the year ended 31 December 2018 can be referred to on pages 98 to 99 of the 2018 Annual Report; and
  - (e) the significant accounting policies and the relevant notes to the audited consolidated financial statements for the year ended 31 December 2018 can be referred to on pages 100 to 186 of the 2018 Annual Report.
- (iv) The 2019 Interim Report published on 27 September 2019 (pages 4 to 40), which can be accessed via the link at <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0927/ltm20190927193.pdf>.

### 3. MATERIAL CHANGE

The Directors confirm that, save for the following, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to and including the Latest Practicable Date:

- 1) As set out in the announcement of the Company dated 17 May 2019, a wholly-owned subsidiary of the Company has entered into a land use rights transfer contract with the Cixi City Bureau of Land and Natural Resources (慈溪市人民政府市自然資源和規劃局) on 11 April 2019 in respect of an acquisition of land use rights of a land located at Ningbo Hangzhou Bay New Zone, the PRC (中國寧波杭州灣新區) for a consideration of RMB60,140,000.
- 2) As set out in the announcement of the Company dated 23 September 2019, Mr. Ren has resigned as executive Director and ceased to act as a member of the nomination committee of the Board with effect from 23 September 2019.
- 3) As noted from the unaudited consolidated management accounts of the Company for the 11 months ended 30 November 2019, the Group recorded significant decreases in: (i) finance income; and (ii) finance costs compared to those of the year ended 31 December 2018. The

lower finance income was mainly due to a sharp decrease in the change in fair value of contingent consideration receivables and contingent consideration payables. The decrease in the finance costs was largely attributable to an improvement in the losses resulted from foreign exchange differences.

- 4) As noted from the unaudited consolidated management accounts of the Company for the 11 months ended 30 November 2019, the Group recorded a significant increase in cash and cash equivalents as at 30 November 2019 compared to that as at 31 December 2018, which was mainly attributable to the Group recorded better operating cash inflows compared to the same period of 2018. In addition, the Group applied the International Financial Reporting Standard 16 starting from 1 January 2019, which now reclassified lease prepayments to right-of-use assets.

#### **4. STATEMENT OF INDEBTEDNESS**

At the close of business on 31 December 2019, the Group had outstanding borrowings of RMB838,739,358, comprising of:

- (i) secured bank borrowings of RMB565,251,457;
- (ii) unsecured bank and other borrowings of RMB41,738,715; and
- (iii) unsecured and guaranteed notes of RMB231,749,186.

The Group's secured bank borrowings were secured by properties and machineries held by the Group, and none of the abovementioned borrowings is guaranteed by any third party outside of the Group. In addition, as at 31 December 2019, the Group had lease liability arose from the recognition of right-of-use assets and relevant lease liabilities under International Financial Reporting Standards 16 of RMB1,741,538. Foreign currency amounts have been translated into RMB at the rates of exchange prevailing at the close of business on 31 December 2019. Save as aforesaid, the Group did not have any outstanding mortgages, charges, debentures, other loan capital, bank overdrafts, loans or other similar indebtedness, hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 31 December 2019.

#### **5. BUSINESS REVIEW AND FINANCIAL AND TRADING PROSPECT OF THE GROUP**

##### **Copper Processing Business**

##### ***Market and Industry Review***

The global economic growth has a slowdown in 2019, and under the pressure of economic downturn, it is imperative for the world's major central banks, such as the Federal Reserve, to go back to quantitative easing policies. As the structural issues of the economy are still severe and there is a lack of new long-term growth drivers, only economic policies can stimulate the economy. In the first half of 2019, under the higher pressure of economic downturn, China has adopted reserve cut, tax reduction, acceleration of issuance of local special bonds, advance allocation of central budget

investment, and other measures to promote production. It is expected that the downward pressure on the domestic economy will remain strong in the second half of the year, yet there would still be a greater stability, resilience and potential of economic growth. According to “China Copper Monthly (中國銅業)” issued on 10 January 2020 (the “**January 2020 China Copper Monthly**”) by Beijing Antaike Information Co., Ltd. (北京安泰科信息股份有限公司), a research center providing analysis of the Chinese metals industries and markets, copper price is positively correlated with the global gross domestic product (“**GDP**”). During 2015 to 2019, the global GDP recorded respective growth rates of approximately 3.1%, 3.1%, 3.9%, 3.6% and 3.0%, with the average London Metal Exchange (“**LME**”) copper prices per ton moving in a similar trend, which were approximately USD5,500, USD5,000, USD6,200, USD6,500 and USD6,000 respectively in the same period.

After the meeting between China and the US in the G20 summit, trade talks were decided to restart and the current tension between the US and China has been slightly eased. However, there are still great uncertainties regarding the prospects for Sino-US negotiations. The macroeconomic situation is currently in a short-run equilibrium. The rise in copper prices driven by the news about Chinese and US leaders meeting will be difficult to sustain. Although the meeting between leaders of the US and China stimulated the market to rise, the price of copper fell back eventually. It is expected that the tension between China and the US may become a long-term focus throughout 2019. The current negotiation process still remain slow, and there will be a greater risk on the price of non-ferrous metals in the second half of the year due to the US-China relations. Going forward, Sino-US and European-US trade issues as well as Brexit will still be the key to determine the global economic landscape, and the macroeconomic risks will remain high.

In the first half of 2019, the monthly LME copper prices per ton showed a trend of rising followed by a drop, with the main fluctuation ranging at approximately USD5,700 to 6,600. During mid-April, LME showed a highest copper price reaching approximately USD6,608.5, and then the copper prices began to decline rapidly. The average LME monthly and 3-month copper prices per ton for the first half of 2019 were approximately USD6,167 and USD6,175 respectively, down by approximately 10.82% and 11.13%, respectively compared with the same period of last year. In the second half of 2019, the monthly LME copper prices per ton were varying within the relatively small range of approximately USD5,700 to USD5,900, except that in December 2019, the average monthly price per ton bounced up to approximately USD6,062. There were two major factors contributing to the fluctuations in the copper prices in 2019. being (i) the Sino-US trade issues and (ii) the countercyclical behaviours of national banks and governments across the globe. It was noted that the copper prices fell when the Sino-US trading relations turned sour, and vice versa, once the tension loosened and negotiations between the two countries resumed, the copper prices rose. In relation to the countercyclical behaviours, the national banks and governments exerted less control when the economic development was generally stable, causing the copper prices to continue falling in the lack of constant economic support and drive; whereas more fiscal and monetary policies would be launched and stabilising the copper prices in times of economic downturn.

The copper market in the PRC generally fluctuated in a similar trend with the LME market. Under the environment of worsening Sino-US trading relations with the USD trading higher throughout the year, RMB experienced a slight devaluation in 2019 and slightly strengthening the copper market. The highest and lowest 3-month copper price per ton recorded on the Shanghai Futures Exchange (“**SHFE**”) was approximately RMB50,700 in March and RMB 45,680 in July



respectively. The SHFE 3-month copper price per ton on the last trading day of 2019 was RMB49,150, recording an increase of approximately 1.68% compared with that in 2018. The average SHFE monthly and 3-month copper prices per ton in 2019 were approximately RMB47,701 and RMB47,735 respectively, down by approximately 5.6% and 5.96%, compared with the same period in 2018.

Generally speaking, the low inventory level of copper market, copper concentrate, and tightened supply of scrap copper has provided fundamental support for the copper price, yet the copper price is still subject to the weak demand, the support for copper price is relatively limited. The trend of copper prices in the second half of the year will be greatly subject to the impacts on the performance of the macro-economy, trends of Sino-US trade and the US dollar.

### ***Business Review***

As disclosed in the 2019 Interim Report for the first half of 2019, the Group's copper plates and strips realised a total output of approximately 58,753 tons and total sales volume of approximately 58,238 tons. In the first half of the year, sales revenue of the Group's copper plates and strips business achieved approximately RMB1,933.0 million, representing a decrease of approximately 23.9% as compared to that of the corresponding period of 2018, among which, revenue from the sale of copper products amounted to approximately RMB1,819.7 million, revenue from provision of processing services amounted to approximately RMB90.8 million and revenue of trading amounted to approximately RMB22.5 million, representing a decrease of approximately 18.8%, an increase of approximately 1.0% and a decrease of approximately 89.3% as compared to the corresponding period of last year, respectively. For the six months ended 30 June 2019, the copper business realised a segment profit before taxation (profit before taxation excluding the change in fair value of the contingent consideration receivables and contingent consideration payables) of approximately RMB51.9 million, which decreased by approximately 19.4% as compared to that of the corresponding period of last year, mainly due to the decrease of sales volume of the copper plates and strips.

### ***Business Development***

In 2019, the Group embraced the working guidelines of “expansion and innovation, quality stabilisation and cost reduction, improvement and development”, focusing on “expansion, stability, cost reduction, improvement and development” to conduct various work on the following aspects:

1. Expansion – conducting market expansion by focusing on the scope of usage of products and recyclable non-ferrous metals purchasing such as scrap copper. In the first half of 2019, there were more than 20 new domestic customers in our sales. The market expansion and development of recyclable non-ferrous metals have also increased by approximately 12.6% in terms of volume, as compared to that of the first half of 2018 according to the Group's internal statistics. It significantly lowered the cost of purchasing. In the first half of the year, there were more than 10 new suppliers in our raw material purchasing, providing assurance for adequate raw material supply.

2. Stability – conducting work to maintain stability regarding product quality and staff in key positions. In the first half of the year, there were more than 20 projects going on, focusing on product quality improvement of different business units. During the reporting period, most of the projects have reached our expectation. In order to stabilize our talented personnel pool and improve the overall quality of our personnel, the Group conducted training for its management personnel at junior level in two phases and recruited more than 10 professional technicians in copper plates and strips, with an aim to maintain the standard of personnel for future development.
3. Cost reduction – cost reduction across the board. The Group advocated cost reduction in full effort from all staff by adopting the policy of “special incentives for cost reduction and efficiency enhancement”. The Group rewards general employees with cash bonus for major breakthroughs in market expansion, new product development, cost reduction and efficiency enhancement. During the reporting period, the Group has effectively carried out various cost reduction projects internally, including energy saving and consumption reduction in workshops, purchasing of production accessories, purchasing and matching of raw materials, working capital management, sharing of IT consumables and optimisation of administrative services, and achieved good enhancement.
4. Improvement – focusing on improvements in efficiency and management. The improvement in efficiency was mainly reflected in the development of direct factory customers, enhancement of customer communication, and maximisation of waste utilisation. During the reporting period, the Group held its first customer meeting for its copper processing business and invited more than 100 major customers to visit our factory and exchange ideas. By having such meeting, the Group is able to understand its own shortcomings in all aspects and understand the customer’s needs for new application areas and new products as much as possible. Improvement in management was mainly reflected in aspects such as safety, environmental protection, occupational health, system, and remuneration performance. During the reporting period, safety production, environmental protection, training in occupational health education and fire drills were carried out more than 100 times, with more than 1,000 participants. In addition, the remuneration performance system was optimised to further improve the appraisal system with a main focus on floating assessment and supplemented by fixed assessment.
5. Development – focusing on new product pipeline, technical transformation and others. The Group proposed three “oriented” concepts for new product development, namely, market-oriented, research institute-oriented and industry-oriented. During the reporting period, various new alloy grades were developed, applied to areas including high speed trains, high-end connectors, electronic relays, vehicles and other high-end areas, among which some products have passed trials for customers and started mass distribution. The technical transformation focused on improving safe working environment, product quality, cost reduction and efficiency enhancement, and successfully completed projects such as workshop dust removal and noise reduction, electricity conversion to gas, and heat recycling.

*Outlook*

In 2019, the Group will march forward through innovation and pursuit of excellence, with restructuring its product mix and stable quality as the base, while striving to achieve management innovation as well as efficiency enhancement and cost reduction. The Group will center around “home” culture to embrace the working guidelines of “expansion and innovation, quality stabilisation and cost reduction, improvement and development”, and strive to bring stable returns for our shareholders.

**Online Gaming Business**

In August 2016, the Group completed the acquisition of Funnytime, which mainly engages in the development, distribution and operation of online games through its wholly-owned subsidiary Soul Dargon Limited and a domestic company Zhangyue controlled through contractual agreements.

As disclosed in the 2019 Interim Report, Funnytime achieved total revenue of approximately RMB15.9 million and net profit of approximately RMB10.0 million for the six months ended 30 June 2019, representing a decrease of approximately 3.0% and an increase of approximately 156.4% respectively over the same period of 2018. The increase of net profit is due to the following facts: (1) payables amount of approximately RMB2.6 million to three suppliers were waived; and (2) Funnytime received more government grants by approximately RMB1.7 million than the same period of last year.

*Market and Industry Review*

According to a news release dated 3 January 2020 posted on the website (link to source: <http://www.joynews.cn/jiaodianpic/202001/0332402.html>) of CNG (伽馬數據), a leading research center providing analysis and publications of the China’s Game Industry Reports for the Game Publishers Association Publications Committee of the China Audio-video and Digital Publishing Association (中國音像與數字出版協會遊戲出版工作委員會), the actual sales revenue and of the Chinese game market in 2019 was approximately RMB233 billion, representing a year-on-year growth of approximately 8.7%. In 2019, China's mobile game market is expected to account for about 30% of the global market, leading the global mobile game market.

*Business Review**Operation Center*

In 2019, although the game industry is impacted by relevant national policies, Zhangyue, a subsidiary of the Group's online gaming business which is principally engaged in publishing and operation of games licensed by third-party developers, continued to maintain a sound development in its traditional web game business. Revenue from Art of War and Three Kingdoms (《兵法三國》), Ambition of Three Kingdoms 2 (《三國之志2》) and other web game products maintained to be steady; in the first half of 2019, Zhangyue expanded its mobile game business, various mobile game projects distributed, such as Siege Three Kingdoms (《攻城三國》), gained popularity with monthly active users of over 260,000 on average for the first half of 2019, and over the course of 2019, the number was approximately 180,000. The market for mini games flourished in 2019 with Tencent, Alibaba, ByteDance and other companies joining the market. In the second half of the year, Zhangyue will focus on maintaining the existing mini games as well as introducing and launching more products; at the same time, in order to cope with the change of the relevant policies for the industry and the wave of game globalisation, Zhangyue will proactively develop overseas market. The first product has been launched in Southeast Asia in June 2019 and other 3 products are being proposed for launching overseas in 2020. Moreover, we plan to launch a mobile game featuring authorised adoption of anime characters in the second half of the year globally.

*Research and Development Center*

In the first half of 2019, Zhangyue combined its capacity in research and development with the latest market demand of the gaming industry to focus on mini games research and development. Self-developed mini game "Zhe Jiu Shi Xiu Xian A" (《這就是修仙啊》) was launched in the first half of the year. As a casual mini game, its performance has surpassed other products in the same category and received positive feedback from the market. Another mini game has been launched in the second half of the year. Besides, Zhangyue will attempt cross-industry collaboration and work with extensive entertainment content in the future to expand the path for Zhangyue self-developed products.

*The unaudited pro forma financial information should be read in conjunction with the financial information of the Group set out in the Group's published annual reports and interim reports, and other financial information included elsewhere in this Circular.*

## UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

### 1. Unaudited pro forma adjusted net assets

The following unaudited pro forma adjusted net assets of the Group as at 30 June 2019 is prepared based on the Group's unaudited consolidated statement of financial position as at 30 June 2019 as extracted from the published interim report of the Group for the six months ended 30 June 2019, and adjusted on a pro forma basis to illustrate the effects of the settlement deed dated 23 January 2020 entered into between the Company, Xingye Investment Holdings Limited (the Company's wholly owned subsidiary), Mobilefun Limited (the "Vendor"), and the Vendor's guarantors (the "Settlement Deed") on the net assets of the Group, as if it had taken place on 30 June 2019.

The unaudited pro forma adjusted net assets of the Group has been prepared by the Directors in accordance with Paragraph 4.29 of the Listing Rules and on the basis set out below for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the net assets of the Group had the Settlement Deed taken place as of the specified date or any other dates.

	Pro forma adjustments				Unaudited pro forma adjusted consolidated net assets attributable to the equity shareholders of the Company as at 30 June 2019	Unaudited pro forma adjusted consolidated net assets attributable to the equity shareholders of the Company per share immediately upon the completion of the Settlement Deed
	The Unissued Shares Cancellation	The Share Buy-back	The Residual Repayment Arrangement	Unaudited pro forma adjusted consolidated net assets attributable to the equity shareholders of the Company		
	RMB'000 (Note 1)	RMB'000 (Note 2(a))	RMB'000 (Note 2(b))	RMB'000 (Note 2(c))	RMB'000	RMB (Note 3)
The Settlement Deed	1,106,550	3,787	(30,204)	(1,026)	1,079,107	1.32

*Notes:*

- (1) The unaudited consolidated net assets attributable to the equity shareholders of the Company as at 30 June 2019 is extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2019 as set forth in the interim report of the Group for the six months ended 30 June 2019.
- (2) The unaudited pro forma adjusted consolidated net assets attributable to the equity shareholders of the Company as at 30 June 2019 would be arrived after the following adjustments:
  - (a) a reduction of contingent consideration payables of RMB3,787,000, which was the fair value of 6,424,734 consideration shares as at 30 Jun 2019 and extracted from the published interim financial report of the Group as at and for the six months ended 30 June 2019, as a result of the cancellation of the issuance of the 6,424,734 consideration shares payable to the Vendor (the “**Unissued Shares Cancellation**”);
  - (b) an aggregate increase in payables of RMB 30,204,000 as a result of (i) buy-back and cancellation of 41,000,000 shares held by the Vendor, resulting in an increase in payables of RMB28,854,000 (based on the agreed price of HK\$0.80 per share (approximately RMB0.70 per share)) and (ii) an increase in payables of approximately RMB1,350,000 for transaction costs, including legal, accounting and other professional parties, which are directly attributable to the Settlement Deed (the “**Share Buy-back**”); and
  - (c) a reduction of net assets of RMB1,026,000 where the contingent consideration receivables of RMB31,812,000, which was the fair value of the cash settlement by the Vendor as at 30 Jun 2019 and extracted from the published interim financial report of the Group as at and for the six months ended 30 June 2019, will be net off against i) the payables of RMB28,854,000 for the Share Buy-back as per note 2(b) above and ii) cash of HK\$2,195,780 (approximately RMB1,932,000) paid by the Vendor, as per the Settlement Deed (the “**Residual Repayment Arrangement**”).

In connection with the preparation of the unaudited pro forma adjusted net assets, the amounts in RMB were converted to Hong Kong dollars at the People’s Bank of China (“**PBOC**”) rate of approximately HK\$1.00 to RMB0.8797. No representation is made that the Hong Kong dollars amount have been, could have been or may be converted to RMB, or vice versa at that rate or any other rate.

- (3) The unaudited pro forma adjusted consolidated net assets attributable to the equity shareholders of the Company per share immediately upon the completion of the Settlement Deed is based on the unaudited pro forma adjusted consolidated net assets attributable to the equity shareholders of the Company as at 30 June 2019 of approximately RMB1,079,107,000 as detailed above divided by 814,558,173 shares in issue upon the completion of the Settlement Deed, which is calculated by 855,558,173 shares in issue as at 30 June 2019 and reduced by 41,000,000 shares repurchased.
- (4) No adjustment has been made to the unaudited pro forma adjusted net assets attributable to the equity shareholders of the Company to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2019.

## 2. Unaudited pro forma adjusted basic earnings per share

The following unaudited pro forma adjusted basic earnings per share of the Group for the year ended 31 December 2018 is prepared based on the Group's consolidated statement of profit or loss for the year ended 31 December 2018 as extracted from the published annual report of the Group for the year ended 31 December 2018, and adjusted on a pro forma basis to illustrate the effects of the Settlement Deed on basic earnings per share, as if it had taken place on 1 January 2018.

The unaudited pro forma adjusted basic earnings per share of the Group has been prepared by the Directors in accordance with Paragraph 4.29 of the Listing Rules and on the basis set out below for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the basic earnings per share of the Group had the Settlement Deed taken place as of the specified date or any other dates.

Audited consolidated profit attributable to the equity shareholders of the Company for the year ended 31 December 2018	Pro forma adjustments				Unaudited pro forma adjusted profit attributable to the equity shareholders of the Company	Unaudited pro forma adjusted basic earnings per share immediately upon the completion of the Settlement Deed
	The Unissued Shares Cancellation	The Share Buy-back	The Residual Repayment Arrangement	the equity shareholders of the Company		
RMB'000 (Note 1)	RMB'000 (Note 2(a))	RMB'000 (Note 2(b))	RMB'000 (Note 2(c))	RMB'000	RMB	
The Settlement Deed	27,529	3,828	2,741	(295)	33,803	0.04

*Notes:*

- (1) The audited consolidated profit attributable to the equity shareholders of the Company for the year ended 31 December 2018 is extracted from the consolidated statement of profit or loss of the Group for the year ended 31 December 2018 as set forth in the annual report of the Group for the year ended 31 December 2018.

- (2) The pro forma adjusted consolidated profit attributable to the equity shareholders of the Company for the year ended 31 December 2018 as if the Settlement Deed had taken place on 1 January 2018 would be arrived after the following adjustments:
- (a) a gain of RMB3,828,000 for the year ended 31 December 2018, which was the fair value of 6,424,734 consideration shares as at 31 December 2018 and extracted from the published annual consolidated financial statements of the Group as at and for the year ended 31 December 2018, arising from the cancellation of the issuance of the 6,424,734 consideration shares payable to the Vendor (the “**Unissued Shares Cancellation**”);
  - (b) a gain of RMB2,741,000 for the year ended 31 December 2018, arising from the buy-back and cancellation of 41,000,000 shares held by the Vendor on 1 January 2018 which accounts for the difference between the payables of RMB27,418,000 for the Share Buy-back, based on the agreed price of HK\$0.80 (approximately RMB0.67) per share as per the Settlement Deed and the aggregate market price of these shares at the closing share price as at 1 January 2018 of HK\$0.88 (approximately RMB0.74) per share (the “**Share Buy-back**”); and
  - (c) a loss of RMB295,000 for the year ended 31 December 2018 where the contingent consideration receivables of RMB29,548,000, which was the fair value of the cash settlement by the Vendor as at 31 December 2018 and extracted from the published annual consolidated financial statements of the Group as at and for the year ended 31 December 2018 will be net off against i) the payables of RMB27,418,000 for the Share Buy-back as per note 2(b) above and ii) cash of HK\$2,195,780 (approximately RMB1,835,000) paid by the Vendor, as per the Settlement Deed (the “**Residual Repayment Arrangement**”)

None of the adjustments above are expected to have a continuing effect on the Group.

In connection with the preparation of the unaudited pro forma adjusted basic earnings per share, the amounts in RMB above are converted to Hong Kong dollars at the PBOC rate of approximately HK\$1.00 to RMB0.8359. No representation is made that the Hong Kong dollars amount have been, could have been or may be converted to RMB, or vice versa at that rate or any other rate.

- (3) The unaudited pro forma adjusted basic earnings per share immediately upon the completion of the Settlement Deed is based on the unaudited pro forma adjusted consolidated profit attributable to the equity shareholders of the Company of approximately RMB33,803,000 as detailed above divided by the adjusted weighted average number of shares in issue of 811,912,033 shares upon the completion of the Settlement Deed, which is calculated by the weighted average number of 852,912,033 shares in issue during the year ended 31 December 2018 and reduced by 41,000,000 shares repurchased on 1 January 2018.
- (4) No adjustment has been made to the unaudited pro forma adjusted basic earnings per share to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2018.



*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.*



## INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

### TO THE DIRECTORS OF HUAN YUE INTERACTIVE HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Huan Yue Interactive Holdings Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma adjusted net assets as at 30 June 2019 and the unaudited pro forma adjusted basic earnings per share for the year ended 31 December 2018 and related notes as set out in Part 1 and 2 of Appendix II to the circular dated 13 February 2020 in connection with the disclosable and connected transaction involving off-market share buy-back by the Company (the “**Circular**”) issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part 1 and 2 of Appendix II to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the settlement deed dated 23 January 2020 entered into between the Company, Xingye Investment Holdings Limited (the Company's wholly owned subsidiary), Mobilefun Limited (the “**Vendor**”), and the Vendor's guarantors (the “**Settlement Deed**”) on the Group's net assets as at 30 June 2019 and the Group's basic earnings per share for the year ended 31 December 2018 as if the Settlement Deed had taken place at 30 June 2019 and 1 January 2018, respectively. As part of this process, information about the Group's net assets as at 30 June 2019 has been extracted by the Directors from the interim report of the Group for the six months ended 30 June 2019 on which no review report has been published. Information about the Group's basic earnings per share for the year ended 31 December 2018 has been extracted by the Directors from the annual report of the Group for the year ended 31 December 2018 on which an audit report has been published.

### Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2019 or 1 January 2018 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group, and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**KPMG***Certified Public Accountants*

Hong Kong

13 February 2020

## 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 Group. 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 is no omission of other matters which would make any statement herein or this circular misleading.

This circular includes particulars given in compliance with the Share Buy-back Code and the Takeovers Code for the purpose of giving information with regard to the Group and the Vendor. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was, and as a result of the Share Buy-back will be, as follows:

<i>Authorised share capital</i>		<i>HK\$</i>
<u>5,000,000,000</u>	Shares as at the Latest Practicable Date	<u>500,000,000.00</u>
 <i>Issued and fully paid share capital or credited as fully paid</i>		
855,558,173	Shares as at the Latest Practicable Date	85,555,817.30
<u>(41,000,000)</u>	Shares to be bought back and cancelled pursuant to the Share Buy-back	<u>4,100,000.00</u>
<u>814,558,173</u>	Shares after cancellation of the Buy-back Shares	<u>81,455,817.30</u>

All the Shares in issue (including the Buy-back Shares) rank pari passu in all respects with each other including as regards to dividends, voting rights and return of capital. The Shares in issue are listed on the Stock Exchange.

Since the adoption of the Share Award Scheme on 18 April 2016, there had been 11,060,000 award Shares granted at the sole discretion of the Board under the Share Award Scheme of which 5,800,000 award Shares were vested with no vesting condition except the grantee shall remain as an employee of the Company, and 5,260,000 award Shares were unvested as at the Latest Practicable Date. The Company is not aware of any impact the award Shares have on the Share Buy-back.

The Company did not have any outstanding options, derivatives, warrants or relevant securities which are convertibles or exchangeable into Shares or other types of equity interests of the Company as at the Latest Practicable Date.

Since 31 December 2018, being the date to which the latest audited consolidated accounts of the Company were made up, and up to the Latest Practicable Date, there had not been any new issue of Shares and buy-back of Shares.

There had been no reorganisation of capital of the Company during the two financial years preceding the date of the Announcement.

On 16 April 2018, 24,445,556 Shares were duly issued to the Vendor pursuant to the SPA, with issue price of HK\$0.9 per Share, amounting to an aggregate of HK\$22,001,000.4 as settlement of the contingent consideration share payable for the performance year of 2017 of the Funnytime Group.

### 3. DIVIDENDS

The Company had not declared any dividends to the Shareholders during the two years immediately preceding the date of this circular. The Directors are of the view that the ability of the Company to pay dividends will depend on, among other things, the Group's operation and financial performance, cash flows, operating and capital requirements, and the requirements of the applicable laws and regulations. The Company has no plan or intention to alter its present dividend policy.

### 4. MARKET PRICE

The table below sets out the closing prices of the Shares on the Stock Exchange (i) at the end of each of the calendar months during the 6 months immediately preceding 23 January 2020, being the date of the Announcement; (ii) on 23 January 2020, being the last trading day immediately preceding the Announcement; and (iii) on the Latest Practicable Date.

<b>Date</b>	<b>Closing price per Share</b> <i>HK\$</i>
30 August 2019	0.58
30 September 2019	0.50
31 October 2019	0.51
29 November 2019	0.51
31 December 2019	0.63
23 January 2020	0.64
31 January 2020	0.65
Latest Practicable Date	0.57

The lowest and highest closing market prices of the Shares recorded on the Stock Exchange during the period commencing 6 months preceding 23 January 2020, being the date of the Announcement and ending on the Latest Practicable Date were HK\$0.475 on 2 December 2019 and HK\$0.66 on 6 January 2020 and 3 February 2020, respectively.

## 5. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the following Directors or chief executive of the Company had or were deemed to have interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required 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 provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Name of Directors	Capacity/Nature of Interest	Number of Shares held	Number of Underlying Shares held	Approximate percentage of shareholding <i>(Note 1)</i>
HU Changyuan	Founder of a discretionary trust/ other Interest	265,200,000 <i>(Note 2)</i>	–	31.00%
	Interest of a controlled corporation/ corporate interest	13,213,000 <i>(Note 3)</i>	–	1.54%
	Beneficial owner/personal interest	300,000	200,000 <i>(Note 4)</i>	0.06%
HU Minglie	Beneficial owner/personal interest	2,603,000	1,000,000 <i>(Note 4)</i>	0.42%
CHAI Chaoming	Beneficial owner/personal interest	234,000	100,000 <i>(Note 4)</i>	0.04%
LU Hong	Beneficial owner/personal interest	300,000	100,000 <i>(Note 4)</i>	0.05%
Mr. Zhu	Beneficial owner/personal interest	300,000	200,000 <i>(Note 4)</i>	0.06%

Name of Directors	Capacity/Nature of Interest	Number of Shares held	Number of Underlying Shares held	Approximate percentage of shareholding (Note 1)
DAI Jianchun	Beneficial owner/personal interest	100,000	100,000 (Note 4)	0.02%
LOU Dong	Beneficial owner/personal interest	100,000	100,000 (Note 4)	0.02%

*Notes:*

1. The percentages are calculated based on the total issued Shares of 855,558,173 as at the Latest Practicable Date.
2. These 265,200,000 Shares were held by Luckie Strike Limited and Come Fortune International Limited which were wholly owned by Dynamic Empire Holdings Limited as at the Latest Practicable Date. The entire issued share capital of Dynamic Empire Holdings Limited was beneficially owned by the Hu Family Trust which was founded by Mr. HU Changyuan. Mr. HU was deemed to be interested in these Shares by virtue of the SFO.
3. These 13,213,000 Shares are held by Regency Success Limited, which is 100% controlled by Mr. Hu Changyuan. Mr. Hu was deemed to be interested in these Shares by virtue of the SFO.
4. These underlying Shares held by Directors are award Shares granted to the Directors under the Share Award Scheme on 13 December 2017. The first tranche was vested on 13 December 2017, and the rest will be vested on 13 December 2020 and 13 December 2021 respectively. Details of the said grant and extension of vesting dates are set out in the announcements of the Company on 13 December 2017, 13 December 2018 and 26 November 2019, respectively.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company held or was deemed to hold any interests or short positions in the Shares or underlying Shares of the Company or any of its associated corporations (as defined in the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or were required to be recorded in the register required to be kept pursuant to section 352 of the SFO, or is otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## 6. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, as far as the Directors are aware, the following persons had a long position or short position in the Shares, underlying Shares or debentures 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 or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares held	Number of Underlying Shares	Approximate percentage of shareholding (Note 1)
Luckie Strike Limited	Beneficial owner/Beneficial interest	110,000,000 (L)	–	12.86%
Come Fortune International Limited	Beneficial owner/Beneficial interest	155,200,000 (L)	–	18.14%
Dynamic Empire Holdings Limited (Note 2)	Interest of a controlled corporation/ Corporate interest	265,200,000 (L)	–	31.00%
Nomura Holdings Inc. (Note 3)	Custodian (other than an exempt custodian interest/other interest)	239,400,000 (L)	–	27.98%
Zedra Trust Company (Singapore) Limited (Note 4)	Trustee (other than a bare trustee)/ Other Interest	265,200,000 (L)	–	31.00%
Zedra Malta Limited (Note 4)	Interest of a controlled corporation/ Corporate interest	265,200,000 (L)	–	31.00%
Zedra Holding SA (Note 4)	Interest of a controlled corporation/ Corporate interest	265,200,000 (L)	–	31.00%
Zedra SA (Note 4)	Interest of a controlled corporation/ Corporate interest	265,200,000 (L)	–	31.00%
Yu Yuesu (Note 5)	Interest of spouse/Family interest	278,713,000 (L)	200,000 (L)	32.60%
Bostone (Note 6)	Beneficial owner/Beneficial interest	128,379,000 (L)	–	15.01%



Name of Shareholder	Capacity/Nature of Interest	Number of Shares held	Number of Underlying Shares	Approximate percentage of shareholding (Note 1)
Xie Shicai (Note 6)	Interest of a controlled corporation/ Corporate interest	128,379,000 (L)	–	15.01%
Ma Jiafeng (Note 6)	Interest of a controlled corporation/ Corporate interest	128,379,000 (L)	–	15.01%
The Vendor (Note 7)	Beneficial owner/Beneficial interest	44,442,223 (L)	6,424,734 (L)	5.95%
Mr. Ren	Interest of a controlled corporation/ corporate interest	44,442,223 (Note 7)	6,424,734 (Note 7)	5.95%
	Beneficial owner/personal interest	300,000	200,000 (Note 8)	0.06%

The letter “S” denotes a short position in the share

The letter “L” denotes a long position in the share

*Notes:*

1. The percentages are calculated based on the total issued Shares of 814,558,173 as at the Latest Practicable Date.
2. The Shares were held by Luckie Strike Limited and Come Fortune International Limited which were wholly owned by Dynamic Empire Holdings Limited. The entire issued share capital of Dynamic Empire Holdings Limited was beneficially owned by the Hu Family Trust, the trustee of which was Zedra Trust Company (Singapore) Limited. Dynamic Empire Holdings Limited was deemed to be interested in all the Shares in which each of Luckie Strike Limited and Come Fortune International Limited was interested by virtue of the SFO. Zedra Trust Company (Singapore) Limited was deemed to be interested in all the Shares in which Dynamic Empire Holdings Limited was interested by virtue of the SFO. The Shares registered in the name of Luckie Strike Limited and Come Fortune International Limited were also disclosed as the interest of Mr. HU Changyuan in the section headed “Disclosure of interests” above.
3. The custodian of these 239,400,000 Shares was Nomura Singapore Limited. Nomura Holdings Inc., through its 100% controlled corporation was interested in these Shares which were deemed to be interested by Nomura Singapore Limited as custodian. Nomura Singapore Limited was indirectly wholly-owned by Nomura Holdings Inc.
4. Zedra SA, through its 100% controlled corporations (including Zedra Holding SA and Zedra Malta Limited), was interested in 265,200,000 Shares which were deemed to be interested by Zedra Trust Company (Singapore) Limited as trustee. Zedra Trust Company (Singapore) Limited was indirectly wholly owned by Zedra SA. Each of Zedra SA, Zedra Holding SA and Zedra Malta Limited was deemed to be interested in all the Shares in which Zedra Trust Company (Singapore) Limited were deemed to be interested by virtue of the SFO.
5. Ms. YU Yuesu was deemed to be interested in these Shares and underlying Shares under the SFO by virtue of being the spouse of Mr. HU Changyuan. The underlying Shares represent the awarded Shares granted to Mr. HU Changyuan under the Share Award Scheme.

6. Bostone is beneficially owned by Ms. Ma Jiafeng and Mr. Xie Shicai. Ms. Ma Jiafeng owns 65.67% of the entire issued capital of Bostone, and Mr. Xie Shicai owns the rest 34.33% equity. Both Ms. Ma Jiafeng and Mr. Xie Shicai were deemed to be interested in the Shares held by Bostone by virtue of the SFO. To the best knowledge of Directors, Mr. Xie Shicai is the ultimate controlling shareholder of Ningbo Boway Alloy Material Company Limited, a listed company in Shanghai Stock Exchange (Stock Code: 601137.SH). Ms. Ma Jiafeng is the spouse of Mr. Xie Shicai. Ningbo Boway Alloy Materials Company Limited manufactures and sells high-performance, high-precision, non-ferrous alloy bars, wires and plate-strips, and is a direct competitor of the Group's copper processing business.
7. These 44,442,223 Shares and 6,424,734 underlying Shares are held by the Vendor, which in turn is 72% controlled by Mr. Ren as at the Latest Practicable Date. Accordingly, Mr. Ren is deemed to have interest in 44,442,223 Shares and 6,424,734 underlying Shares held by the Vendor under the SFO.
8. These underlying Shares held by Mr. Ren are award Shares granted to him being a Director (as he then was) under the Share Award Scheme on 13 December 2017. Further details of these underlying Shares held by Mr. Ren are set out in note 4 to the section hereinbefore headed "Disclosure of Interests" in this circular.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors are aware, there were no other person, other than the Directors and chief executive of the Company as disclosed above, who had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## 7. SHAREHOLDINGS AND DEALINGS

- (i) Save as disclosed in the section headed "Disclosure of Interests" in this appendix above, none of the Directors or any persons acting in concert with them were interested in the Shares during the Relevant Period;
- (ii) no Shareholders had irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM in relation to the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) as at the Latest Practicable Date;
- (iii) to the best knowledge of the Directors, none of the holders of 10% or more of the voting rights of the Company had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
- (iv) none of the Directors or any persons acting in concert with them had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period;
- (v) none of the Directors or any persons acting in concert with them had borrowed or lent any Shares, warrants, options, convertible securities or derivatives of the Company during the Relevant Period; and
- (vi) Mr. Hu Changyuan, Mr. Hu Minglie, Mr. Dai Jianchun, Mr. Chai Chaoming, Dr. Lou Dong and Ms. Lu Hong have advised that they intend to vote in favour of the resolution to be proposed at the EGM in relation to the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) in respect of their own beneficial shareholdings in the Company. Mr. Zhu is considered to interested or involved in the

Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back), together with the Vendor, Mr. Ren and Mr. Yang, are required to abstain from voting under the Share Buy-back Code and the Listing Rules.

#### **8. INTERESTS IN THE GROUP'S ASSETS/CONTRACTS AND OTHER INTERESTS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired by or disposed of or leased to any member of the Group or are proposed to be acquired by or disposed of or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, none of the Directors were materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

#### **9. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors or their respective close associates were interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

#### **10. DIRECTORS' SERVICE CONTRACTS**

Each of the executive Directors had entered into a service contract with the Company with effect from their respective date of appointment until terminated in accordance with the term of the service contracts. Under the service contracts, either the executive Director or the Company may terminate such appointment at any time by giving to the other not less than three months' prior notice in writing. The non-executive Director and each of the independent non-executive Directors had entered into an appointment letter with the Company and were appointed for a term of 3 years. As at the Latest Practicable Date, no Directors had a service contract with the Company or any of its subsidiaries which was not determinable by the Group within one year without payment of compensation, other than statutory compensation.

#### **11. MATERIAL LITIGATION**

The Directors confirm that, as far as they are aware as at the Latest Practicable Date, the Group was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Group immediately preceding the Latest Practicable Date.

#### **12. MATERIAL CONTRACTS**

Save for and except for the transactions disclosed below, there were no material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) being entered into by any member of the Group within the two years immediately preceding the Latest Practicable Date:

- (i) the Settlement Deed (containing the terms of the Share Buy-back); and

- (ii) a land use rights transfer contract dated 17 May 2019 entered into between Ningbo Xinyue Alloy Material Co., Ltd. (寧波鑫悅合金材料有限公司), which is a wholly-owned subsidiary of the Company, and Cixi City Bureau of Land and Natural Resources (慈溪市人民政府市自然資源和規劃局) in relation to an acquisition of land use rights of the Yongxin (甬新) G-203# land lot in Ningbo Hangzhou Bay New Zone, the PRC at a consideration of RMB60,140,000.

### 13. EXPERTS AND CONSENTS

<b>Name</b>	<b>Qualification</b>
Opus Capital Limited	A licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the financial adviser to the Company in connection with the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back)
Red Sun Capital Limited	A licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the Independent Financial Adviser
KPMG	Certified public accountants, being the reporting accountants to the Company in respect of the unaudited pro forma financial information of the Group

As at the Latest Practicable Date, each of the abovementioned experts 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 any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have 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 since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

Each of the abovementioned experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report and/or references to its name, in the form and context in which it is included.

### 14. MISCELLANEOUS

- (i) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (ii) The head office and principal place of business of the Company in Hong Kong is located at Flat 11, 11th Floor, Hung Tai Industrial Building, 37-39 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

- (iii) The company secretary of the Company is Ms. Mui Ngar May, Joel.
- (iv) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (v) Opus Capital Limited, being the financial adviser to the Company, the registered office of which is located at 18/F, Fung House, 19-20 Connaught Road Central, Central, Hong Kong.
- (vi) Red Sun Capital Limited, being the Independent Financial Adviser, the registered office of which is located at Room 3303, 33/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong.
- (vii) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in the case of any inconsistency.

#### **15. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection (i) during normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 12:30 p.m. and from 2:00 p.m. to 5:00 p.m. at the head office and principal place of business of the Company in Hong Kong; (ii) on the website of the Company at [www.huanyue.com.hk](http://www.huanyue.com.hk); and (iii) on the website of the SFC at [www.sfc.hk](http://www.sfc.hk) from the date of this circular up to and including the date of the EGM:

- (i) the memorandum and articles of association of the Company;
- (ii) the annual reports of the Company for the two years ended 31 December 2017 and 2018;
- (iii) the interim report of the Company for the six months ended 30 June 2019;
- (iv) the letter from the Board, the text of which is set out on pages 7 to 26 of this circular;
- (v) the letter from the Listing Rules IBC, the text of which is set out on pages 27 to 28 of this circular;
- (vi) the letter from the Takeovers Code IBC, the text of which is set out on pages 29 to 30 of this circular;
- (vii) the letter from the IFA to the Listing Rules IBC, the Takeovers Code IBC and the Independent Shareholders, the text of which is set out on pages 31 to 56 of this circular;
- (viii) the letter from KPMG in respect of the unaudited pro forma financial information of the Group, the text of which is set out on pages II-1 to II-7 of this circular;
- (ix) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (x) the SPA;

- (xi) the Settlement Deed;
- (xii) the written consents referred to in the section headed “Experts and Consents” in this appendix;
- (xiii) the January 2020 China Copper Monthly; and
- (xiv) this circular.

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## NOTICE OF THE EGM

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### **Huan Yue Interactive Holdings Limited**

### **歡悅互娛控股有限公司**

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

**(Stock Code: 505)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Huan Yue Interactive Holdings Limited (the “**Company**”) will be held at 2:00 p.m. on Monday, 9 March 2020 at Room 1106, Tower A, Lvdi Hai-waitan Building, No. 818, Longhua East Road, Huangpu District, Shanghai, the PRC for the purpose of considering and, if thought fit, by way of poll, passing (with or without modifications), the following resolution of the Company as a special resolution of the Company: Unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 13 February 2020.

#### **SPECIAL RESOLUTION**

**“THAT:**

- (i) the entering into of the Settlement Deed dated 23 January 2020 entered into between the Company, Xingye, the Vendor, and the Guarantors. in relation to the Settlement (a copy of the Settlement Deed is marked “A” and produced to the EGM and signed by the chairman of the EGM for identification purpose), pursuant to which (i) the Company shall cancel the issuance of, and be relieved from the obligation to issue, the Unissued Shares at the Cancellation Price of HK\$0.80 per Share (i.e. the Share Cancellation); (ii) the Company shall buy back the Sale Shares from the Vendor at the Buy-back Price of HK\$0.80 per Share (i.e. the Share Buy-back); and (iii) the Vendor shall repay the Residual Repayment Amount in cash to the Company (i.e. the Residual Repayment Arrangement), and all the transactions contemplated thereunder and all other matters of and incidental thereto or in connection therewith be and are hereby approved, ratified and confirmed;
- (ii) subject to the approval having been granted by the Executive and not having been withdrawn, the Share Buy-back be and is hereby approved and any one Director or (if affixing of seal is required) any two Directors be and is/are hereby authorised to sign and execute such documents (including under seal where applicable) and to do all such acts and things incidental to the Share Buy-back or as he/they consider(s) necessary, desirable or expedient to implement or give effect to the Share Buy-back; and
- (iii) that any one Director or (if affixing of seal is required) any two Directors be hereby authorised for and on behalf of the Company, among other things, to sign, execute, perfect, deliver (including under seal where applicable) and to authorise the signing, executing, perfecting, delivering (including under seal where applicable) of all such documents and deeds, and to do or authorise doing all such acts, matters and things as he/they may in his/their absolute

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## NOTICE OF THE EGM

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discretion consider necessary, expedient or desirable to give effect to, implement and/or complete all matters in connection with the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the Settlement Deed as he/they may in his/their absolute discretion consider to be desirable and in the interest of the Company and all of such acts of director(s) as aforesaid be and are hereby approved, ratified and confirmed.”

By Order of the Board  
**Huan Yue Interactive Holdings Limited**  
**Hu Minglie**  
*Chief Executive Officer and Executive Director*

Hong Kong, 13 February 2020

*Registered office:*

Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal place of business in the PRC:*

No. 68, Jin Xi Road  
Hangzhou Bay New Zone  
Ningbo  
Zhejiang Province  
315336, PRC

*Principal place of business in Hong Kong:*

Flat 11, 11<sup>th</sup> Floor  
Hung Tai Industrial Building  
37-39 Hung To Road, Kwun Tong  
Kowloon, Hong Kong

*Notes:*

1. Any member of the Company entitled to attend and vote at the above meeting of the Company is entitled to appoint a proxy to attend and vote instead of him. A member of the Company who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the above meeting of the Company. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed or, a certified copy of such power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the meeting or any adjournment thereof and in such event, the form of proxy shall be deemed to be revoked.
4. Where there are joint holders of any share, any one of such joint holder may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.



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## NOTICE OF THE EGM

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5. The register of members of the Company will be closed from Wednesday, 4 March 2020 to Monday, 9 March 2020 (both dates inclusive) during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the above meeting, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 3 March 2020 for registration.
  
6. As at the date of this notice, the executive Directors are Mr. Hu Changyuan, Mr. Hu Minglie and Mr. Zhu Wenjun, the non-executive Director is Mr. Dai Jianchun and the independent non-executive Directors are Ms. Lu Hong, Mr. Chai Chaoming and Dr. Lou Dong.