
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1003)

(I) CONNECTED TRANSACTIONS: THE FILM PRODUCTION AGREEMENT AND THE DIRECTOR AGREEMENT; AND (II) NOTICE OF SPECIAL GENERAL MEETING

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

Nuada Limited

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

A letter from the Board is set out from pages 5 to 16 of this circular. A letter from the Independent Board Committee is set out on pages 17 to 18 of this circular. A letter from Nuada, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out from pages 19 to 33 of this circular.

A notice convening the SGM to be held at 11:00 a.m. on Monday, 21 February 2022 at The Executive Centre, Level 35, Two Pacific Place, No. 88 Queensway, Admiralty, Hong Kong is set out on pages SGM-1 to SGM-3 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 11:00 a.m. on Saturday, 19 February 2022 or not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

Please see the section headed “**PRECAUTIONARY MEASURES FOR THE SGM**” in the letter from the Board in this circular for measures being taken to try to prevent and control the spread of the Coronavirus Disease (“**COVID-19**”) at the SGM.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	17
LETTER FROM NUADA	19
APPENDIX – GENERAL INFORMATION	34
NOTICE OF SGM	SGM-1

DEFINITIONS

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

“Advertisement Sponsorship”	as defined in the paragraph headed “Additional income resulting from advertisement” under the section headed “Principal Terms of the Film Production Agreement” in the Letter from the Board in this circular
“Agreements”	the Film Production Agreement and the Director Agreement
“Announcement”	the announcement of the Company dated 20 December 2021 in relation to, among other things, the Agreements and the transactions contemplated thereunder
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“close associate”	has the meaning ascribed to it under the Listing Rules
“Company”	Huanxi Media Group Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Director Agreement”	the director agreement dated 20 December 2021 entered into between the Company and Mr. Ning Hao
“Director Fee”	as defined in the paragraph headed “Director Fee” under the section headed “Principal Terms of the Director Agreement” in the Letter from the Board in this circular
“Dirty Monkey Tianjin”	天津壞猴子影業有限公司 (Tianjin Dirty Monkey Films Company Limited*), a company established in the PRC and is ultimately owned as to over 50% by Mr. Ning Hao, a non-executive director of the Company
“Film”	a film tentatively named as <i>Red Carpet</i> (全民明星) (subject to confirmation in the film release permit)
“Film Production Agreement”	the film production agreement dated 20 December 2021 entered into between the Group Companies and Hainan Ruri Fangsheng

DEFINITIONS

“Film Production Services”	as defined in the paragraph headed “Subject matter” under the section headed “Principal Terms of the Film Production Agreement” in the Letter from the Board in this circular
“Film Total Production Costs”	as defined in the paragraph headed “Film Total Production Costs” under the section headed “Principal Terms of the Film Production Agreement” in the Letter from the Board in this circular
“Group”	the Company and its subsidiaries
“Group Companies”	Huanxi and Taizhou Huanxi
“Hainan Ruri Fangsheng”	海南如日方升影視文化傳播有限公司 (Hainan Ruri Fangsheng Film and Television Culture Communication Company Limited*), a company established in the PRC with limited liability and is principally engaged in movie production
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huan Huan Xi Xi”	歡歡喜喜(天津)文化投資有限公司 (Huan Huan Xi Xi (Tianjin) Culture Investment Company Limited*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Huanxi”	北京歡十喜文化傳媒有限公司 (Beijing Huan Jia Xi Media Company Limited*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Independent Board Committee”	the independent board committee, comprising all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder
“Independent Financial Adviser” or “Nuada”	Nuada Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders, other than those who are required by the Listing Rules to abstain from voting on the resolution relating to the transactions contemplated under the Agreements

DEFINITIONS

“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Latest Practicable Date”	27 January 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Movie Investment Agreement”	the co-investment agreement dated 24 December 2018 entered into between Huan Huan Xi Xi and Tibet Jindouyun in relation to the investment in the production of Tropical Memories
“New Media”	all forms of global media other than traditional cinema, including but not limited to the Internet, broadband, mobile Internet technologies, etc., such as web video, video applications for mobile phones, tablets and computers, Internet TV, IPTV, future media applications, satellite, cable, free and paid TV media, audiovisual products and audio and video equipment or other terminal equipment in Internet cafes, hotels, aircraft, trains and cars
“New Media Exclusive Rights”	as defined in the paragraph headed “Income rights” under the section headed “Principal Terms of the Film Production Agreement” in the Letter from the Board in this circular
“Pacific Wits”	Pacific Wits Limited (泰穎有限公司), a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by Mr. Ning Hao, a non-executive director of the Company
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Production Fee”	as defined in the paragraph headed “Production Fee” under the section headed “Principal Terms of the Film Production Agreement” in the Letter from the Board in this circular
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company convened to be held at 11:00 a.m. on Monday, 21 February 2022 at The Executive Centre, Level 35, Two Pacific Place, No. 88 Queensway, Admiralty, Hong Kong for the Independent Shareholders to consider and, if thought fit, to approve the Agreements and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholders of the Company from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Taizhou Huanxi”	台州歡喜文化投資有限公司 (Taizhou Huanxi Culture Investment Company Limited*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Tibet Jindouyun”	西藏筋斗雲影業有限公司 (Tibet Jindouyun Film Company Limited*), a company established in the PRC and wholly owned by Dirty Monkey Tianjin
“Tropical Memories”	<i>Tropical Memories</i> (熱帶往事), a film directed by Mr. Wen Shipai (溫仕培), produced by Mr. Ning Hao, a non-executive director of the Company, and starring Mr. Eddie Peng Yu-Yan (彭于晏)
“working day”	a day other than (i) Saturday, Sunday or a public holiday in the PRC; or (ii) one on which banks are closed for general banking business in the PRC
“%”	per cent

In this circular, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.22. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

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

* For identification purposes only

LETTER FROM THE BOARD



歡喜傳媒集團有限公司*

HUANXI MEDIA GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1003)

Executive Directors:

Dong Ping (*Chairman*)
Xiang Shaokun, Steven (*Chief Executive Officer*)

Non-executive Directors:

Ning Hao
Xu Zheng
Li Ni

Independent Non-executive Directors:

Wong Tak Chuen
Li Xiaolong
Wang Hong

Registered office:

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

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

11th Floor, Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

31 January 2022

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS: THE FILM PRODUCTION AGREEMENT AND THE DIRECTOR AGREEMENT

INTRODUCTION

Reference is made to the Announcement in which the Company announced that on 20 December 2021, (i) the Group Companies entered into the Film Production Agreement with Hainan Ruri Fangsheng, pursuant to which Hainan Ruri Fangsheng has conditionally agreed to provide the Film Production Services to the Group Companies in relation to the Film; and (ii) the Company entered into the Director Agreement with Mr. Ning Hao, pursuant to which Mr. Ning Hao has conditionally agreed to act as the director of the Film.

The purpose of this circular is to provide you with, among other things, (i) further information of the Agreements and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders containing its recommendation in respect of the Agreements and the transactions contemplated thereunder; (iii) a letter from Nuada containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder; and (iv) the notice of the SGM.

* *For identification purposes only*

LETTER FROM THE BOARD

PRINCIPAL TERMS OF THE FILM PRODUCTION AGREEMENT

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

- Date: 20 December 2021
- Parties:
- (1) Beijing Huan Jia Xi Media Company Limited* (北京歡十喜文化傳媒有限公司), an indirect wholly-owned subsidiary of the Company;
 - (2) Taizhou Huanxi Culture Investment Company Limited* (台州歡喜文化投資有限公司), an indirect wholly-owned subsidiary of the Company; and
 - (3) Hainan Ruri Fangsheng Film and Television Culture Communication Company Limited* (海南如日方升影視文化傳播有限公司).

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, (i) Hainan Ruri Fangsheng was principally engaged in movie production and was owned as to 90% by Mr. Bai Shaowei and 10% by Ms. Ma Yuanyuan; (ii) Mr. Bai Shaowei is a movie industry practitioner who has production experience for the films *Breakup Buddies* (心花路放) and *Crazy Alien* (瘋狂的外星人) while Ms. Ma Yuanyuan is a movie industry practitioner who is the spouse of Mr. Bai Shaowei; and (iii) each of Hainan Ruri Fangsheng and its ultimate beneficial owners was an Independent Third Party.

Subject matter: Hainan Ruri Fangsheng will provide the film production services to the Group Companies in relation to the Film, including but not limited to the services set out below (collectively, the “**Film Production Services**”):

- (1) shooting of the Film;
- (2) location scouting, including arranging the location scouting and other preparatory work of the Film, setting up and finalising the shooting scene;
- (3) coordinating in hiring shooting crew members and assisting in handling immigration procedures relating to the visas of foreign personnel and equipment, etc.;

LETTER FROM THE BOARD

- (4) providing shooting progress reports to the Group Companies every week;
- (5) providing to the Group Companies all required materials for obtaining the film release permit of the Film and assisting the Group Companies in obtaining such permit;
- (6) being responsible for the safety matters within its scope of duties in relation to the production of the Film; and
- (7) arranging appropriate insurance according to the needs of the production of the Film for no less than the production period of the Film and monitoring the insurable risk.

Film Total Production Costs:

The total production costs of the Film are RMB260,789,360 (equivalent to approximately HK\$318,163,000) (the “**Film Total Production Costs**”). The Film Total Production Costs include the Production Fee in the sum of RMB20,863,149 (equivalent to approximately HK\$25,453,000) (as mentioned below), all shooting and film production costs as well as the fees of actors and staff (including male and female lead actors, other actors, directors, screenwriters, and producers, etc.), fees involved with various parties (includes relevant taxes), and all expenses required for the Film to become a qualified film.

The Film Total Production Costs shall be paid by the Group Companies to Hainan Ruri Fangsheng as follows:

- (1) as to RMB160,789,360 (equivalent to approximately HK\$196,163,000) within 10 working days after the Film Production Agreement has taken effect (i.e. after the condition precedent to the Film Production Agreement has been fulfilled); and
- (2) as to RMB100,000,000 (equivalent to approximately HK\$122,000,000) within 10 working days after the completion of the shooting of the Film.

LETTER FROM THE BOARD

In the event that the actual production costs of the Film exceed RMB260,789,360 (equivalent to approximately HK\$318,163,000), unless such overrun is caused by the Group Companies or force majeure events including but not limited to earthquakes, fires, hurricanes, tsunamis, wars, government orders, laws and regulations, policy changes, traumatic diseases, etc. as stipulated in the Film Production Agreement, in such case the extra production costs of the Film shall be borne by the Group Companies. In other case, the Group Companies shall not be obliged to pay for the extra production costs.

The Film Total Production Costs represent the investment budget of the Film. The management of the Company determined the budget with reference to the story, actors and staff (including male and female lead actors, other actors, directors, screenwriters, producers), duration, genre, target audience, etc, of the Film, as well as production costs of previous films of similar nature invested by the Company.

Set out below is breakdown of the Film Total Production Costs:

Nature	<i>RMB' million</i>
Project planning and development and non-leading actors fees	39.3
Leading actors fees	60.7
Director Fee	24.6
Other creative members fee	20.0
Production expenses in the PRC	82.1
Post-production and visual effect expenses	13.2
The Production Fee	<u>20.9</u>
Total	<u><u>260.8</u></u>

Production Fee:

After the Film Production Agreement has taken effect, Hainan Ruri Fangsheng has the right to receive a production fee in the sum of RMB20,863,149 (equivalent to approximately HK\$25,453,000) (the “**Production Fee**”). The Production Fee is included in the Film Total Production Costs mentioned above.

LETTER FROM THE BOARD

The Directors believe that it is the industry practice to determine production fee level of a film based on the amount as percentage of the total production costs of the film, so it is reasonable to compare the production fee level among different films based on the relative ratio of the production fee to the total production costs of the film. Taking into account the ratio of the production fee of the films, invested by the Company in recent years with exclusive or majority interest, to their respective total film production costs range from approximately 7.41% to approximately 9.79% with an average of approximately 8.36%, which is close to that of the Production Fee to the Film Total Production Costs. The Board considered that the Production Fee is within the market range of film production fee and it is fair and reasonable and on normal commercial terms.

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

Copyright:

Hainan Ruri Fangsheng shall solely own the copyright and derivative product development rights (including but not limited to film rights such as re-shooting, producing the sequel of the Film and using elements in the Film for commercial development, including theme park projects) of the Film and related elements of the Film (including but not limited to graphics, audio and video of character names, character modeling, music, songs, etc.).

If a musician is hired to create music exclusively for the Film, the copyright of the music work (including the copyrights of the song and the lyric and all the rights of the corresponding performances) shall be an inseparable part of the Film and solely owned by Hainan Ruri Fangsheng.

Hainan Ruri Fangsheng shall solely own the copyright of the script of the Film (including but not limited to the creative elaboration, simple outline, character biography, synopsis and unfinished scripts, materials, etc. created during the script creation process).

LETTER FROM THE BOARD

Distribution rights:

The Group Companies shall own the worldwide exclusive distribution rights of the Film through cinema screening, New Media (the distribution rights of the New Media shall follow the provisions regarding New Media as stated in the section headed “Income rights” below), interactive media, audio and video products, television broadcasting, Internet communication and currently undeveloped broadcasting and screening media for fifteen (15) years from the first release date of the Film. Such distribution rights shall include the sole distribution and co-distribution of the Film with a third party authorised by the Group Companies.

Income rights:

The Group Companies shall be entitled to all the income derived worldwide from the use of the copyright of the Film, including (i) income from the distribution or rental of the Film in the cinemas or lines of cinemas; and (ii) rights of distribution and sales of the Film and income from the distribution and sales of the Film.

The time limit for the above rights to the distribution and sales of the Film and the proceeds from such distribution and sales shall be fifteen (15) years from the first release date of the Film. After such time limit of fifteen (15) years has expired, the rights to the distribution and sales of the Film and the income from such distribution and sales shall belong to Hainan Ruri Fangsheng.

The Group Companies shall have the exclusive rights to distribute the Film on a global basis through New Media for an income period of fifteen (15) years from the first release date of the Film, including the right to exclusive playback of the Film via New Media on platforms owned by them or third parties authorised by them (the “**New Media Exclusive Rights**”), and the Group Companies shall have the right to transfer the New Media Exclusive Rights to other third parties at their sole discretion. If the Group Companies consider that their New Media Exclusive Rights have been infringed, they shall have the right, and Hainan Ruri Fangsheng (or its designated third party) has fully authorised the Group Companies, to take any legal actions as the Group Companies may consider appropriate in relation to the infringement. Hainan Ruri Fangsheng (or its designated third party) shall also take all necessary actions to cooperate with the Group Companies in accordance with their requirements.

LETTER FROM THE BOARD

For the avoidance of doubt, within the income period of fifteen (15) years, all the income earned from the New Media (i) via such platforms, including but not limited to those owned by the Group and other parties authorised by the Group Companies; and (ii) through the exercise of the New Media Exclusive Rights by the Group Companies, shall exclusively belong to the Group Companies.

Additional income resulting from advertisement:

In the process of the preparation, production, arrangement of publicity, and distribution of the Film, the Group Companies or Hainan Ruri Fangsheng can introduce business partners for commercial sponsorships for advertisement placements and business development (“**Advertisement Sponsorship**”).

The income generated from Advertisement Sponsorship, after deduction of relevant costs, shall be shared between the Group Companies and Hainan Ruri Fangsheng as to 50% and 50% respectively.

Government subsidies:

Government subsidies and other subsidies or rewards, after deduction of relevant costs in association with execution fees, taxes and other costs, shall be shared between the Group Companies and Hainan Ruri Fangsheng as to 70% and 30% respectively.

PRINCIPAL TERMS OF THE DIRECTOR AGREEMENT

Principal terms of the Director Agreement are set out below:

Date: 20 December 2021

Parties:

- (1) The Company; and
- (2) Mr. Ning Hao, a non-executive director of the Company and the sole ultimate beneficial owner of Pacific Wits, a substantial shareholder of the Company which held 438,625,528 Shares, representing approximately 12.00% of the issued share capital of the Company as at the Latest Practicable Date.

LETTER FROM THE BOARD

Subject matter:

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

Mr. Ning Hao has the right to provide the Company with suggestions for hiring the film production company for the Film, but the Company will make the final decision for hiring.

If either party breaches the Director Agreement and the defaulting party fails to remedy the breach within seven days after being notified by the non-defaulting party, the non-defaulting party is entitled to terminate the performance of its/his obligations under the Director Agreement.

Director Fee:

After the Director Agreement has taken effect (i.e. after the condition precedent to the Director Agreement has been fulfilled), Mr. Ning Hao is entitled to a director fee of HK\$30,000,000 (inclusive of all taxes to be incurred) (the “**Director Fee**”), which is included in the Film Total Production Costs. The Director Fee shall be payable to Mr. Ning Hao as part of the Film Total Production Costs as follows:

- (1) as to HK\$18,000,000 (inclusive of all taxes to be incurred), being 60% of the Director Fee, as the first instalment within 10 working days after the Director Agreement has taken effect; and
- (2) as to HK\$12,000,000 (inclusive of all taxes to be incurred), being 40% of the Director Fee, as the second instalment within 10 working days after the completion of the shooting of the Film.

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

CONDITION PRECEDENT OF THE AGREEMENTS

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

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENTS

The Group is principally engaged in media and entertainment related businesses, including development and investment in film and TV programme rights, as well as operation of an online video platform. The Group intends to produce and invest in different types of films. The development of and investment in the Film are in line with the Group's existing business of development in the media and entertainment industry.

Further, Hainan Ruri Fangsheng is principally engaged in movie production, each of its production team members for the Film were involved in the media and entertainment industry in various roles such as director, producer or screenwriter in the past, and generally have ten to over 20 years of experience in the industry.

Taking into account (i) the professionalism and extensive experience of Hainan Ruri Fangsheng's production team in the film industry for various roles; (ii) the reasonableness of the amount of the Production Fee payable by the Group to Hainan Ruri Fangsheng pursuant to the Film Production Agreement; and (iii) the reputation of Mr. Ning Hao as a highly successful director in the PRC movie industry, who had directed films, including *Incense* (香火), *Mongolian Ping Pong* (綠草地), *Crazy Stone* (瘋狂的石頭), *Crazy Racer* (瘋狂的賽車), *No Man's Land* (無人區), *Breakup Buddies* (心花路放), *Crazy Alien* (瘋狂的外星人), *My People, My Country* (我和我的祖國) and *My People, My Homeland* (我和我的家鄉), etc., the participation of both Hainan Rui Fangsheng and Mr. Ning Hao in the Film would be beneficial to the Group's development in the media and entertainment industry. As such, the Directors consider that the Agreements would be beneficial to the Group.

The Directors are of the view that the Agreements are in the Group's ordinary and usual course of business and on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE COMPANY

The Company is a company incorporated in Bermuda with limited liability. It is an investment holding company and film investment company and its subsidiaries are principally engaged in media and entertainment related businesses, including development and investment in films and TV programme rights, as well as operation of an online video platform.

INFORMATION ABOUT THE FILM

The Film is *Red Carpet* (全民明星), a Chinese comedy film to be directed by Mr. Ning Hao and starring Mr. Andy Lau. It is estimated that the production of the film would take 10 months and the Film is expected to be first released in the PRC in 2023.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Mr. Ning Hao was a non-executive director of the Company and the sole ultimate beneficial owner of Pacific Wits, a substantial shareholder of the Company which held 438,625,528 Shares, representing approximately 12.00% of the issued share capital of the Company as at the Latest Practicable Date. As such, Mr. Ning Hao is a connected person of the Company under the Listing Rules and the transaction contemplated under the Director Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Notwithstanding that Hainan Ruri Fangsheng is an Independent Third Party, Hainan Ruri Fangsheng is the film production company proposed by Mr. Ning Hao to provide the Film Production Services to the Company in relation to the Film, and the Board noted that Hainan Ruri Fangsheng and Mr. Ning Hao will enter into a consultancy agreement, pursuant to which Mr. Ning Hao will provide consultancy services to Hainan Ruri Fangsheng in relation to the production of the Film (including but not limited to shooting preparations, scene selection and setting up shooting scenes; and coordinating the work and disputes (if any) among the main creative personnel of the Film, so as to ensure the successful completion of the filming work of the Film) for a consultancy fee of RMB800,000 (equivalent to approximately HK\$976,000). In view of the scope of consultancy services to be provided by Mr. Ning Hao in relation to the production of the Film as mentioned above, Mr. Ning Hao is considered to have significant influence over Hainan Ruri Fangsheng in relation to the production of the Film.

In view of the above, the transactions contemplated under the Agreements are aggregated and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

SGM

The SGM is convened to be held at 11:00 a.m. on Monday, 21 February 2022 at The Executive Centre, Level 35, Two Pacific Place, No. 88 Queensway, Admiralty, Hong Kong, the notice of which is set out on pages SGM-1 to SGM-3 of this circular, for the Independent Shareholders to consider, and if thought fit, to approve the Agreements and the transactions contemplated thereunder.

As at the Latest Practicable Date, Pacific Wits, a company wholly-owned by Mr. Ning Hao, held 438,625,528 Shares, representing approximately 12.00% of the issued share capital of the Company as at the Latest Practicable Date. As a result of the relationship between Pacific Wits and Mr. Ning Hao and that between Hainan Ruri Fangsheng and Mr. Ning Hao, Pacific Wits and its associates (if applicable) are regarded as having material interest in the Agreements and are required to abstain from voting on the ordinary resolution in relation to the Agreements at the SGM.

Mr. Ning Hao is regarded as having a material interest in the Agreements and has abstained from voting on the Board resolutions approving the Agreements and the transactions contemplated thereunder. Save for the aforesaid, none of the Directors has a material interest in the Agreements and the transactions contemplated thereunder and hence none of them has abstained from voting on the Board resolutions approving the Agreements and the transactions contemplated thereunder.

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

PRECAUTIONARY MEASURES FOR THE SGM

In view of the Coronavirus Disease (“COVID-19”) and recent guidelines for prevention and control of its spread, the Company will implement the following preventive measures at the SGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- (i) compulsory body temperature check will be conducted and hand sanitiser shall be used for every Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius or is exhibiting flu-like symptoms will be denied entry into or be required to leave the venue;
- (ii) all Shareholders or proxies are required to wear surgical face masks throughout their attendance of the SGM;

LETTER FROM THE BOARD

- (iii) the Company will maintain a soft distance between seats; and
- (iv) no refreshment will be served.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into or be required to leave the venue. The Company encourages the Shareholders to consider appointing the chairman of the SGM as his/her proxy to vote on the relevant resolutions at the SGM, instead of attending the SGM in person to reduce the risk of infection due to overcrowding.

Subject to the development of the pandemic, the Company may implement further procedures and precautionary measures at short notice and may issue further announcement as appropriate.

Shareholders should check the Company's website for updates on the latest arrangement of the SGM.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the Shareholders' entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 16 February 2022 to Monday, 21 February 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the entitlement to attend and vote at the SGM, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on Tuesday, 15 February 2022.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 11:00 a.m. on Saturday, 19 February 2022 or not less than 48 hours before the time appointed for holding any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish, and in such case, the form of proxy previously submitted shall be deemed to be revoked.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 17 to 18 of this circular which contains its recommendation to the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder and the letter from Nuada set out on pages 19 to 33 of this circular which contains its independent financial advice to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder.

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

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is also drawn to the notice of the SGM set out on pages SGM-1 to SGM-3 of this circular and the information set out in the appendix to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



歡喜傳媒集團有限公司* HJANXI MEDIA GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1003)

31 January 2022

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS: THE FILM PRODUCTION AGREEMENT AND THE DIRECTOR AGREEMENT

We refer to the circular of the Company dated 31 January 2022 (the “**Circular**”) of which this letter forms part.

Capitalised terms used in the Circular shall have the same meanings in this letter unless the context otherwise requires.

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

We wish to draw your attention to the “Letter from the Board”, as set out on pages 5 to 16 of the Circular, and the letter of advice from Nuada to the Independent Board Committee and the Independent Shareholders, as set out on pages 19 to 33 of the Circular. Having considered the terms of the Agreements, and the advice of Nuada and the principal factors and reasons taken into consideration by Nuada in arriving at its advice, we are of the opinion that (i) the entering into the Agreements by the Group is in its ordinary and usual course of business; and (ii) the terms of the Agreements are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Yours faithfully
Independent Board Committee

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

Mr. Li Xiaolong
*Independent non-executive
Director*

Mr. Wang Hong
*Independent non-executive
Director*

LETTER FROM NUADA

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Nuada dated 31 January 2022 prepared for the purpose of inclusion in this circular.

Nuada Limited

Unit 1606, 16/F
OfficePlus @Sheung Wan
93–103 Wing Lok Street
Sheung Wan, Hong Kong

31 January 2022

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

Dear Sirs,

CONNECTED TRANSACTIONS: THE FILM PRODUCTION AGREEMENT AND THE DIRECTOR AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of Agreements and the transactions contemplated thereunder, details of which are set out in the section headed “Letter from the Board” (the “**Letter from the Board**”) in the Company’s circular dated 31 January 2022 to the Shareholders (the “**Circular**”), of which this letter forms part. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As stated in the Letter from the Board, on 20 December 2021, (i) the Group Companies entered into the Film Production Agreement with Hainan Ruri Fangsheng, pursuant to which Hainan Ruri Fangsheng has conditionally agreed to provide the Film Production Services to the Group Companies in relation to the Film; and (ii) the Company entered into the Director Agreement with Mr. Ning Hao, pursuant to which Mr. Ning Hao has conditionally agreed to act as the director of the Film.

LETTER FROM NUADA

As at the Latest Practicable Date, Mr. Ning Hao was a non-executive director of the Company and the sole ultimate beneficial owner of Pacific Wits, a substantial shareholder of the Company which held 438,625,528 Shares, representing approximately 12.00% of the issued share capital of the Company as at the Latest Practicable Date. As such, Mr. Ning Hao is a connected person of the Company under the Listing Rules and the transaction contemplated under the Director Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Notwithstanding that Hainan Ruri Fangsheng is an Independent Third Party, Hainan Ruri Fangsheng is the film production company proposed by Mr. Ning Hao to provide the Film Production Services to the Company in relation to the Film, and the Board noted that Hainan Ruri Fangsheng and Mr. Ning Hao will enter into a consultancy agreement, pursuant to which Mr. Ning Hao will provide consultancy services to Hainan Ruri Fangsheng in relation to the production of the Film (including but not limited to shooting preparations, scene selection and setting up shooting scenes; and coordinating the work and disputes (if any) among the main creative personnel of the Film, so as to ensure the successful completion of the filming work of the Film) for a consultancy fee of RMB\$800,000 (equivalent to approximately HK\$976,000). In view of the scope of consultancy services to be provided by Mr. Ning Hao in relation to the production of the Film as mentioned above, Mr. Ning Hao is considered to have significant influence over Hainan Ruri Fangsheng in relation to the production of the Film. In view of the above, the transactions contemplated under the Agreements are aggregated and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Agreements. We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

Save for this appointment as the Independent Financial Adviser in respect of the Agreements, there were no other engagements between the Group and us during the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser. Apart from normal professional fees for our services to the Company in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we have received/will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, pursuant to Rule 13.84 of the Listing Rules, we are independent from, and are not associated with the Company or their respective substantial shareholder(s) or connected person(s) as defined under the Listing Rules, and accordingly are considered eligible to give independent advice on the Agreements.

LETTER FROM NUADA

BASIS OF OUR OPINION

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

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

Our review and analysis were based upon, among other things, including (i) the Agreements; (ii) the financial information of the Group for the two years ended 31 December 2019 (“**FY2019**”) and 31 December 2020 (“**FY2020**”) respectively as shown in the annual report of the Company for FY2020 (the “**Annual Report**”); (iii) the financial information of the Group for the two six months ended 30 June 2020 (“**6M2020**”) and 30 June 2021 (“**6M2021**”) respectively as shown in the interim report of the Company for 6M2021 (the “**Interim Report**”); (iv) information related to experience of Hainan Ruri Fangsheng and Mr. Ning Hao; (v) relevant agreements and information of the Group for investment of films; and (vi) the Circular.

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

LETTER FROM NUADA

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background information on the Group

The Company is a company incorporated in Bermuda with limited liability. It is an investment holding company and film investment company and its subsidiaries are principally engaged in media and entertainment related businesses, including development and investment in films and TV programme rights, as well as operation of an online video platform.

The table below summarises the financial results of the Group for FY2019, FY2020, 6M2020 and 6M2021 as extracted from the Annual Report and the Interim Report respectively:

	For FY2019 (audited) (restated) <i>HK\$'000</i>	For FY2020 (audited) <i>HK\$'000</i>	For 6M2020 (unaudited) (restated) <i>HK\$'000</i>	For 6M2021 (unaudited) <i>HK\$'000</i>
Revenue and film investment income, net from continuing operations	814,425	633,176	492,065	151,726
Gross (loss)/profit from continuing operations	343,510	(18,325)	127,185	(14,727)
Profit/(loss) from discontinued operations	(4)	3,766	(8)	–
(Loss)/profit for the year/period	105,103	(236,391)	20,331	(97,206)

The Group recorded a revenue from continuing operations of approximately HK\$633.2 million for FY2020, representing a decrease of approximately 22.2% as compared with that of approximately HK\$814.4 million for FY2019. The Group also recorded a gross loss from continuing operations of approximately HK\$18.3 million and a loss for the year of approximately HK\$236.4 million for FY2020, as compared with a gross profit of approximately HK\$343.5 million and a profit for the year of approximately HK\$105.1 million for FY2019. As disclosed in the Annual Report and according to the management of the Company, the decrease of revenue of approximately 22.2% was mainly due to (i) delay in debut of films on cinema screens caused by the COVID-19 pandemic; and (ii) impact on the box office receipts by the implementation of prevention and control measures, and the loss for the year of approximately HK\$236.4 million for FY2020 was mainly due to (i) decrease in revenue as stated above; (ii) increase of amortised expenses of film rights for the increase of production and purchase of film rights for optimisation and update of contents of “huanxi.com” (歡喜首映) online video platform; and (iii) increase of selling and distribution costs for strengthening the promotion of contents of the online video platform by the Group during FY2020.

LETTER FROM NUADA

Revenue from continuing operations of the Group decreased from approximately HK\$492.1 million for 6M2020 to approximately HK\$151.7 million for 6M2021, representing a decrease of approximately 69.2%. The Group also recorded a gross loss from continuing operations of approximately HK\$14.7 million and a loss for the period of approximately HK\$97.2 million for 6M2021, as compared with a gross profit of approximately HK\$127.2 million and a profit for the period of approximately HK\$20.3 million for 6M2020. As disclosed in the Interim Report and according to the management of the Company, the decrease of revenue of approximately 69.2% was mainly due to the fact that blockbusters invested by the Group were delayed to make debut on cinema screens due to the impact of the COVID-19 pandemic, and the loss for the period of approximately HK\$97.2 million for 6M2021 was mainly due to (i) decrease in revenue as stated above; and (ii) the Group continued to optimise and update the contents of the online video platform of “huanxi.com”, and increased the production and purchase of film rights, which resulted in an increase in amortised expenses of film rights.

The table below summarises the financial position of the Group as at 31 December 2019, 31 December 2020 and 30 June 2021 as extracted from the Annual Report and Interim Report respectively:

	As at 31 December 2019	As at 31 December 2020	As at 30 June 2021
	(audited)	(audited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents	256,203	142,140	252,372
Net assets	1,130,230	1,446,433	1,780,056

As stated in the Interim Report, cash and cash equivalent and net assets of the Group amounted to approximately HK\$252.4 million and HK\$1,780.1 million as at 30 June 2021 respectively as compared with those of HK\$142.1 million and HK\$1,446.4 million as at 31 December 2020 respectively. It is noted from the Interim Report that the increase in cash and cash equivalent as at 30 June 2021 from that as at 31 December 2020 was mainly due to proceeds from issue of Shares of approximately HK\$469.0 million (details of such issue of Shares by placing of Shares are disclosed in the announcement of the Company dated 27 April 2021).

LETTER FROM NUADA

2. Reasons for and benefits of entering into the Agreements

The Group is principally engaged in media and entertainment related businesses, including development and investment in film and TV programme rights, as well as operation of an online video platform. The Group intends to produce and invest in different types of films. The development of and investment in the Film are in line with the Group's existing business of development and investment in film as stated above.

As disclosed in the Letter from the Board, taking into account (i) the professionalism and extensive experience of Hainan Ruri Fangsheng's production team and the reasonableness of the amount of the Production Fee payable by the Group to Hainan Ruri Fangsheng pursuant to the Film Production Agreement; and (ii) the reputation of Mr. Ning Hao as a highly successful director in the PRC movie industry, who had directed films, including *Incense* (香火), *Mongolian Ping Pong* (綠草地), *Crazy Stone* (瘋狂的石頭), *Crazy Racer* (瘋狂的賽車), *No Man's Land* (無人區), *Breakup Buddies* (心花路放), *Crazy Aliens* (瘋狂的外星人), *My People, My Country* (我和我的祖國) and *My People, My Homeland* (我和我的家鄉), etc., the Directors consider that the Agreements would be beneficial to the Group.

Having taking into account that (i) the entering of the Agreements are in line with the business of the Company, which is development and investment in films and TV programme rights as disclosed in the paragraph headed "1. Background information on the Group" above; (ii) the outlook of both of the film industry and online video industry are promising as detailed in the paragraph headed "3. Market outlook of film industry and online video industry in the PRC" below; (iii) the relevant experience of Hainan Ruri Fangsheng's production team in film production and the experience and reputation of Mr. Ning Hao as a director as stated in the paragraph headed "4. Background information on the counterparties of the Agreements" below; (iv) the terms of the Agreements are fair and reasonable as stated in the paragraph headed "5. Review on terms of the Agreements" below; and (v) the Company will ensure it has sufficient internal resources to fund the Film Total Production Costs as stated in the paragraph headed "6. Source of funding for the Film" below, we are of the view and concur with the view of the Directors that, the terms of Agreements are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

3. Market outlook of film industry and online video industry in the PRC

As discussed with the management of the Company, currently the Company intends to release the Film in cinema circuits first, and may sub-license the Film for broadcast on online video platforms to generate additional revenue.

LETTER FROM NUADA

To understand the market outlook of the film industry, we have researched the relevant market data in the PRC. According to the National Bureau of Statistics of the PRC, the national box office revenue in the PRC has experienced an increasing trend prior to the COVID-19 pandemic in 2020, from approximately RMB44.1 billion in 2015 to approximately RMB64.3 billion in 2019, representing a cumulative annual growth rate of approximately 7.8%. However, as a result of implementation of prevention and control measures in view of the COVID-19 pandemic, the national box office revenue in 2020 dropped dramatically to approximately RMB20.4 billion. Notwithstanding the downturn in 2020, we noted from a news article from People's Daily* (人民日報, which is an official newspaper of the Central Committee of the Chinese Communist Party) quoting the statistics from China Film Administration* (國家電影局, which is under the Publicity Department of the Central Committee of the Communist Party of China) that the national box office revenue from 1 January 2021 and up to 10 October 2021 reached approximately RMB40.1 billion, which was almost double of the national box office revenue of approximately RMB20.4 billion for the whole year of 2020. The improvement was likely due to the efficient control measures regarding the COVID-19 pandemic and the continuous increase in number of cinema screens in the PRC. According to the statistics from China Film Administration, the number of cinema screens in the PRC has increased substantially from 41,179 as at 31 December 2016 to 80,743 as at 30 September 2021, representing a cumulative annual growth rate of approximately 11.2%, which provide wider access to potential audience and contributed to the growth of national box office revenue.

Given that the Company is actively developing "huanxi.com", its own online video platform, and may also sub-license films for broadcasts on other online video platforms to capitalise on the increasingly popular online viewing trend, we have also studied the relevant statistics in the PRC released by China Internet Network Information Center* (中國互聯網絡信息中心, "CNNIC"), which is under the Ministry of Industry and Information Technology of the PRC, and National Radio and Television Administration of the PRC* (中國國家廣播電視總局, "NRTA"). According to the 48th Statistical Report on China's Internet Development* (第48次中國互聯網絡發展狀況統計報告) published by CNNIC in August 2021, the number of user of online videos in the PRC had increased from approximately 711.1 million in June 2018 to approximately 943.8 million in June 2021, where online video users accounted for approximately 93.4% of all internet user in the PRC in June 2021. In addition, according to the National Radio and Television Industry Statistic Annuals* (全國廣播電視行業統計公報) published by NRTA for the years 2017, 2018, 2019 and 2020, there were approximately 690 million paid users for online videos in 2020 as compared with approximately 172 million paid users for online videos and audios in 2016 (since there are no separate statistics for paid users for online videos only), showing that internet users are more willing to pay for online videos.

Having considered that (i) prior to the COVID-19 pandemic, the film industry in the PRC has experienced steady growth in terms of national box office revenue from 2015 to 2019; (ii) despite the downturn in 2020 due to the COVID-19 pandemic, the national box office revenue has rebounded in 2021 which up to October 2021 almost doubled that for the whole year of 2020; and (iii) the popularity of online videos as well as increasing number of paid users for online videos is beneficial to online video platforms, we are of the view that both of the film industry and online video industry in the PRC have promising outlook.

LETTER FROM NUADA

4. Background information on the counterparties of the Agreements

Hainan Ruri Fangsheng

As disclosed in the Letter from the Board, as at the Latest Practicable Date, (i) Hainan Ruri Fangsheng was principally engaged in movie production and was owned as to 90% by Mr. Bai Shaowei and 10% by Ms. Ma Yuanyuan; (ii) Mr. Bai Shaowei is a movie industry practitioner who has production experience for the films *Breakup Buddies* (心花路放) and *Crazy Alien* (瘋狂的外星人) while Ms. Ma Yuanyuan is a movie industry practitioner who is the spouse of Mr. Bai Shaowei; and (iii) each of Hainan Ruri Fangsheng and its ultimate beneficial owners was an Independent Third Party.

Based on the list of production team members for the Film as provided by Hainan Ruri Fangsheng, we noted that each of them were involved in the media and entertainment industry in various roles such as director, producer or screenwriter in the past, and generally have ten to over 20 years of experience in the industry. Accordingly, we are of the view and concur with the view of the Directors that Hainan Ruri Fangsheng is a suitable party to provide the Film Production Services to the Company.

Mr. Ning Hao

As at the Latest Practicable Date, Mr. Ning Hao was a non-executive Director of the Company and the sole ultimate beneficial owner of Pacific Wits, a substantial Shareholder which held 438,625,528 Shares, representing approximately 12.00% of the issued share capital of the Company as at the Latest Practicable Date.

As advised by the management of the Company and according to public information, Mr. Ning Hao studied at the Taiyuan Film School* (太原電影學校), where he majored in scenic design. He was later transferred to the Art Department of Peking University* (北京大學) and eventually graduated from the Beijing Film Academy* (北京電影學院) in 2003 with a degree from the Photography Department. Mr. Ning Hao has participated in the film industry as director since 2000.

As advised by the management of the Company and according to public information, the following film awards and nominations of Mr. Ning Hao in recent years:

No.	Year	Award	Category	Name of film	Result
1.	2005	San Sebastián International Film Festival 西班牙國際電影節	Best director 最佳導演獎	Mongolian Pingpong 《綠草地》	Awarded
2.	2006	Golden Horse Awards 台灣電影金馬獎	Best director 最佳導演獎	Crazy Stone 《瘋狂的石頭》	Nominated
3.	2007	China Huabiao Film Awards 中國電影華表獎	Outstanding new director 優秀新人導演獎	Crazy Stone 《瘋狂的石頭》	Awarded

LETTER FROM NUADA

No.	Year	Award	Category	Name of film	Result
4.	2007	Chinese Film Media Awards 華語電影傳媒大獎	Best director 最佳導演獎	Crazy Stone 《瘋狂的石頭》	Awarded
5.	2007	Chinese Film Media Awards 華語電影傳媒大獎	Best new director 最佳新導演獎	Crazy Stone 《瘋狂的石頭》	Nominated
6.	2007	Beijing College Student Film Festival 北京大學生電影節	Best director 最佳導演獎	Crazy Stone 《瘋狂的石頭》	Awarded
7.	2008	Hundred Flowers Awards 大眾電影百花獎	Best director 最佳導演獎	Crazy Stone 《瘋狂的石頭》	Nominated
8.	2009	Golden Rooster Awards 中國電影金雞獎	Best director 最佳導演獎	Crazy Racer 《瘋狂的賽車》	Nominated
9.	2009	Iron Elephant Awards 鐵象電影大賞	Best director 年度導演獎	Crazy Racer 《瘋狂的賽車》	Awarded
10.	2010	Chinese Film Media Awards 華語電影傳媒大獎	Best director 最佳導演獎	Crazy Racer 《瘋狂的賽車》	Nominated
11.	2019	Macau International Movie Festival 澳門國際電影節	Best director 最佳導演獎	Crazy Alien 《瘋狂的外星人》	Nominated
12.	2020	China Film Director's Guild Awards 中國電影導演協會年度表彰大會	Best director 年度導演	My People, My Country 《我和我的祖國》	Nominated
13.	2020	Hundred Flowers Awards 大眾電影百花獎	Best director 最佳導演獎	My People, My Country 《我和我的祖國》	Nominated
14.	2020	Golden Rooster Awards 中國電影金雞獎	Best director 最佳導演獎	My People, My Country 《我和我的祖國》	Nominated

Based on the above, we noted that Mr. Ning Hao has the relevant academic background, has relevant experience in the area of director in film where the target market is in the PRC, and was awarded with prizes in the area of director, and we are of the view and concur with the view of the Management that his involvement as the director of the Film is beneficial to the success of the Film.

LETTER FROM NUADA

5. Review on terms of the Agreements

We have reviewed the Agreements provided by the Company. In order to perform our independent work in assessing the fairness and reasonableness of the terms of the Agreements, including but not limited to the services to be provided thereunder and the relevant fees, we intended to compare the terms of the Agreements with the terms of agreement related to similar transactions conducted by other companies listed on the Stock Exchange. Based on our search on the website of the Stock Exchange, we are not aware of similar transactions that disclosed the relevant terms of the agreement within one year period. Although we extended the search period to three year period prior to the date of the Agreements, there were still no similar transactions to the best of our knowledge.

Given the lack of comparable transactions based on public information, we consider the alternative to compare the terms of the Agreements with those similar agreements entered by the Group. We set the criteria for the comparable films invested by the Group that (i) the Group has exclusive or majority interest in the comparable films, similar to the Film in which the Group invests exclusively; (ii) the comparable films are in the same genre as the Film, i.e. drama; (iii) the comparable films have similar duration of approximately two hours; (iv) the investment budget/total production costs of the comparable films to be not less than RMB200 million, which is comparable to that of approximately RMB260.8 million for the Film; and (v) the comparable films were launched or will be launched in the PRC market (which is the same as the Film) within one year from the date of the Agreements. Based on the aforesaid selection criteria, we noted that there will be no comparable films based on the information provided by the management of the Company. Therefore, we relaxed criteria (v) to include comparable films which were launched or will be launched in the PRC market within two years (instead of one year) from the date of the Agreements. Based on the relaxed criteria, we identified only one comparable film which had an investment budget of approximately RMB380.0 million, which would not form a sufficient set of samples to compare in general the major terms of the film production agreement and director agreement. Therefore, without loss of generality, we further relaxed criteria (iv) and identified an exhaustive list of three comparable films based on the information provided by the management of the Company (the “**Comparable Film(s)**”), where the two additional Comparable Films have investment budgets of approximately RMB121.0 million and RMB96.1 million respectively.

Having considered that (i) there are no other similar transactions conducted by other companies listed on the Stock Exchange based on public information; (ii) the Comparable Films are films invested exclusively or majorly by the Group; (iii) Comparable Films are in the same genre and have similar duration as the Film; (iv) the launch dates of the Comparable Films are within two year from the date of the Agreements to serve as a recent reference; and (v) although the production costs of the Comparable Films are not on similar level as the Film, the other attributes of the Comparable Films as stated above are similar or the same as the Film for comparison purpose regarding major terms such as production fee, director fee and other income, we are of the view that the adoption of the Comparable Films for comparison purpose is fair and reasonable.

The Film Production Agreement

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

LETTER FROM NUADA

Based on our review on the relevant agreements for the Comparable Films and information provided by the management of the Company, we noted that the film production services provided in the Comparable Films are similar to the Film Production Services provided by Hainan Ruri Fangsheng under the Film Production Agreement. The terms of copyright, distribution rights and income rights of the Film Production Agreement are similar to those of the Comparable Films.

The Film Production Agreement also specifies that either party thereto can introduce business partners for commercial sponsorships for advertisement placements and business development (“**Advertisement Sponsorship**”). The income generated from Advertisement Sponsorship, after deduction of relevant costs, shall be shared by the Group Companies and Hainan Ruri Fangsheng as to 50% and 50% respectively. In addition, government subsidies and other subsidies or rewards (such as competition rewards), after deduction of relevant costs in association with execution fees, taxes and other costs, shall be shared by the Group Companies and Hainan Ruri Fangsheng as to 70% and 30% respectively. We note that the agreements for two of the Comparable Films do not have such terms and as advised by the management of the Company, the entitlement of similar income generated from Advertisement Sponsorship, government subsidies and other subsidies or rewards were negotiated and determined on a case by case basis when they arose. For the remaining Comparable Film, (i) party (including the investors of the Comparable Film and the production team) who introduces partner for Advertisement Sponsorship will be entitled to not more than 40% income and the remaining portion after deduction of relevant costs will be shared among the investors according to the investment ratio; (ii) the production team will be entitled to the first 30% of the government subsidies and the remaining portion will be shared among the investors according to investment ratio; and (iii) rewards from competition will be shared among the investors according to investment ratio. In other words, (i) the sharing of income from Advertisement Sponsorship for this Comparable Film is essentially shared as to 40% and 60% to the production team and the Company; (ii) the sharing of government subsidies for this Comparable Film is the same as the Film Production Agreement; and (iii) the sharing of rewards for this Comparable Film will be shared according to investment ratio. Notwithstanding the above, we have also enquired into the management of the Company and understand that based on their experiences for film production in the past including the Comparable Films, generally only the production teams introduced partners for Advertisement Sponsorship. Meanwhile, the production teams were responsible for identifying and applying for relevant government subsidies and other subsidies or rewards as they are more familiar with the relevant requirements and procedures, which will also be the case for Hainan Ruri Fangsheng. Having considered that (i) both parties under the Film Production Agreement will be entitled to equal share of income generated from Advertisement Sponsorship regardless of which party introduces the sponsors; (ii) the Group Companies will be entitled to relevant income generated from Advertisement Sponsorship for any sponsor introduced by Hainan Ruri Fangsheng even if the Group Companies do not introduce any sponsors for the Film; and (iii) the Group Companies will be entitled to a larger portion of government subsidies and other subsidies or rewards than Hainan Ruri Fangsheng despite the fact that Hainan Ruri Fangsheng will be responsible for identifying and applying for relevant government subsidies and other subsidies or rewards, we consider such terms are normal commercial terms and fair and reasonable.

LETTER FROM NUADA

The Production Fee is RMB20,863,149 (equivalent to approximately HK\$25,453,000), which is approximately 8.00% of the Film Total Production Costs. The ratio of the production fee of the Comparable Films to their respective total production costs range from approximately 7.41% to approximately 9.79% with an average of approximately 8.36%, which is close to that of the Production Fee to the Film Total Production Costs.

The Film Total Production Costs as stated under the Film Production Agreement are RMB260,789,360 (equivalent to approximately HK\$318,163,000), which represent the investment budget for the Film. When the Company formulated the overall story and castings of the Film, the management of the Company determined the Film Total Production Costs with reference to the story, actors and staff (including male and female lead actors, other actors, directors, screenwriters, producers), duration, genre, target audience, etc, of the Film, as well as production costs of previous films of similar nature invested by the Company. Based on such Film Total Production Costs, the Company negotiated with Hainan Ruri Fangsheng for the provision of Film Production Services.

We have reviewed the costs breakdown of the Film Total Production Costs and total production costs of the Comparable Films as provided by the management of the Company, and note that they have similar items such as actors and director, production expense including supporting staff, post-production and visual effect, production fee, etc. We also note that although the actor fee for the Film is relatively higher than that of the Comparable Films in terms of the percentage to the relevant production costs which is mainly contributed by the difference of the starring, the cost structure of the Film Total Production Costs and the production costs of the Comparable Films are generally similar in terms of the percentage to the relevant production costs. In this regard, we intend to find out whether the actor fee for the Film is reasonable or not. According to the notification jointly published by, China Film Administration* (國家電影局), National Radio and Television Administration* (廣電總局) and other government departments of the PRC in June 2018, it stated that the total actor fee shall not be more than 40% of the production costs of a film, of which the lead actor fee shall not account for more than 70% (i.e. not more than 28% of the production costs). Based on the cost structure of the Film Total Production Costs, we note that the actor fee and lead actor fee for the Film indeed complies with the aforesaid requirements. In light of the foregoing, we are of the view that the Film Total Production Costs is justifiable.

As the amount of the Film Total Production Costs is determined by the management of the Company, in particular the Directors, we have also reviewed their relevant experience. We noted that Mr. Dong Ping, being an executive Director and the chairman of the Board, has extensive experience in the industry and has been the principal investor, producer and co-producer of various internationally renowned films, including *Crouching Tiger, Hidden Dragon* (臥虎藏龍) (directed by Mr. Ang Lee (李安)), *Devils on the Doorstep* (鬼子來了) (directed by Mr. Jiang Wen (姜文)), *Peacock* (孔雀) (directed by Mr. Gu Changwei (顧長衛)), *Let the Bullets Fly* (讓子彈飛) (directed by Mr. Jiang Wen (姜文)), *Journey to the West: Conquering the Demons* (西遊•降魔篇) (directed by Mr. Stephen Chow (周星馳)), *Dearest* (親愛的) (directed by Mr. Chan Ho Sun Peter (陳可辛)), *Breakup Buddies* (心花路放) (directed by Mr. Ning Hao) and *Dying to Survive* (我不是藥神) (co-produced by Mr. Ning Hao and Mr. Xu Zheng). Some of these films have won numerous major awards in both domestic and overseas film festivals. Mr. Xu Zheng, a non-executive Director, is an actor, director, screenwriter and producer and started his career as an actor in the 1990s. He wrote,

LETTER FROM NUADA

directed, produced and starred in his directorial debut *Lost in Thailand* (人再囧途之泰囧), which earned over USD200 million and broke the record of the highest grossing domestic Chinese film. Mr. Ning Hao is also a non-executive Director, whose experience and reputation are stated in the paragraph headed “4. Background information on the counterparties of the Agreements” above. Based on the above, we noted that all of them have over 20 years of experience in the film industry as principal investor, producer, director, screenwriter and/or actor. In addition, the Company has experience in production of films of similar scale with investment budget of over RMB300 million, recent examples include (i) *Crazy Alien* (瘋狂的外星人) released in 2019 with box office revenue of over RMB2,200 million; and (ii) *Lost in Russia* (囧媽) released in 2020, which was not released in cinema but only on online video platforms due to COVID-19 pandemic. Based on the extensive experience of the management of the Company in the PRC film industry and the Company’s track record of investment in films, we are of the view and concur with the view of the Directors that the Film Total Production Costs are fair and reasonable.

Furthermore, in the event that the actual production costs of the Film exceed RMB260,789,360 (equivalent to approximately HK\$318,163,000), in case where such overrun is caused by the Group Companies or force majeure events including but not limited to earthquakes, fires, hurricanes, tsunamis, wars, government orders, laws and regulations, policy changes, traumatic diseases, etc. as stipulated in the Film Production Agreement, the extra production costs of the Film shall be borne by the Group Companies. In other cases, the Group Companies shall not be obliged to pay for the extra production costs.

Taking into account that (i) the Film Production Services are similar to those for the Comparable Films; (ii) the terms of copyright, distribution rights and income rights of the Film Production Agreement are similar to those of the Comparable Films; (iii) the percentage of the Production Fee to the Film Total Production Costs of the Film is close to the percentages represented by the Comparable Films; (iv) the Film Total Production Costs is justifiable; (v) in the event that the actual production costs of the Film exceed RMB260,789,360 (equivalent to approximately HK\$318,163,000), the Group Companies shall not be obliged to pay for the extra production costs unless such overrun is caused by the Group Companies or force majeure events; (vi) the terms as to the sharing of income generated from Advertisement Sponsorship and government subsidies and other subsidies or rewards are normal commercial terms as the Group Companies will be entitled to half of the relevant income after deduction of costs if Hainan Ruri Fangsheng introduced any sponsor and Hainan Ruri Fangsheng will be responsible for identifying and applying for relevant government subsidies and other subsidies or rewards; and (vii) the production team for the Film have relevant experiences in the industry for various roles as detailed in the paragraph headed “4. Background information on the counterparties of the Agreements” above, we are of the view and concur with the view of the Directors that the terms of the Film Production Agreement are fair and reasonable.

LETTER FROM NUADA

The Director Agreement

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

Based on our review on the relevant agreements for the Comparable Films and information provided by the management of the Company, we noted that the services of directors provided in the Comparable Films are similar to those under the Director Agreement.

The Director Fee is HK\$30,000,000, which is approximately 9.43% of the Film Total Production Costs. The ratio of the director fee of the Comparable Films to their respective total production costs range from approximately 7.11% to approximately 20.81% with an average of approximately 11.77%, which is higher than that of the Director Fee to the Film Total Production Costs. Taking into account that (i) the services of Mr. Ning Hao to be provided under the Director Agreement are similar to those of the Comparable Films; (ii) the percentage of the Director Fee to the Film Total Production Costs is lower than the percentages represented by the Comparable Films; and (iii) the working experience of Mr. Ning Hao in the area of film directorship and the awards (including nominations) as stated under the paragraph headed “4. Background information on the counterparties of the Agreements” above, we are of the view and concur with the view of the Directors that the terms of the Director Agreement are fair and reasonable.

6. Source of funding for the Film

According to the management of the Company, the unaudited cash and cash equivalents of the Group amounted to approximately HK\$115.4 million as at 31 December 2021. While the Film Total Production Costs is approximately RMB260.8 million (equivalent to approximately HK\$318.2 million, based on the information provided by the management of the Company, we understand that the shortfall of approximately HK\$202.8 million will be satisfied by the cash inflow generated by the Group, including expected proceeds from sales of film rights of the Company of approximately HK\$100.0 million and other receivables of approximately HK\$130.0 million, which will be received in the first half of 2022. In addition, operating cash inflow generated from film investment income of a film released in late 2020 of approximately RMB75.0 million (approximately HK\$91.5 million) will be received in the first half of 2022. Given the expected general working capital expenses of the Group (including staff cost, rental payment and office expenses) is approximately HK\$110.0 million for the coming 12 months according to the management of the Company and cashflow items as stated above, we are of the view and concur with the view of the Directors that the Company will have sufficient internal resources to fund the Film Total Production Costs.

LETTER FROM NUADA

RECOMMENDATION

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

Yours faithfully,
For and on behalf of

Nuada Limited

Kevin Wong	Nigel Ng
<i>Vice President</i>	<i>Manager</i>

Mr. Kevin Wong is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 15 years of experience in corporate finance industry.

Mr. Nigel Ng is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 6 years of experience in corporate finance industry.

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

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

Directors and chief executive of the Company

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

Long position in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares held	Approximate percentage (Note 1)	Number of underlying Shares held under share options	Approximate percentage (Note 1)
Mr. Dong Ping	Beneficial owner	36,630,000	1.00%	2,700,000 (Note 2)	0.07%
	Interest of controlled corporations	554,853,298 (Note 3)	15.18%	–	–
	A concert party to an agreement to buy shares described in s.317(1)(a) of the SFO	877,251,056 (Note 4)	23.99%	–	–
	Total:	<u>1,468,734,354</u>	<u>40.17 %</u>	<u>2,700,000</u>	<u>0.07%</u>

Name of Director	Capacity	Number of Shares held	Approximate percentage (Note 1)	Number of underlying Shares held under share options	Approximate percentage (Note 1)
Mr. Ning Hao	Interest of a controlled corporation	438,625,528 (Note 5)	12.00%	–	–
	A concert party to an agreement to buy shares described in s.317(1)(a) of the SFO	1,030,108,826 (Note 6)	28.17%	2,700,000 (Note 7)	0.07%
	Total:	<u>1,468,734,354</u>	<u>40.17%</u>	<u>2,700,000</u>	<u>0.07%</u>
Mr. Xu Zheng	Interest of a controlled corporation	438,625,528 (Note 8)	12.00%	–	–
	A concert party to an agreement to buy shares described in s.317(1)(a) of the SFO	1,030,108,826 (Note 9)	28.17%	2,700,000 (Note 10)	0.07%
	Total:	<u>1,468,734,354</u>	<u>40.17%</u>	<u>2,700,000</u>	<u>0.07%</u>
Mr. Xiang Shaokun, Steven	Beneficial owner	–	–	27,000,000 (Note 11)	0.74%
Mr. Li Xiaolong	Interest of a controlled corporation	15,060,000 (Note 12)	0.41%	–	–
Mr. Wang Hong	Beneficial owner	200,000 (Note 13)	0.01%	–	–

Notes:

- (1) The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at the Latest Practicable Date (i.e. 3,656,472,362 Shares).
- (2) These are 2,700,000 underlying Shares to be issued upon exercise of the unlisted physically settled share options of the Company granted to Mr. Dong Ping on 27 April 2018 pursuant to the Company's share option scheme adopted on 17 June 2014 (the "**Share Option Scheme**"). The exercise price of these options is HK\$2.08 per Share and the exercise period of (i) 1,800,000 of such share options is from 27 April 2018 to 17 June 2024 (both days inclusive); and (ii) 900,000 of such share options is from 2 September 2018 to 17 June 2024 (both days inclusive) subject to the provisions for early termination contained in the Share Option Scheme and certain vesting conditions applicable to the relevant grantees. The exercise of the Shares during the validity period is subject to certain exercise criteria applicable to the relevant grantees.
- (3) These Shares include 461,711,082 Shares, 92,342,216 Shares and 800,000 Shares held by Newwood Investments Limited ("**Newwood**"), Numerous Joy Limited ("**Numerous Joy**") and Highrise Castle Limited ("**Highrise**"), respectively, which are all companies incorporated in the British Virgin Islands with limited liability and directly wholly owned by Mr. Dong Ping.
- (4) On 14 April 2015, Mr. Dong Ping, Newwood, Mr. Ning Hao, Pacific Wits, Mr. Xu Zheng, and Tairong Holdings Limited ("**Tairong Holdings**") entered into a shareholders agreement (the "**Shareholders Agreement**"), which sets forth certain rights and obligations of each of the parties in respect of the governance of the Company following completion of the subscription for new shares in the Company pursuant to a subscription agreement dated 14 April 2015, details of which are set out in the Company's circular dated 5 August 2015. As Mr. Dong Ping is a party to the Shareholders Agreement, Mr. Dong Ping is therefore deemed to be interested in all the Shares in which Mr. Ning Hao, Pacific Wits, Mr. Xu Zheng and Tairong Holdings are interested by virtue of section 317 of the SFO. Please refer to note (5) for the Shares directly held by Pacific Wits and note (8) for the Shares directly held by Tairong Holdings. The 877,251,056 Shares includes 438,625,528 Shares owned by Pacific Wits and 438,625,528 Shares owned by Tairong Holdings.
- (5) These 438,625,528 Shares are directly held by Pacific Wits, which is a company incorporated in the British Virgin Islands with limited liability and directly wholly owned by Mr. Ning Hao.
- (6) Mr. Ning Hao is a party to the Shareholders Agreement and is therefore deemed to be interested in all the Shares in which Mr. Dong Ping (who is interested in 36,630,000 Shares as a beneficial owner and is interested in 554,853,298 Shares through his directly wholly-owned corporations, Newwood, Numerous Joy and Highrise), Mr. Xu Zheng and Tairong Holdings are interested by virtue of section 317 of the SFO. Please refer to note (8) for the Shares directly held by Tairong Holdings.
- (7) Mr. Ning Hao is a party to the Shareholders Agreement and is therefore deemed to be interested in all the 2,700,000 underlying Shares in which Mr. Dong Ping is interested by virtue of section 317 of the SFO.
- (8) These 438,625,528 Shares are directly held by Tairong Holdings, which is a company incorporated in the British Virgin Islands with limited liability and directly wholly-owned by Mr. Xu Zheng.
- (9) Mr. Xu Zheng is a party to the Shareholders Agreement and is therefore deemed to be interested in all the Shares in which Mr. Dong Ping (who is interested in 36,630,000 Shares as a beneficial owner and is interested in 554,853,298 Shares through his directly wholly-owned corporations, Newwood, Numerous Joy and Highrise), Mr. Ning Hao and Pacific Wits are interested by virtue of section 317 of the SFO. Please refer to note (5) for the Shares directly held by Pacific Wits.
- (10) Mr. Xu Zheng is a party to the Shareholders Agreement and is therefore deemed to be interested in all the 2,700,000 underlying Shares in which Mr. Dong Ping is interested by virtue of section 317 of the SFO.

- (11) These are 27,000,000 underlying Shares to be issued upon exercise of the unlisted physically settled share options of the Company granted to Mr. Xiang Shaokun, Steven on 27 April 2018 pursuant to the Share Option Scheme. The exercise price of these options is HK\$2.08 per Share and the exercise period of (i) 18,000,000 of such share options is from 27 April 2018 to 17 June 2024 (both days inclusive); and (ii) 9,000,000 of such share options is from 1 September 2018 to 17 June 2024 (both days inclusive) subject to the provisions for early termination contained in the Share Option Scheme and certain vesting conditions applicable to the relevant grantees. The exercise of the Shares during the validity period is subject to certain exercise criteria applicable to the relevant grantees.
- (12) These 15,060,000 Shares are held by Panfaith Investments Limited, which is a company incorporated in the British Virgin Islands with limited liability and directly wholly-owned by Mr. Li Xiaolong.
- (13) These 200,000 Shares are jointly held by Mr. Wang Hong and Ms. Zhong Lan.

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

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

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

3. DIRECTOR'S INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

On 24 December 2018, Huan Huan Xi Xi, an indirect wholly-owned subsidiary of the Company, entered into the Movie Investment Agreement with Tibet Jindouyun, pursuant to which Huan Huan Xi Xi agreed to invest RMB12 million (equivalent to approximately HK\$14.64 million), being 10% of the estimated total production costs, including project development cost, initiation cost of the project, filming costs, post-production costs and other costs for the release of Tropical Memories, of approximately RMB120 million (equivalent to approximately HK\$146.40 million). Huan Huan Xi Xi shall have a right to the income which represents 10% of the profit or loss of Tropical Memories. Tropical Memories was officially released in the PRC in 2021.

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

Save as disclosed above and save for the Agreements, none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2020 (being the date to which the latest audited financial statements of the Group were made up) and up to the Latest Practicable Date, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

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

4. SERVICE CONTRACTS

As at the Latest Practicable Date, all the Directors have been appointed for a term of two years, except for Mr. Xiang Shaokun, Steven, an executive Director and the Chief Executive Officer of the Group, who has been appointed with no specific term or proposed length of services.

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

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable date, since 31 December 2020, being the date to which the latest audited financial statements of the Group were made up, save for those set out in the interim report of the Company for the six months ended 30 June 2021, the Directors confirmed that there has not been any material adverse change in the financial or trading position of the Group.

6. COMPETING INTEREST

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

Director	Companies which Directors held interests	Nature of business	Nature of interest (including close associate's interest, if any)
Mr. Ning Hao	Tianjin Dirty Monkey Films Company Limited* 天津壞猴子影業有限公司	TV and movie project preparation, TV and movie planning	Ultimate shareholder

Director	Companies which Directors held interests	Nature of business	Nature of interest (including close associate's interest, if any)
	Beijing Dirty Monkey Cultural Development Company Limited* 北京壞猴子文化產業發展有限公司	TV production and distribution	Ultimate shareholder
	Khorgas Dirty Money Media Culture Company Limited* 霍爾果斯壞猴子影視文化傳播有限公司	TV and movie production	Ultimate shareholder
	花滿山(上海)影業有限公司	TV and movie production	Ultimate shareholder
	壞猴子(上海)文化傳播有限公司	TV and movie production	Ultimate shareholder
	Tibet Jindouyun Film Company Limited * 西藏筋斗雲影業有限公司	TV and movie production	Ultimate shareholder
	上海定海神針影業有限公司	TV and movie production and movie distribution	Ultimate shareholder
	天津萬榮企業管理諮詢中心(有限合夥)	TV and movie investments	Ultimate shareholder
	霍爾果斯筋斗雲影視文化傳播有限公司	TV and movie distribution	Ultimate shareholder
	天津十間影視傳媒有限公司	Movie production, radio and TV production, cultural and entertainment agency	Ultimate shareholder
	INJO Films Co. Ltd. 東陽映月影視文化傳播有限公司	TV and movie production	Close associate's interest

Director	Companies which Directors held interests	Nature of business	Nature of interest (including close associate's interest, if any)
	西藏一格萬象影視傳媒有限公司	TV and movie production	Close associate's interest
	西藏映月工場影視文化傳播有限公司	TV and movie production	Close associate's interest

As at the Latest Practicable Date, Mr. Ning Hao, together with his family, was the ultimate shareholder of the above companies (collectively, the “**Mr. Ning Hao's Companies**”). Mr. Ning Hao's Companies were principally engaged in the TV and movie production and distribution in the PRC. As at the Latest Practicable Date, none of Mr. Ning Hao nor his close associate was interested in any business in respect of film production, apart from his and/or his family's interests in Mr. Ning Hao's Companies as disclosed above.

Director	Companies which Directors held interests	Nature of business	Nature of interest (including close associate's interest, if any)
Mr. Xu Zheng	Beijing Joy Leader Culture Communication Co. Ltd.	Movie production and investments	Ultimate shareholder
	真樂道(上海)影視有限公司	TV and movie production and movie distribution	Ultimate shareholder
	Shanghai Joy Leader Media Culture Workshop* 上海真樂道影視文化工作室	Planning of TV and movie	Ultimate shareholder
	海南樂道山居文化傳播有限公司	TV production	Ultimate shareholder
	海南省洋洋得意文化傳播有限公司	TV production and movie distribution	Ultimate shareholder and close associate's interest
	華青傳奇(北京)科技發展有限公司	TV production	Close associate's interest

Director	Companies which Directors held interests	Nature of business	Nature of interest (including close associate's interest, if any)
	華青傳奇影業(廈門)有限公司	TV and movie production and distribution	Close associate's interest
	北京真有戲影業有限公司	TV production and movie distribution	Close associate's interest

As at the Latest Practicable Date, Mr. Xu Zheng was the majority shareholder of the above companies (collectively, the “**Mr. Xu Zheng’s Companies**”). Mr. Xu Zheng’s Companies were principally engaged in the TV and movie production, investment and distribution in the PRC. As at the Latest Practicable Date, none of Mr. Xu Zheng nor his close associate was interested in any business in respect of film production, apart from his interests in Mr. Xu Zheng’s Companies.

The Group is principally engaged in media and entertainment related businesses, including development and investment in film and TV programme rights, as well as operation of an online video platform.

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

7. EXPERT AND CONSENT

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

Name	Qualification
Nuada Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

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

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letter, report and/or summary of its opinions and references to its name and logo in the form and context in which they are included;
- (b) was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) did not have any direct or indirect interest in any assets which had since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

8. DOCUMENTS ON DISPLAY

Copies of the following documents will be on display on the website of the Stock Exchange at (www.hkexnews.hk) and the website of the Company at (www.huanxi.com) from the date of this circular up to and including the date of the SGM:

- (a) the Agreements;
- (b) the letter from the Board in this circular, the text of which is set out on pages 5 to 16 of this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 17 to 18 of this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 19 to 33 of this circular; and
- (e) the written consent referred in the section headed “7. Expert and Consent” in the appendix to this circular.

NOTICE OF SGM



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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1003)

NOTICE OF SGM

NOTICE IS HEREBY GIVEN that the special general meeting (the “**Meeting**”) of Huanxi Media Group Limited (the “**Company**”) will be held at 11:00 a.m. on Monday, 21 February 2022 at The Executive Centre, Level 35, Two Pacific Place, No. 88 Queensway, Admiralty, Hong Kong to consider and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the film production agreement (the “**Film Production Agreement**”) dated 20 December 2021 entered into between Beijing Huan Jia Xi Media Company Limited* (北京歡十喜文化傳媒有限公司) (“**Huanxi**”), an indirect wholly-owned subsidiary of the Company, Taizhou Huanxi Culture Investment Company Limited* (台州歡喜文化投資有限公司) (“**Taizhou Huanxi**”), an indirect wholly-owned subsidiary of the Company, and Hainan Ruri Fangsheng Film and Television Culture Communication Company Limited* (海南如日方升影視文化傳播有限公司) (“**Hainan Ruri Fangsheng**”) in relation to the film production services in respect of the film, *Red Carpet* (全民明星) (the “**Film**”), to be provided by Hainan Ruri Fangsheng to Huanxi and Taizhou Huanxi, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the director agreement (the “**Director Agreement**”) dated 20 December 2021 entered into between the Company and Mr. Ning Hao, pursuant to which Mr. Ning Hao has conditionally agreed to act as the film director of the Film, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

* For identification purposes only

NOTICE OF SGM

- (c) any one of the directors of the Company (the “**Director**”) or a duly authorised committee of the board of Directors (the “**Board**”) be and is hereby authorised to do all such acts and things as he/she/it may in his/her/its discretion consider as necessary, expedient or desirable for the purpose of or in connection with the implementation of the Film Production Agreement and the Director Agreement (collectively, the “**Agreements**”) and the transactions contemplated thereunder and execute and deliver all such documents, deeds or instruments (or where any documents are required to be executed under seal, any two Directors or one Director and the company secretary of the Company be and are hereby authorised to execute and deliver all such documents) and take all such steps as the Director considers necessary, appropriate or desirable to implement or give effect to the Agreements and the transactions contemplated thereunder and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally and materially different from those as provided for in the Agreements as are, in the opinion of the Directors or such duly authorised committee, in the interest of the Company and its shareholders as a whole).”

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

Hong Kong, 31 January 2022

Registered office:
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10, Bermuda

Principal Place of Business in Hong Kong:
11th Floor, Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

Notes:

1. All resolutions at the Meeting will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the results of the poll will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company in accordance with the Listing Rules.
2. To ascertain a member’s entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Wednesday, 16 February 2022 to Monday, 21 February 2022, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the Meeting, all transfer of the shares of the Company accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong by 4:30 p.m. on Tuesday, 15 February 2022.
3. Any shareholder of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares of the Company may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company. On a poll, votes may be given either personally or by a duly authorised corporate representative or by proxy.
4. The form of proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.

NOTICE OF SGM

5. The form of proxy and (if required by the board of Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority shall be delivered to the office of the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong by 11:00 a.m. on Saturday, 19 February 2022 or not less than 48 hours before the time appointed for holding any adjourned meeting.
6. No form of proxy shall be valid after the expiration of twelve (12) months from the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in a case where the Meeting was originally held within twelve (12) months from such date.
7. Where there are joint registered holders of any share of the Company, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
8. Delivery of a form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the Meeting or any adjournment thereof or upon the poll concerned, and in such event, the form of proxy should be deemed to be revoked.
9. Precautionary measures will be taken to prevent and control the spread of the Coronavirus Disease (“COVID-19”) at the Meeting, including the following:
 - (i) compulsory body temperature check will be conducted and hand sanitiser shall be used for every shareholder of the Company or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius or is exhibiting flu-like symptoms will be denied entry into or be required to leave the venue;
 - (ii) all shareholders of the Company or proxies are required to wear surgical face masks throughout their attendance of the Meeting;
 - (iii) the Company will maintain a soft distance between seats; and
 - (iv) no refreshment will be served.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into or be required to leave the venue. The Company encourages the shareholders of the Company to consider appointing the chairman of the Meeting as his/her proxy to vote on the relevant resolutions at the Meeting, instead of attending the Meeting in person to reduce the risk of infection due to overcrowding.

Subject to the development of the pandemic, the Company may implement further procedures and precautionary measures at short notice and may issue further announcement as appropriate.

Shareholders of the Company should check the Company’s website for updates on the latest arrangement of the Meeting.

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