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 a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in HengTen Networks Group Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

HENGTEN NETWORKS GROUP LIMITED

恒 騰 網 絡 集 團 有 限 公 司

(a company incorporated in Bermuda with limited liability)

(Stock Code: 136)

(1) MAJOR TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN THE TARGET COMPANY INVOLVING THE ISSUE OF CONSIDERATION SHARES AND UNLISTED WARRANTS UNDER SPECIFIC MANDATE; (2) PROPOSED SHARE CONSOLIDATION; (3) RE-ELECTION OF AN EXECUTIVE DIRECTOR AND (4) NOTICE OF SGM

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

A letter from the Board is set out on pages 11 to 63 of this circular.

A notice convening the special general meeting (the "**SGM**") of HengTen Networks Group Limited to be held at Taishan Room, Level 5, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong on Monday, 18 January 2021 at 3:00 p.m. is set out on pages 163 to 166 of this circular. A form of proxy for use at the SGM is also enclosed.

Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the office of the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof in person should you so wish.

31 December 2020

CONTENTS

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

"Acquisition"	the acquisition of the Sale Share and the Loan by the Purchaser
"Announcement"	the announcement of the Company dated 26 October 2020 in relation to the Acquisition
"Beijing Xiaoming"	Beijing Xiaoming Zhumeng Data Service Co., Ltd.* (北京曉明築夢數據服務有限公司), a company incorporated in the PRC with limited liability
"Board"	the board of directors of the Company
"Business Day(s)"	any day (not being a Saturday, a Sunday and a public holiday) on which licensed banks in Hong Kong and the PRC are generally open for business throughout their normal business hours
"Call Option Agreements", each a "Call Option Agreement"	the call option agreements entered into among the WFOE, each of the Variable Interest Entities, the PRC Beneficial Owner and the relevant PRC Registered Shareholder(s) of each of the Variable Interest Entities
"CCASS"	the Central Clearing and Settlement System established and operated by the HKSCC
"Company"	HengTen Networks Group Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 136)
"Completion Date"	the date on which the Acquisition is completed pursuant to the Sale and Purchase Agreement, which will be agreed in writing between the Purchaser and the Sellers after all the conditions of the Sale and Purchase Agreement have been fulfilled or waived, which in any event will be the 10th Business Day after all the conditions of the Sale and Purchase Agreement have been fulfilled or waived
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Conditions"	the conditions set out under the sub-paragraph "Conditions to the Completion" of paragraph "Sale and Purchase Agreement" in the section "Letter from the Board" of this circular

"Consideration Shares"	11,543,309,432 new Shares which shall be allotted and issued by the Company to satisfy part of the Total Consideration in accordance with the Sale and Purchase Agreement
"Consolidated Share(s)"	ordinary share(s) of par value of HK$0.02 each in the share capital of the Company immediately after the Share Consolidation becoming effective
"Deed of Non-Competition Undertaking"	the deed of non-competition undertaking to be executed by the Sellers and their affiliates on or before Completion with the Group
"Director(s)"	the director(s) of the Company
"Dispose"	has the meaning ascribed to it under the paragraph headed "the Warrants" in the section headed "Letter from the Board" in this circular
"Enlarged Group"	the Group as enlarged by the Target Group
"Equity Pledge Agreements", each an "Equity Pledge Agreement"	the equity pledge agreements entered into among the WFOE, each of the Variable Interest Entities, the PRC Beneficial Owner and the relevant PRC Registered Shareholder(s) of each of the Variable Interest Entities
"Exclusive Service Agreements", each an "Exclusive Service Agreement"	the exclusive service agreements entered into between the WFOE and each of the Variable Interest Entities
"Existing Share(s)"	ordinary share(s) of par value of HK$0.002 each in the share capital of the Company before the Share Consolidation becoming effective
"FY2021"	the financial year ending 31 December 2021
"FY2022"	the financial year ending 31 December 2022
"FY2023"	the financial year ending 31 December 2023
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited

"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are third party(ies) independent of the Company and its connected persons as defined under the Listing Rules)
"Issue Price"	the issue price of HK$0.30 per Consideration Share
"Jingxiu"	Shenzhen Jingxiu Network Technology Co., Ltd.* (深圳市景秀網絡科技有限公司), a company incorporated in the PRC with limited liability
"Last Trading Day"	23 October 2020, being the last trading day prior to the date of the Sale and Purchase Agreement
"Latest Practicable Date"	29 December 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Listing Committee"	has the meaning ascribed thereto in the Listing Rules
"Loan"	all amounts (including all interests due and payable, if any) owing by the Target Group to the Sellers and the relevant loan agreements on or at any time prior to the on Completion Date
"Management and Operation Agreement", each a "Management and Operation Agreement"	the management and operation agreements entered into among the WFOE, each of the Variable Interest Entities, the PRC Beneficial Owner and the relevant PRC Registered Shareholder(s) of each of the Variable Interest Entities
"Mr. Chen"	Mr. Chen Cong (陳聰)
"Mr. Ke"	Mr. Ke Liming (柯利明)
"Mr. Qing"	Mr. Qing Gang (慶鋼)
"Mr. Zhang"	Mr. Zhang Guoliang (張國良)
"Nominee Shareholding Agreements", each a "Nominee Shareholding Agreement"	the nominee shareholding agreements entered into between the PRC Beneficial Owner and the relevant PRC Registered Shareholder (other than Mr. Ke) of each of the Variable Interest Entities

"Outstanding"	in relation to the Warrants, shall mean all the Warrants issued other than those which have been redeemed or in respect of which Warrant Exercise Rights have been exercised and which have been cancelled in accordance with the terms and conditions of the Warrant Instrument
"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
"PRC Beneficial Owner"	Mr. Ke, the ultimate beneficial owner of each of the Variable Interests Entities
"PRC Legal Advisers"	Zhong Lun Law Firm, being legal advisers to the Sellers
"PRC Registered Shareholders"	collectively, Mr. Ke, Mr. Chen, Mr. Zhang and Mr. Qing, the registered owners of the respective Variable Interests Entity(ies)
"Pumpkin Films"	Pumpkin Films Limited, a company incorporated in the Cayman Islands with limited liability
"Pumpkin Film Streaming"	a membership based online streaming platform operated by the relevant Variable Interest Entities
"Purchaser"	Power Wave Holdings Limited 力濤控股有限公司, a wholly-owned subsidiary of the Company
"Reorganisation"	has the meaning ascribed to it under the paragraph headed "information regarding the Sellers and the Target Group" in the section headed "Letter from the Board" in this circular
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the conditional Sale and Purchase Agreement in relation to the Acquisition
"Sale Share"	one share of the Target Company, being the entire issued share capital of the Target Company as at the date of the Sale and Purchase Agreement and up to the completion of the Acquisition, which is legally and beneficially owned by Pumpkin Films
"Sellers"	Mr. Ke and Pumpkin Films

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares and Warrant Shares upon full exercise of the Warrants), the re-election of Mr. Wan Chao as an executive Director and the Share Consolidation
"Shanghai Ruyi"	Shanghai Ruyi Movie Television Production Co., Ltd.* (上海儒意影視製作有限公司), a company incorporated in the PRC with limited liability
"Share(s)"	the ordinary share(s) of HK$0.002 each in the share capital of the Company
"Shareholders"	the holder(s) of Share(s)
"Share Consolidation"	the proposed share consolidation on the basis that every ten (10) issued and unissued Existing Shares be consolidated into one (1) Consolidated Share
"Share Consolidation Announcement"	the announcement issued by the Company dated 29 December 2020 in relation to the proposed Share Consolidation
"Shareholder Voting Right Delegation Agreements", each a "Shareholder Voting Right Delegation Agreement"	the shareholder voting right delegation agreements entered into among the WFOE, each of the Variable Interest Entities and, the PRC Beneficial Owner and the relevant PRC Registered Shareholder(s) of each of the Variable Interest Entities
"Specific Mandate"	the specific mandate for the allotment and issue of the Consideration Shares and Warrant Shares (upon full exercise of the Warrants), which is subject to the approval by the Shareholders voting by way of poll at the SGM
"Spouse Consent Letters", each a "Spouse Consent Letter"	the spouse consent letters issued by the spouse of Mr. Ke (i.e. Ms. Li Mengxiao (李夢曉)) with respect to each of the Variable Interest Entities
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Announcement"	the supplemental announcement of the Company dated 27 October 2020 in relation to the Acquisition

"Target Company"	Virtual Cinema Entertainment Limited, a company incorporated in the British Virgin Islands, which will indirectly control the Variable Interests Entities through VIE Contracts upon completion of the Reorganisation through the WFOE
"Target Group"	before completion of the Acquisition, refers to the Target Company, Virtual Cinema HK and the WFOE; and after completion of the Acquisition, includes the Target Company's subsidiaries and the Variable Interest Entities
"Total Consideration"	HK$7,200,000,000 for the Acquisition which will be satisfied by the allotment and issue of the Consideration Shares and the Warrants
"Tranche 1 Warrants"	has the meaning ascribed to it under the paragraph headed "the Warrants" in the section headed "Letter from the Board" in this circular
"Tranche 1 Warrants Exercise Period"	has the meaning ascribed to it under the paragraph headed "the Warrants" in the section headed "Letter from the Board" in this circular
"Tranche 1 Warrants Exercise Condition"	has the meaning ascribed to it under the paragraph headed "the Warrants" in the section headed "Letter from the Board" in this circular
"Tranche 2 Warrants"	has the meaning ascribed to it under the paragraph headed "the Warrants" in the section headed "Letter from the Board" in this circular
"Tranche 2 Warrants Exercise Period"	has the meaning ascribed to it under the paragraph headed "the Warrants" in the section headed "Letter from the Board" in this circular
"Tranche 2 Warrants Exercise Condition"	has the meaning ascribed to it under the paragraph headed "the Warrants" in the section headed "Letter from the Board" in this circular
"Tranche 3 Warrants"	has the meaning ascribed to it under the paragraph headed "the Warrants" in the section headed "Letter from the Board" in this circular

"Tranche 3 Warrants Exercise Period"	has the meaning ascribed to it under the paragraph headed "the Warrants" in the section headed "Letter from the Board" in this circular
"Tranche 3 Warrants Exercise Condition"	has the meaning ascribed to it under the paragraph headed "the Warrants" in the section headed "Letter from the Board" in this circular
"Variable Interest Entities"	collectively, Jingxiu, Beijing Xiaoming and Shanghai Ruyi and their respective branch companies (if any), each a "Variable Interest Entity"
"VIE Contracts"	a series of agreements and power of attorneys executed for the purpose of establishing the variable interest entity arrangement amongst the Variable Interest Entities, their respective PRC Registered Shareholders, PRC Beneficial Owner and/or the WFOE pursuant to the Reorganisation
"Virtual Cinema HK"	Virtual Cinema Culture Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company
"Warrants"	the Tranche 1 Warrants, the Tranche 2 Warrants or the Tranche 3 Warrants (as the case may be)
"Warrants Exercise Period"	the Tranche 1 Warrants Exercise Period, the Tranche 2 Warrants Exercise Period or the Tranche 3 Warrants Exercise Period (as the case may be)
"Warrants Exercise Price"	an initial exercise price of HK$0.096 per Warrant Share (subject to adjustment) at which holder of the Warrants may subscribe for the Warrant Shares
"Warrants Exercise Rights"	has the meaning ascribed to it under the paragraph headed "the Warrants" in the section headed "Letter from the Board" in this circular
"Warrant Instrument"	the deed poll constituting the Warrants to be executed by the Company upon completion of the Acquisition
"Warrant Shares"	a total of 18,342,793,070 new Shares to be allotted and issued upon exercise of the Warrants Exercise Rights

"WFOE"	Shanghai Muzhou Network Technology Co., Ltd.* (上海沐洲網絡科技有限公司), an indirect subsidiary of the Target Company and a wholly foreign-owned enterprise established in the PRC
"%"	per cent.

* *In this circular, the English translation of certain Chinese names, entities and addresses is included for information purpose only and should not be regarded as official English translation of such Chinese names, entities and addresses.*

The expected timetable for the implementation of the Share Consolidation is set out below. The expected timetable is subject to the satisfaction of all the conditions of the Share Consolidation and is therefore for indicative purpose only.

Event	Date and time
Expected date of despatch of the Circular with notice and form of proxy of the SGM	Thursday, 31 December 2020
Latest date and time for lodging transfer documents in order to qualify for attending and voting at the SGM	Tuesday, 12 January 2021, 4:30 p.m.
Closure of register of members for the entitlement to attend and vote at the SGM	Wednesday, 13 January 2021 to Monday, 18 January 2021 (both days inclusive)
Latest date and time for lodging forms of proxy for the SGM (not less than 48 hours prior to time of the SGM)	Saturday, 16 January 2021, 3:00 p.m.
Expected date and time of the SGM	Monday, 18 January 2021, 3:00 p.m.
Announcement of poll results of the SGM	Monday, 18 January 2021

The following events are conditional on the fulfilment of the conditions for the implementation of the Share Consolidation:

Effective date of the Share Consolidation	Wednesday, 20 January 2021
First date for free exchange of existing share certificates for new share certificates for Consolidated Shares	Wednesday, 20 January 2021
Commencement of dealings in the Consolidated Shares	Wednesday, 20 January 2021, 9:00 a.m.
Original counter for trading in the Existing Shares in board lots of 4,000 Existing Shares (in the form of existing share certificates) temporarily closes	Wednesday, 20 January 2021, 9:00 a.m.
Temporary counter for trading in Consolidated Shares in board lots of 400 Consolidated Shares (in the form of existing share certificates) opens	Wednesday, 20 January 2021, 9:00 a.m.

Event	Date and time
Original counter for trading in the Consolidated Shares in board lots of 4,000 Consolidated Shares (in the form of new share certificates for Consolidated Shares) re-opens	Wednesday, 3 February 2021, 9:00 a.m.
Designated broker starts to stand in the market to provide matching services for the sale and purchase of odd lots of Consolidated Shares	Wednesday, 3 February 2021, 9:00 a.m.
Parallel trading in Consolidated Shares (in the form of new and existing share certificates) begins	Wednesday, 3 February 2021, 9:00 a.m.
Temporary counter for trading in board lot size of 400 Consolidated Shares (in the form of existing share certificates) closes	Thursday, 25 February 2021, 4:10 p.m.
Designated broker ceases to stand in the market to provide matching services for the sale and purchase of odd lots of Consolidated Shares	Thursday, 25 February 2021, 4:10 p.m.
Parallel trading in Consolidated Shares (in the form of new and existing share certificates) ends	Thursday, 25 February 2021, 4:10 p.m.
Last date for free exchange of existing share certificates for new share certificates for Consolidated Shares	Monday, 1 March 2021

All times and dates in this circular refer to Hong Kong local times and dates. The expected timetable set out above is subject to the satisfaction of all the conditions of the Share Consolidation and is therefore for indicative purpose only. Any changes to the expected timetable will be announced in a separate announcement by the Company as and when appropriate.

恒腾网络
hengten networks

HENGTEN NETWORKS GROUP LIMITED
恒騰網絡集團有限公司
(a company incorporated in Bermuda with limited liability)
(Stock Code: 136)

Executive Directors:
Mr. Xu Wen *(Chairman)*
Mr. Huang Xiangui
Mr. Wan Chao

Independent non-executive Directors:
Mr. Chau Shing Yim, David
Mr. Nie Zhixin
Mr. Chen Haiquan
Professor Shi Zhuomin

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
23rd Floor
China Evergrande Centre
38 Gloucester Road
Wanchai
Hong Kong

31 December 2020

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR TRANSACTION
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN THE TARGET COMPANY
INVOLVING THE ISSUE OF CONSIDERATION SHARES AND UNLISTED WARRANTS UNDER SPECIFIC MANDATE;
(2) PROPOSED SHARE CONSOLIDATION;
AND
(3) RE-ELECTION OF AN EXECUTIVE DIRECTOR**

INTRODUCTION

References are made to the Announcement, the Supplemental Announcement and the Share Consolidation Announcement. The purpose of this circular is to provide you with, among other things, (i) further details in respect of the Acquisition and the Share Consolidation; (ii) financial information of the Group; (iii) financial information of the Target Group; (iv) the unaudited pro forma financial information of the Enlarged Group; (v) management discussion and analysis on the Target Group; (vi) other information as required under the Listing Rules; (vii) information on the re-election of Mr. Wan Chao as an executive Director; and (viii) a notice of SGM.

(1) THE ACQUISITION

On 26 October 2020, the Company, the Purchaser (a wholly-owned subsidiary of the Company), and the Sellers entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to acquire, and the Sellers conditionally agreed to sell, the Sale Share and the Loan. The Total Consideration will be satisfied by the allotment and issue of the Consideration Shares and the Warrants.

THE SALE AND PURCHASE AGREEMENT

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

Date

26 October 2020

Parties

The Company

Purchaser:	Power Wave Holdings Limited (力濤控股有限公司), a wholly-owned subsidiary of the Company
Sellers:	Mr. Ke Liming (柯利明) and Pumpkin Films Limited

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Sellers and their ultimate beneficial owner (if applicable) is an Independent Third Party.

Assets to be acquired

Pursuant to the terms of the Sale and Purchase Agreement, the Purchaser conditionally agreed to acquire, and the Sellers conditionally agreed to (i) sell, the Sale Share (together with all rights attached thereto), representing the entire issued share capital of the Target Company as at the Latest Practicable Date and upon completion of the Acquisition, and (ii) assign or procure to assign the Loan, representing all amounts (including all interests due and payable, if any) owing by the Target Group to the Sellers under the relevant loan agreements on or at any time prior to the Completion Date.

Total Consideration

The Total Consideration for the Sale Share and the Loan is HK$7,200,000,000, of which the consideration payable for the Loan shall be equivalent to the outstanding amount of the Loan as at the Completion Date (including all interests due and payable, if any).

The Total Consideration shall be settled by the Company to the Sellers (or the Sellers' designated nominee(s)) upon Completion by the issuance of:

(i) the Consideration Shares of approximately HK$3,462,992,830 at the Issue Price of HK$0.30 per Consideration Share; and

(ii) the Warrants of approximately HK$3,737,007,170 at the initial Warrants Exercise Price of HK$0.096 per Warrant Share.

The Total Consideration was determined after arm's length negotiations between the parties to the Sale and Purchase Agreement, after taking into account, among other things, (i) the historical performance and future business prospect of the Target Group; (ii) the preliminary valuation of the Target Group performed by an independent professional valuer of approximately RMB6.6 billion as at 30 September 2020; (iii) other market comparables; and (iv) the benefits to be derived from the Target Group from the Acquisition as described under the section headed "Reasons for and benefits of the Acquisition" in this circular.

Hong Kong Appraisal Advisory Limited, the independent professional valuer (the "**Valuer or HKAppraisal**"), adopted an income approach and market approach in conducting the preliminary valuation of the Target Group described in (ii) above, having considered to use three generally accepted approaches, namely income approach, market approach and asset-based approach. Income approach and market approach are considered as the most appropriate approach for the following reasons:

- Income approach is closest to pure theory, as the market value under income approach is derived from the present value of all future benefits generated by the business enterprise. This approach implies that there is a direct relationship between the amount of income an enterprise will earn and its value. Having reviewed the Target Group's business plan and development plan, the income approach is considered as one of the appropriate approaches in arriving the value of the Target Group, in comparison to the cost approach.

- Market approach is based upon the principle of substitution premise that a prudent buyer will pay no more for an asset that it would cost to acquire a substitute asset with the same utility. Therefore, the Valuers analysed prices at which the equity or invested capital in similar business changed hands. The Guideline Publicly-traded Company method (the "**GPTC method**") has been adopted as in this valuation. In the GPTC method, the market value of the Target Group is based on prices at which stocks or share interests of similar companies are trading in a public market. Major assumptions under the GPTC method include but are not limited to: i) the existence of good guideline publicly-traded companies; and ii) the existence of an efficient market.

- Asset-based Approach does not directly incorporate information about the economic benefits contributed by the business enterprise, but is useful for holding company and for company which is to be liquidated. This approach does not focus on the income the asset generates in the future and is not powerful to appraise those unidentified intangibles' value of a business. Hence, the more intangible assets involved in the business, the more irrelevant the asset-based approach and thus the more relevant the other approaches are. For the purpose of the Acquisition, the asset-based approach is considered not appropriate due to the business nature of the Target Group which involves using numbers of copying rights and other intangibles to do business.

Under the market approach, the multiples and financial metrics the Valuer made reference to in valuing the Target Group under the market approach are set out as follows:

- The Valuer has to determine the appropriate valuation multiples for the valuation of 100% equity interest in each of Shanghai Ruyi, Beijing Xiaoming and Jingxiu, in which the Valuer has considered price to sales ("P/S") multiple, price to earnings ("P/E") multiple, price to book ("P/B") multiple, enterprise value to sales ("EV/Sales") multiple and enterprise value to earnings before interest and tax ("EV/EBIT") multiple. Since the intangible company-specific competencies and advantages are not captured in the P/B multiple, the equity's book value has little bearing with its fair value. Thus, the P/B multiple is not adopted.

- In respect of the valuation of Shanghai Ruyi, as long as Shanghai Ruyi is making profit, net profit as the bottom level of the financial line item has thoroughly reflected Shanghai Ruyi's different level of expenses. It is more suitable to adopt the P/E multiple in this case when compared with other earnings multiples, for instance EV/SALES, EV/EBIT and P/S. However, given the fact that the financial performance of Shanghai Ruyi is affected by COVID-19 during the early year of 2020, the trailing 12-month net profit as at 30 September 2020 is not an appropriate indicator of the profitability level of Shanghai Ruyi, especially when Shanghai Ruyi has potential films and TV series which were delayed due to COVID-19 pandemic will be released in late 2020 and onwards, thus the Valuer adopted forward-looking estimation of Shanghai Ruyi for cross check purpose only. The Valuer has chosen forward FY 2020 P/E ("Forward P/E") to be the most appropriate multiple for cross check.

- In respect of Jingxiu and Beijing Xiaoming ("**Target Business**"), given the fact that the Target Business is a start-up business which still has net loss, negative EBITDA and EBIT as at the valuation date, only multiples to sales will be considered. In addition, given the Target Business is operating in a developing stage, a high level of uncertainty is involved in formulating assumptions relying on forward looking data to draw a reliable conclusion. The Valuer considers these valuation techniques based on forward-looking estimation of the Target Business are not appropriate to draw conclusion but for cross check only. The Valuer considered the EV/Sales multiple to be the most appropriate ratio to be used in this valuation exercise for cross check purpose. The Valuer has chosen forward FY 2020 EV/Sales ("Forward EV/S") to be the most appropriate multiple.

The key assumptions applied by the Valuer are set out as follows:

1. there will be no major changes in the existing political, legal, fiscal and economic conditions in which the Target Group carries on its businesses;

2. there will be no major changes in the current taxation law in the PRC, the rates of tax payable will remain unchanged and all applicable laws and regulations will be complied with;

3. there will be no material changes in the industry in which the Target Group involved that would materially affect the revenues, profits, cash flows attributable to the businesses;

4. the market is efficient to reflect all available and relevant information;

5. the market data are reliably, sufficiently and reasonably stated;

6. the availability of finance will not be a constraint on the operation of the Target Group;

7. exchange rates and interest rates will not differ materially from those presently prevailing;

8. the Target Group will maintain the validity of all necessary permits, license, certificates and approvals to carry on its businesses;

9. the Target Group will retain competent management, key personnel and technical staff to support the ongoing operation of its businesses; and

10. the financial forecast has been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration by the management of the Target Group, and the financial performance in the future is achievable according to the business plan provided by the management of the Target Group.

The selection criteria of the market comparable companies include: (i) companies that are listed on recognised stock exchanges; and (ii) engaged in similar businesses of the Target Group, namely movie and television series research and development, production, distribution and advertisement, and internet streaming business. The Company has made reference to the trading multiples and financial metrics of the comparable companies in determining the Total Consideration. Set out below are the outcome of the valuation of the Target Group under each of the income approach and market approach:

Valuation Target	**Income Approach** *(RMB'000)*	**Market Approach** *(RMB'000)*
Shanghai Ruyi	5,081,800	5,437,300
Jingxiu and Beijing Xiaoming	1,523,000	1,195,000–2,130,000
Total	**6,604,800**	**6,632,300–7,567,300**

HKAppraisal is the Hong Kong branch of China United Assets Appraisal Group, the biggest valuation group inside the PRC. HKAppraisal is operated by a group of experienced professionals with proven track record of producing quality appraisals as public documents required by Stock Exchanges. HKAppraisal's experts have fruitful experiences in handling IPO and listing securities' circular exercises. HKAppraisal is on the List of Firms Providing Professional Consultancy Services of General Practice Surveying published by the Hong Kong Institute of Surveyors. Dr. Jacqueline W. Huang is the Managing Director of HKAppraisal and one of the two Responsible Professionals for this valuation. Dr. Huang is an experienced business valuation professional in Hong Kong. She is an Accredited Senior Appraiser (Business Valuation) of the American Society of Appraisers ("ASA"), a Ph.D. from the University of Hong Kong. She has been conducting business valuation for various purposes since 2005 and has extensive experience in public transaction services. Dr. Huang oversees the business of HKAppraisal in all aspects. Mr. Nick Fung is the other Responsible Professionals for this valuation. He is a chartered financial analyst (CFA) with more than 10 years' experience in business valuation.

The Directors consider that the terms of the Total Consideration and payment structure are fair and reasonable having taken into account:

(i) the Company's recent financial performance is less than satisfactory as both the Group's revenue and net profits for the six months ended 30 June 2020 decreased by approximately 31.0% and 86.6% as compared to the corresponding period in 2019. The Board has been exploring means to further diversify both the business and financial aspects of the Company;

(ii) as the Total Consideration will be settled by way of Consideration Shares and Warrants, there will not be any significant cash outflow for acquiring the Target Company. The Group can preserve its financial resources for future development of the Group's existing business and of the Target Group;

(iii) based on the interim report for the Company for the six months ended 30 June 2020, the Group had net asset value of approximately RMB1,162.5 million or RMB0.014 per Share. The Issue Price of HK$0.30 per Consideration Share and Warrants Exercise Price of HK$0.096 per Warrant Share are at a substantial premium to the Group's net asset value. Also, the Issue Price and Warrants Exercise Price are at a relatively high price-to-earning ratio when comparing to the Group's earning per Share of approximately RMB0.00112 as disclosed in the Group's annual report for the year ended 31 December 2019; and

(iv) approximately HK$3,737.0 million of the Total Consideration will be settled by issuance of the Warrants. The exercise of the Warrants will be subject to the Target Group being able to fulfil the Exercise Conditions, being the net profits of Target Group for FY2021, FY2022 FY2023 having met the thresholds. The Warrants Exercise Period will incentivize the Sellers to execute the Target Group's business plan to achieve the target performance. Also, the Group will have additional cash inflow from the Sellers when the Warrants are exercised.

The Company considers the issue of Consideration Shares and Warrants in settling the Total Consideration to be fair and reasonable and in the interests of the Company and its shareholders for the following reasons:

(i) Mr. Ke, the Seller, is one of the key management personnel of the Target Group. The Directors consider that the issuance of the Consideration Shares and Warrants would better align the long-term objectives of the key management for the Target Group with that of the Company and to ensure retention of key management of the Target Group to implement and execute the strategic and business plans of the Target Group upon completion of the Acquisition. The Seller would benefit from the potential upside of the increase in the Share price should the Target Group achieve satisfactory financial performance in the future; and

(ii) After completion of the Acquisition, the Target Group shall be principally engaged, among others, in the investment, production and broadcasting of films and television programmes. Upon completion of the Acquisition, it is expected that the Group would provide a considerable amount of financial resources to the Target Group to support its business development. As at the Latest Practicable Date, the Target Group had over 30 film and drama projects scheduled for production, and over 40 adapted or original scripts available for film or television development in reserve. Therefore, it would be beneficial for the Group to preserve its cash level to cope with the significant funding needs of the Target Group in the future.

The Sellers agree and undertake that, unless the Purchaser and the Company consent in writing otherwise:

(i) the Consideration Shares shall be subject to a 12-month lock-up period commencing from the Completion Date;

(ii) before the Warrants are exercised, the Warrants and any interest or rights therein shall not be transferable; and

(iii) for avoidance of doubt, the relevant Warrant Shares that may be issued upon exercise of the Warrants shall not be subject to any lock-up period or transferability limitations.

Issue Price

The Issue Price of HK$0.30 per Consideration Share represents:

(i) a premium of approximately 15.38% to the closing price of HK$0.26 per Shares as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 9.09% over the closing price of HK$0.33 per Share as quoted on the Stock Exchange on 23 October 2020, being the Last Trading Day; and

(iii) a discount of approximately 9.64% over the average closing price of HK$0.332 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the date of the Sale and Purchase Agreement.

The Issue Price was arrived at after arm's length negotiation between the parties to the Sale and Purchase Agreement after taking into account the prevailing market price of the Shares. The average closing price of the Company of the past 60 trading days immediately before the date of the Sale and Purchase Agreement (i.e. from 29 July 2020 to 23 October 2020) was approximately HK$0.286. Therefore, the Issue Price is above the average closing price of the Share and within the range of the closing price of the Share, which was from HK$0.203 to HK$0.400. The Directors consider that the Issue Price of HK$0.30 is representative of the recent share performance of the Company. In view of the above, the Directors consider that the Issue Price is fair and reasonable.

An application has been made to the Stock Exchange by the Company for the listing of, and permission to deal in, the Consideration Shares.

Conditions to the Completion

Completion of the Acquisition is subject to the following conditions (among others) having been fulfilled or waived (as the case may be):

(1) the passing by the Shareholders at the SGM of the ordinary resolution to (i) authorise the Directors to issue the Consideration Shares, the Warrants and the Warrant Shares; and (ii) approve the Sale and Purchase Agreement and the transactions contemplated

thereunder, including but not limited to (a) the issue of the Consideration Shares; (b) the issue of the Warrants; and (c) the issue of the Warrant Shares upon exercise of the Warrants Exercise Rights pursuant to the Warrant Instrument;

(2) the Listing Committee of the Stock Exchange having granted the approval for the listing of and permission to deal in, the Consideration Shares and the Warrant Shares;

(3) completion of due diligence on the Target Group to the satisfaction of the Purchaser;

(4) the relevant documents in connection with the Reorganisation (including the VIE Contracts) having been duly executed and the Reorganisation having been completed in accordance with the consent and approval of the Purchaser and will not be terminated, cancelled or expired after the Acquisition, such that the Target Company and its subsidiaries can control the Variable Interest Entities and enjoy all the economic benefits generated by their business;

(5) if required by the Purchaser, completion of any appointments of board members, supervisors, authorised representatives of shareholders, legal representatives and general managers of any members of the Target Group incorporated in the PRC as nominated by the Purchaser and the registration of the aforementioned appointments with the relevant branches of market supervision administration bodies in the PRC; and

(6) the delivery to the Purchaser of all consents, approvals and clearances which are necessary or which the Purchaser has been advised that it is desirable to obtain (including from governmental or official authorities) in connection with the execution, delivery and performance of the relevant transaction documents (the "Transaction Documents") and the consummation of the Acquisition.

If any of the conditions has not been satisfied (or, as the case may be, waived by the Purchaser) on or before 1 February 2021 or such later date as the Sellers and the Purchaser may agree, the Sale and Purchase Agreement shall be of no further effect and neither party shall have any obligations and liabilities under the Sale and Purchase Agreement save for any antecedent breaches of the terms thereof.

The Purchaser may waive, in whole or in part, conditionally or unconditionally, conditions set out in (3), (5) to (6) above by written notice to the Seller. The conditions set out in (1), (2) and (4) above will not be waivable. As at the Latest Practicable Date, none of the conditions precedent had been fulfilled and/or waived.

Completion

Completion of the Acquisition shall take place on a date to be agreed in writing between the Purchaser and the Sellers after all the conditions of the Sale and Purchase Agreement have been fulfilled or waived, which, in any event, will be the 10th Business Day after all the conditions of the Sale and Purchase Agreement have been fulfilled or waived.

Upon completion of the Acquisition, the Target Group will become indirect subsidiaries of the Company and therefore, the financial information of the Target Group will be consolidated into the consolidated financial statements of the Group.

The Target Company, by virtue of the execution of the VIE Contracts by the WFOE with the Variable Interest Entities and the PRC Registered Shareholders upon completion of the Reorganisation, can enjoy the economic benefits of the Variable Interest Entities and can control their respective board of directors and members' voting rights.

THE WARRANTS

Issuer of the Warrants

The Company

Number of Warrants

A total of 18,342,793,070 unlisted warrants are proposed to be issued to settle part of the Total Consideration. The Warrants are divided into three tranches, being 6,114,264,356 warrants for tranche 1 ("**Tranche 1 Warrants**"), 6,114,264,357 warrants for tranche 2 ("**Tranche 2 Warrants**"), and 6,114,264,357 warrants for tranche 3 ("**Tranche 3 Warrants**").

Each of the Warrants confers the holder the right to subscribe for, subject to the terms of the conditions set out in the Warrant Instrument and at any time during the relevant Warrants Exercise Period, one (1) Warrant Share at the Warrants Exercise Price.

Upon full exercise of all Warrants Exercise Rights, a total of 18,342,793,070 Warrant Shares will be issued. The Warrant Shares represent (i) approximately 22.70% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 16.57% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Warrant Shares. Each tranche of the Warrants can be exercised in whole or in part.

As the Company proposes to implement the Share Consolidation the number of Warrants and Warrant Shares will be adjusted. For details, please refer to the section headed "Proposed Share Consolidation — Effects of the Share Consolidation in relation to the Acquisition" in this circular.

Form

The Warrants will be issued upon completion of the Acquisition in registered form. Every holder of the Warrants shall be entitled to a warrant certificate.

Warrants Exercise Price

The Warrants Exercise Price of HK$0.096 per Warrant Share represents:

(i) a discount of approximately 63.08% to the closing price of HK0.26 per Shares as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 70.91% over the closing price of HK$0.33 per Share quoted on the Stock Exchange on the Last Trading Day; and

(iii) a discount of approximately 71.08% over the average closing price of HK$0.332 per Share for the five consecutive trading days for the Shares immediately prior to the date of the Sale and Purchase Agreement.

The Warrants Exercise Price set out above was determined based on the arm's length negotiations between the Company and the Sellers, taking into account that:

(i) the issue of the Warrants forms part of the Total Consideration pursuant to the Acquisition to incentivize the Sellers to enter into the Sale and Purchase Agreement and their long-term contribution to the Target Group after completion of the Acquisition;

(ii) the exercise of the Warrants is subject to the Sellers having achieved certain performance target(s) which will indirectly benefit the Group as a whole;

(iii) the exercise of the Warrants is subject to the Target Group being able to fulfill the performance target, which is with reference to the Net Profits of the Target Group for the three financial year ending 31 December 2023. Mr. Ke, being one of the key management of the Target Group, is primarily responsible for implementing and executing the strategic and business plan of the Target Group. The Warrant Exercise Price would incentivize the Sellers to align the long-term interests of the Group and create long-term value for the Enlarged Group;

(iv) the unaudited financial information of the Company for the six months ended 30 June 2020 which was available to the Board at the time of negotiation; whereby the Group's net asset value amounted to approximately RMB1,162.5 million or RMB0.014 per Share. The Warrant Exercise Price represents a substantial premium to the Group's net asset value as at 30 June 2020;

(v) the Board believes that the Company will benefit from new business opportunities that the Sellers may introduce to the Company, considering the Sellers' scope of operations in the PRC, compared to those of the Company; and

(vi) the Acquisition will enable the Company to benefit strategically from the synergies as elaborated under the section headed "Reasons for and Benefits of the Acquisition" for a long period of time.

The Warrants are issued to the Sellers as part of the Total Consideration in order to align the Sellers' interest to the long-term interests of the Company. The Directors consider the contractual conditions, including but not limited to the performance targets and criteria of exercise, are of significant commercial value to the Company and its business. These constitute valuable commercial consideration for the Warrants. As such, the Directors consider that the terms of the Warrants (including the Warrants Exercise Price) are on normal commercial terms, and are fair and reasonable and in the best interest of the Company and the Shareholders as a whole.

Adjustment events

The Warrants Exercise Price of HK$0.096 per Warrant Share is subject to customary adjustment events.

Please refer to Appendix V for details of the adjustment to the Warrants Exercise Price pursuant to each of the adjustment events.

Warrants Exercise Rights

Each unlisted Warrant confers rights to subscribe for one Share at the Warrants Exercise Price during the relevant Warrants Exercise Period in accordance with the terms and conditions set out of the Warrants set out in the Warrant Instruments including the fulfilment of relevant Exercise Conditions for that tranche.

The Warrants Exercise Rights attached to each Warrant shall lapse immediately after the expiry of the Tranche 3 Warrants Exercise Period. All rights under any such Warrants shall cease as of such time, and thereupon the Warrant certificates shall cease to be valid for any purpose whatsoever.

Warrants Exercise Period

Tranche 1	**Tranche 2**	**Tranche 3**
The six month period commencing on the date when the accounts of the Target Group for FY2021 will be made available to the Company (or such other period as may be agreed between the parties to the Warrant Instrument or as expressly provided for thereunder) ("**Tranche 1 Warrants Exercise Period**").	The six month period commencing on the date when the accounts of the Target Group for FY2022 will be made available to the Company (or such other period as may be agreed between the parties to the Warrant Instrument or as expressly provided for thereunder) ("**Tranche 2 Warrants Exercise Period**").	The six month period commencing on the date when the accounts of the Target Group for FY2023 will be made available to the Company (or such other period as may be agreed between the parties to the Warrant Instrument or as expressly provided for thereunder) ("**Tranche 3 Warrants Exercise Period**").

Warrants Exercise Conditions

The Warrants under each tranche by the holder(s) thereof are exercisable in whole or in part at any time on any Business Day in Hong Kong during the relevant Warrants Exercise Period, subject to the fulfilment of each of the following conditions:

Tranche 1	**Tranche 2**	**Tranche 3**
The consolidated net profits after income tax of the Target Group as shown in its accounts and determined as such pursuant to the terms and conditions set out in the Warrant Instrument ("**Net Profits**") for FY2021 equals to or is more than RMB400,000,000. ("**Tranche 1 Warrants Exercise Condition**")	The Net Profits for FY2022 equals to or is more than RMB 500,000,000 ("**Tranche 2 Warrants Exercise Condition**")	The Net Profits for FY2023 equals to or is more than RMB 600,000,000 ("**Tranche 3 Warrants Exercise Condition**")

(i) If the Tranche 1 Warrants Exercise Condition shall not be satisfied but the Net Profits for FY2021 and FY2022 in aggregate shall exceed RMB900,000,000, then the holder(s) of the Warrants may exercise, during any Business Day in Hong Kong of the Tranche 2 Warrants Exercise Period, all or part of the outstanding Tranche 1 Warrants and the Outstanding Tranche 2 Warrants.

(ii) If both the Tranche 1 Warrants Exercise Condition and the Tranche 2 Warrants Exercise Condition shall not be satisfied, but the Net Profits for FY2021, FY2022 and FY2023 in aggregate shall exceed RMB1,500,000,000, then the holder(s) of the Warrants may exercise, on a Business Day in Hong Kong during the Tranche 3 Warrants Exercise Period, all or part of the Outstanding Tranche 1 Warrants, the Outstanding Tranche 2 Warrants and the Outstanding Tranche 3 Warrants.

(iii) Notwithstanding anything provided under paragraphs (i) and (ii) above, if the Tranche 1 Warrants Exercise Condition or/and the Tranche 2 Warrants Exercise Condition shall not be satisfied, but the Net Profits for FY2021, FY2022 and FY2023 in aggregate shall exceed RMB1,200,000,000, then the holder(s) of the Warrants shall be entitled to, on a Business Day in Hong Kong during the Tranche 3 Warrants Exercise Period, exercise such number of any Outstanding Warrants such that the total number of Warrants Shares issued and to be issued under the Warrants to such holder (being Z) shall be calculated in accordance with the terms and conditions in the Warrant Instrument as set out below:

Z = Y minus the Warrants Shares having already been issued to the holder of the Warrants before 31 December 2023 (or such other date as the Company and the holder of the Warrant may agree) under the Warrant Instrument

where:

Y = X multiplied by 18,342,793,070 (being the total number of Warrant Shares)

X = the sum of the Net Profits for FY2021, FY2022 and FY2023 (which for the avoidance of doubt shall exceed RMB1,200,000,000) divided by RMB1,500,000,000

The Warrants exercise conditions are determined with reference to, among others, the Target Group's film and drama projects scheduled for production in the next three financial years, as well as multiple projects in the pipleline which was discussed in details with the Target Group with external directors and producers and multiple self-produced projects in pre-production for the online video business. These exercise conditions are effectively an earn-out mechanism that ties the Total Consideration with the performance of the Target Group in the next three financial years. The amount of Warrants comprise over half of the Consideration, and they cannot be exercised unless and until the Net Profits for the respective years are met or substantially met. However, the Company will acquire the entire interests of the Target Group from completion of the Acquisition regardless of whether the Warrants exercise conditions are met.

Having considered the below factors, the Company considers that the Warrant exercise conditions are fair and reasonable:

- in respect of Ruyi, given the limited resources and financial constraints, it was only able to develop approximately 1 to 2 movies and television productions on its own and relied heavily on investments in other movie and television productions. The stake held by Ruyi in such investments were usually within the range of 5% to 20% in the financial years ended 31 December 2017, 2018 2019 and for the six months ended 30 June 2020 (the "**Track Record Period**");

- the number of productions that Ruyi had participated as an investor was 5, 3, 2 and nil during the Track Record Period, and the average profit margin was approximately 11%, 38%, 15% and nil respectively. The relatively low profit margin was attributable to Ruyi's decision to withdraw from the investments, having balanced between the returns from the investments derived therefrom as well as other financial commitments to invest in other projects. Should Ruyi had more financial resources and continued to invest in such projects, Ruyi believes that its profit margin could have improved;

- given the limited number of productions Ruyi was able to participate independently at a time, and the relatively modest investment in the projects, Ruyi was only able to derive limited revenue and profit during the Track Record Period;

- after Completion, in respect of FY2021, FY2022 and FY2023, it is currently expected that Ruyi, through leveraging on the financial resources of the Group, would be able to increase the number of its independent productions as well as its investments in movie and television productions, such that independent productions can increase to 6–10 annually and the investments can increase to approximately 30%–70% thereby increasing the revenue and attributable net profit to Ruyi (as the case maybe);

- in respect of Jingxiu and Beijing Xiaoming, its revenue and profit are mainly derived from subscription fees from members of Pumpkin Film Streaming. The number of members had witnessed a significant increase from approximately 1,038,500 members as at 31 December 2017 to approximately 26,565,200 members as at 30 June 2020 which was an increase of approximately 24.6 times; and the number of members (which paid subscription fees) increased from approximately 272,470 members as at 31 December 2017 to approximately 2,294,970 members as at 30 June 2020, which was an increase of approximately 7.4 times;

- it is currently expected that, subject to unforeseen circumstances, due to the increase of investment in video content for Pumpkin Film Streaming (such as acquiring popular video content, development of original content), the number of members of Pumpkin Film Streaming will continue to increase;

- The Group intends to assist in Ruyi in its business expansion plans and to assist Pumpkin Film Streaming to increase its potential customer base. For illustration purpose, China Evergrande Group, the controlling Shareholder, and its affiliates comprise a broad range of industries including real estate development, property management services, finance as well as new energy vehicle businesses which cover a wide range of day to day households daily needs and present the Target Group with considerable potential target customer base after completion of the Acquisition;

- in addition, China Evergrande Group also owns one of the most renowned football clubs in Asia which has hundreds of millions of fans and has various upstream and downstream strategic partners which the Target Group may cross-sell its products and services to.

With the completion of the Acquisition and support from the Group, the Company believes that Ruyi can expand its investments in other movie and television productions and derive a larger portion of revenue and profit from such projects, whilst at the same time, Jingxiu and Beijing Xiaoming, via Pumkin Film Streaming, can leverage on the resources of the Group to further expand its membership base.

In view of the above and having taken into account the market comparables and the valuation of the industry peers which generate similar level of Net Profits for FY2021, FY2022 and FY2023, the Company considers the terms of the Warrants fair and reasonable and in the interests of the Company and its shareholders as a whole.

Ranking of the Warrant Shares

The Warrant Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares then in issue.

Transferability

The holder(s) of the Warrants shall not, without prior written consent by the Company, sell, lend, transfer, pledge, mortgage or otherwise dispose ("**Dispose**") of any Warrant or any interest or rights therein, or agree or announce any intention to Dispose any Warrant or any interest or rights therein.

Voting rights for the holder(s) of the Warrants

The holder(s) of the Warrants will not have any right to attend or vote at any meeting of the Company by virtue of them being holders of the Warrants. The holder(s) of the Warrants shall not have the right to participate in any distribution and/or offers of further securities made by the Company.

Rights of the holder(s) of the Warrants on the liquidation of the Company

If the Company is being wound up during the Warrants Exercise Period, all unexercised Warrants Exercise Rights shall lapse at the date of the relevant resolution approving the winding up of the Company, save for in the event of a voluntary winding-up, the holders of the Warrants shall be entitled within two (2) business days prior to the proposed shareholders' meeting approving a resolution to voluntarily wind-up the Company to exercise the Warrants Exercise Rights in accordance with the terms and conditions of the Warrant Instrument.

An application has been made to the Listing Committee of the Stock Exchange by the Company for the listing of, and permission to deal in, the Warrant Shares which may fall to be allotted and issued upon exercise of the Warrants Exercise Rights. No application will be made for the listing of the Warrants on the Stock Exchange or any other stock exchange(s).

It is intended that the entire amount of the proceeds from the issue of the Warrants be used for general corporate purposes. If the Warrants are fully exercised, the proceeds obtained from subscribing the Warrant Shares will be approximately HK$1,760,908,135.

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

The allotment and issuance of the Consideration Shares and Warrants will not result in a change in control of the Company. For illustration purpose, assuming there being no other changes in the share capital of the Company from the Latest Practicable Date up to the Completion Date, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the issuance of the Consideration Shares; and (iii) immediately upon the issuance of the Consideration Shares and the Warrant Shares:

	As at the Latest Practicable Date		**Immediately upon the issuance and allotment of the Consideration Shares**		**Immediately upon the issuance and allotment of the Consideration Shares and the Warrant Shares**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
China Evergrande Group[(1)]	44,958,001,998	55.64	44,958,001,998	48.68	44,958,001,998	40.62
Tencent Holdings Limited[(1)]	15,608,572,363	19.32	15,608,572,363	16.90	15,608,572,363	14.10
Director	35,800,000	0.04	35,800,000	0.04	35,800,000	0.03
Mr. Ke[(2)]	—	—	11,543,309,432	12.50	29,886,102,502	27.00
Sub-total	60,602,374,361	75.00	72,145,683,793	78.12	90,488,476,863	81.75
Public	20,200,791,664	25.00	20,200,791,664	21.88	20,200,791,664	18.25
Total	80,803,166,025	100.00	92,346,475,457	100.00	110,689,268,527	100.00

Notes:

1. China Evergrande Group holds the Shares indirectly through Solution Key Holdings Limited, and Tencent Holdings Limited holds the Shares indirectly through Water Lily Investment Limited.

2. The Total Consideration shall be payable by the Company to the Sellers (or the Sellers' designated nominee(s)). Pumpkin Films, one of the Sellers, is an indirect wholly-owned subsidiary of Mr. Ke.

The Company takes note of the public float issue after the issuance of the Consideration Shares and will take appropriate action(s) to maintain the minimum public float of the Company at or before completion of the Acquisition. The Company further notes that pursuant to the terms of the Warrants, the Company will not issue the Warrant Shares if the then minimum public float requirement under the Listing Rules cannot be complied with or that the exercise period of the Warrants shall be extended until the minimum public float requirement has been complied with.

As disclosed under the paragraph headed "the Sale and Purchase Agreement" above, completion of the Acquisition is conditional upon 'the Listing Committee of the Stock Exchange having granted the approval for the listing of and permission to deal in the Consideration Shares and the Warrant Shares'. Hence, the Acquisition will not proceed if such condition is not fulfilled.

The Company understands that listing approval will only be granted by the Stock Exchange provided that the minimum public float requirements under the Listing Rules are being complied with. In order to maintain sufficient public float in compliance with the Listing Rules upon issuance of the Consideration Shares, the existing substantial Shareholder(s) of the Company intend(s) to sell part of the Shares held by it/them to Shareholder(s) or potential investor(s) who will be counted towards public float under the Listing Rules.

The Warrants are intended to be issued on the day following the Consideration Shares have been issued. Assuming that there are no changes to the issued share capital of the Company as at the Latest Practicable Date, the Warrants will represent approximately 19.86% of the total issued share capital as enlarged by the Consideration Shares, which will be in compliance with the requirement under Rule 15.02(1) of the Listing Rules.

In order to maintain sufficient public float upon full exercise of the Warrant Shares, the Company may place new Shares to potential investors, or the existing Shareholder(s) may sell further Shares to the public. In the case of placement of new Shares, the Company believes that a total of approximately 5.24% of the then enlarged issued share capital in placement shares over three years would be sufficient to comply with the minimum public float requirement, assuming that there are no other changes to the issued share capital of the Company.

REASONS FOR AND BENEFIT OF THE ACQUISITION

The Company has from time to time been evaluating its business needs and trends, particularly in the internet community, in order to seize business expansion or diversification opportunities.

Shanghai Ruyi, which will form part of the Target Group upon completion of the Reorganisation, is an independent film and television series production company. Based on the information provided by the Sellers, the works produced by Shanghai Ruyi have been profitable and gained public reputation and has an industrial chain with its own content research and development and production system. Furthermore, based on the information provided by the Sellers, Shanghai Ruyi ranks among the top ten domestic film and television content production companies, and has rich resources in the screenwriters, director talents and production fields, on top of extension cooperation channels with Hollywood. As such, Shanghai Ruyi's core business to invest and produce films and television dramas will allow the Company to diversify its revenue stream, to include revenue from i) movie box office; ii) selling of copyrights of movies; iii) distribution of television series and iv) selling of copyrights of movie or television scripts. Together with the "Pumpkin Film Streaming" application operated by the Variable Interest Entities, which is ancillary to and enhances Shanghai Ruyi's business operations, the Company believes that the Target Group, in particular, Shanghai Ruyi, will bring multifaceted benefits to the Group. The Group intends to retain the employees and senior management of the Target Group, including those of Shanghai Ruyi, Beijing Xiaoming and Jingxiu, after the Completion, such that the businesses of the Target Group can seamlessly continue after the Completion and the Group can recruit a group of talented management and team in the industry. In addition, the Seller will nominate a representative being Mr. Chen Cong, to the Board. For details, please refer to the subsection headed "Information on the proposed director of the Company and senior management of the Target Group".

The Company believes that the Acquisition will allow: (i) investment in production of films and television series amid favourable market conditions of the PRC movie market which would enable the Group to expand its business portfolio and expose itself to a wider scope of potential clients, thereby generating more revenue; (ii) the products and marketing activities of the Target Company and its subsidiaries to provide the Group with more advertising channels which the Directors consider would bring additional revenue and business opportunities to the Group; and (iii) the Group to tap into the development of online streaming platforms and the user base in the PRC, which will lead to user growth for the Group's platforms, and may in turn create synergy with the existing businesses of the Group. The Group will be able to make its projects available to the Target Company and its subsidiaries with resources for advertising placement, joint marketing and cross-industry cooperation, with a view to helping such entities develop its operations. Furthermore, through the Acquisition, the existing businesses of the Target Group would be able to leverage on the brand name and resources of the Company, giving them opportunities to participate in more projects as well as taking up larger stakes in future projects, with a view to driving the growth of the Group in the future. For more information on the synergies and cross-selling opportunities, please refer to "The Warrants — Warrants Exercise Conditions" in the circular. The Board is therefore of the view that the Acquisition will enable the Group and the Target Company and its subsidiaries to each leverage their respective strengths and create synergies and cross-selling opportunities.

The Board expects that the Acquisition, together with the existing businesses of the Group, will drive the growth of the Group in the future. Despite that the Target Group was loss-making in 2018 and was in a net liability position as at 30 June 2020, the Directors have balanced against the fact by taking into account (i) the growth potential of the Target Group as demonstrated by the increase of profit by approximately 964.0% from the year ended 31 December 2017 to the year ended 31 December 2019; (ii) the Target Group has already turnaround from loss-making to profit-making in 2019; (iii) the growth in appetite for online entertainment content in the PRC and the diversification of revenue stream it can bring to the Group; (iv) that it is the intention of the Company to retain the employees and senior management of the Target Group after the Completion to ensure a seamless continuation of business; (v) many other fast growing comparable online streaming platforms have been or still are loss-making whilst they are accumulating their user base; and (vi) the management team of the Target Group has a proven track record in production of both movie and television programme. The Target Group currently has over 40 adapted or original scripts available for film or television development in reserve, which is well-positioned to capture the upside from the future growth of the movie and television production industry, the Board considers that the Acquisition will be in the best interests of the Company and its shareholders as a whole having taken into account the Target Group's loss making and net liability position.

The unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as at 30 June 2020 is calculated as RMB(1,783,708,000), without taking the exercise of the Warrants into account. The unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as at 30 June 2020 would be calculated as RMB1,978,005,000 assuming that the Warrants are fully exercised as at 30 June 2020. The issue of the Warrants will not have any immediate impact on the cash flow of the Company and will not result in any immediate dilution of the shareholdings of the existing Shareholders, and, if the Warrants Exercise Rights are exercised, that will benefit the long-term business diversification development of the Company by broadening the capital base of the Company.

The Board considers that the terms of the Sale and Purchase Agreement were determined after arm's length negotiations between the parties to the Sale and Purchase Agreement. Having considered the above, the Board is of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Information on the proposed director of the Company and senior management of the Target Group

As stated, the senior management will be retained in the Target Group. Set out below are details of Mr. Ke and Ms. Chen Xi, being the key senior management, for the investors' information.

Mr. Ke is a director and producer of Shanghai Ruyi and is a movie producer renowned in the PRC and graduated in Griffith University, Australia, with a bachelors' degree in risk management in 2005 and a master degree in monetary banking in 2006. Prior to his career in the movie production industry, he was an analyst in a hedge fund. Since 2013, Mr. Ke was devoted to the movie production industry. He led and invested as the investor and producer in films such as "So Young《致我們終將逝去的青春》" and "Old Boys: The Way of Dragon《老男孩猛龍過江》", being sold at the box office. These films brought significant returns to investors and also attracted attention of the general public. He is also a recognized film marketing expert in the industry. For example, he advocated that the PRC actress, Ms. Zhao Wei, be the director of "To Our Youth《致青春》", and Ms. Zhao Wei's debut as a director reached stellar results in the box office. Furthermore, whilst marketing "Old Boys: The Way of Dragon《老男孩猛龍過江》", Mr. Ke planned and implemented the song "Little Apple《小蘋果》", a one hit wonder. He also led Shanghai Ruyi to produce and/or invest in popular television series such as "All Quiet in Peking《北平無戰事》", "Miyue Biography《羋月傳》", "Langya List《琅琊榜》, "Old Chinese Doctor《老中醫》", "Old Tavern《老酒館》" and "Frontier of Love《愛情的邊疆》". Mr. Ke also engages in other joint productions that are not listed above.

Ms. Chen Xi is a president and producer of Shanghai Ruyi, and is also a movie producer renowned in the PRC. She graduated from the Central Academy of Drama (中央戲劇學院) in 2000 and commenced her career as a movie producer in 2010 and was a former actress in the PRC. With her prior experience in acting, she possess the relevant acumen for the movie market and has a significant accumulation of investment and production of movie box office. Her representative productions consist of "Animal World《動物世界》", "Thailand《人再囧途之泰囧》", "Pancake Man《煎餅俠》", "Detective Chinatown《唐人街探案》", "Sewing Machine Band《縫紉機樂隊》", where they have received high recognition and return in investment.

It is currently proposed that Mr. Chen Cong as nominated by the Sellers will be appointed as a director of the Company after Completion as an executive Director. Mr. Chen Cong, aged 31, is currently the PRC Registered Shareholder, director, legal representative and general manager of Jingxiu, the director and legal representative of Beijing Xiaoming, and the supervisor of Shanghai Ruyi. He is also the director of the Target Company and Virtual Cinema HK.

Prior to joining the Target Group, Mr. Chen Cong worked as an office manager and chairman of the supervisory committee of Beijing Ruyi Xinxin Movie Investment Company Limited* (北京儒意欣欣影業投資有限公司) from 2009 to 2013. Mr. Chen Cong graduated in July 2010 in Xinxiang University* (新鄉學院) in logistics management and thereafter in July 2016 from Beijing Foreign Studies University* (北京外國語大學) in accounting in the form of an online course. His representative productions consist of movies and television series, such as "A Spoon《一個勺子》", " Xia You Qiao Mu Ya Wang Tian《夏有喬木 雅望天堂》", "All Quiet in Peking《北平無戰事》", "Battle in Kunlun《戰崑崙》", where he was an executive producer. Mr. Chen Cong has more than 10 years of experience in the movie production and online streaming sectors. Through his experience and prior work experience, Mr. Chen Cong is acquainted to Mr. Ke and Ms. Chen Xi. Due to work commitment of Mr. Ke, Mr. Ke decided to nominate Mr. Chen Cong to the Board to ensure that the Target Group could also provide contribution to the board level of the Company. Given Mr. Chen Cong's experience and knowledge in the industry, the Directors consider that the appointment of Mr. Chen Cong will make much contribution to the Enlarged Group in terms of business expansion, business development and business operation and would be beneficial to the Company and its Shareholders as a whole.

Save as disclosed above, as at the Latest Practicable Date, Mr. Chen Cong did not (i) have any other major appointments and professional qualifications; (ii) hold any other position with Company or other members of the Enlarged Group; and (iii) have any relationship with any other Directors, senior management, substantial or controlling Shareholders.

As at the Latest Practicable Date, Mr. Chen Cong did not (i) have any interests in the Shares within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong); and (ii) hold any directorship in other listed company in the last three years.

The Company will issue further announcement when it enters the service agreement or a letter of appointment with Mr. Chen Cong with details on the terms. Save as disclosed above, there are no other matters about the proposed appointment of Mr. Chen Cong as an executive Director which are required to be disclosed pursuant to paragraph (h) to (v) of Rule 13.51(2) of the Listing Rules, nor are there other matters that need to be brought to the attention of the Shareholders.

EFFECT OF THE ACQUISITION ON EARNINGS, ASSETS AND LIABILITIES OF THE GROUP

After completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Group. The financial position and financial results of the Target Group, including assets and liabilities, profit or loss of the Target Group, will be consolidated by the Group.

Earnings

Based on the audited combined financial information of the Target Group as set out in Appendix II to this circular, the Target Group recorded audited profit after tax of approximately RMB6 million for six months ended 30 June 2020. The Directors consider that the Acquisition would expand the Group's business portfolio and expose itself to a wider scope of potential clients, thereby generating more revenue. By leveraging the respective strengths of the Group and the Target Group, the Acquisition could create synergies and enhance its earning prospect by consolidating the revenue and profit of the Target Group to the Group's financials.

Assets and Liabilities

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, upon Completion, the total consolidated net assets of the Group would increase from approximately RMB1,163 million to approximately RMB3,656 million. The total assets would increase from approximately RMB1,319 million to approximately RMB6,800 million. The total liabilities would increase from approximately RMB156 million to approximately RMB3,144 million. Please refer to Appendix II and Appendix III as set out in this circular for further information of the assets and liabilities of the Target Group and information on the financial effects of the Acquisition, respectively.

INFORMATION OF THE GROUP

The Company is an investment holding company. Its subsidiaries are principally engaged in the internet community services and related businesses, manufacture and sales of accessories for photographic and electrical products, investment and trading of securities.

INFORMATION REGARDING THE SELLERS, THE TARGET GROUP, THE VARIABLE INTEREST ENTITIES AND THE PRC REGISTERED SHAREHOLDERS

Information on the Sellers

Mr. Ke is an investor and a movie producer, and is also the PRC Beneficial Owner of the Variable Interest Entities. Pumpkin Films is a company incorporated in the Cayman Islands with limited liability and is indirectly wholly-owned by Mr. Ke. Mr. Ke indirectly operates Pumpkin Film Streaming, which is a viewing application that provides one-stop high-definition viewing services free of advertisements, which is available both on mobile and television. It is a subscription-based platform that provides genuine and cinematic and television content from around the world including contents which are self-developed.

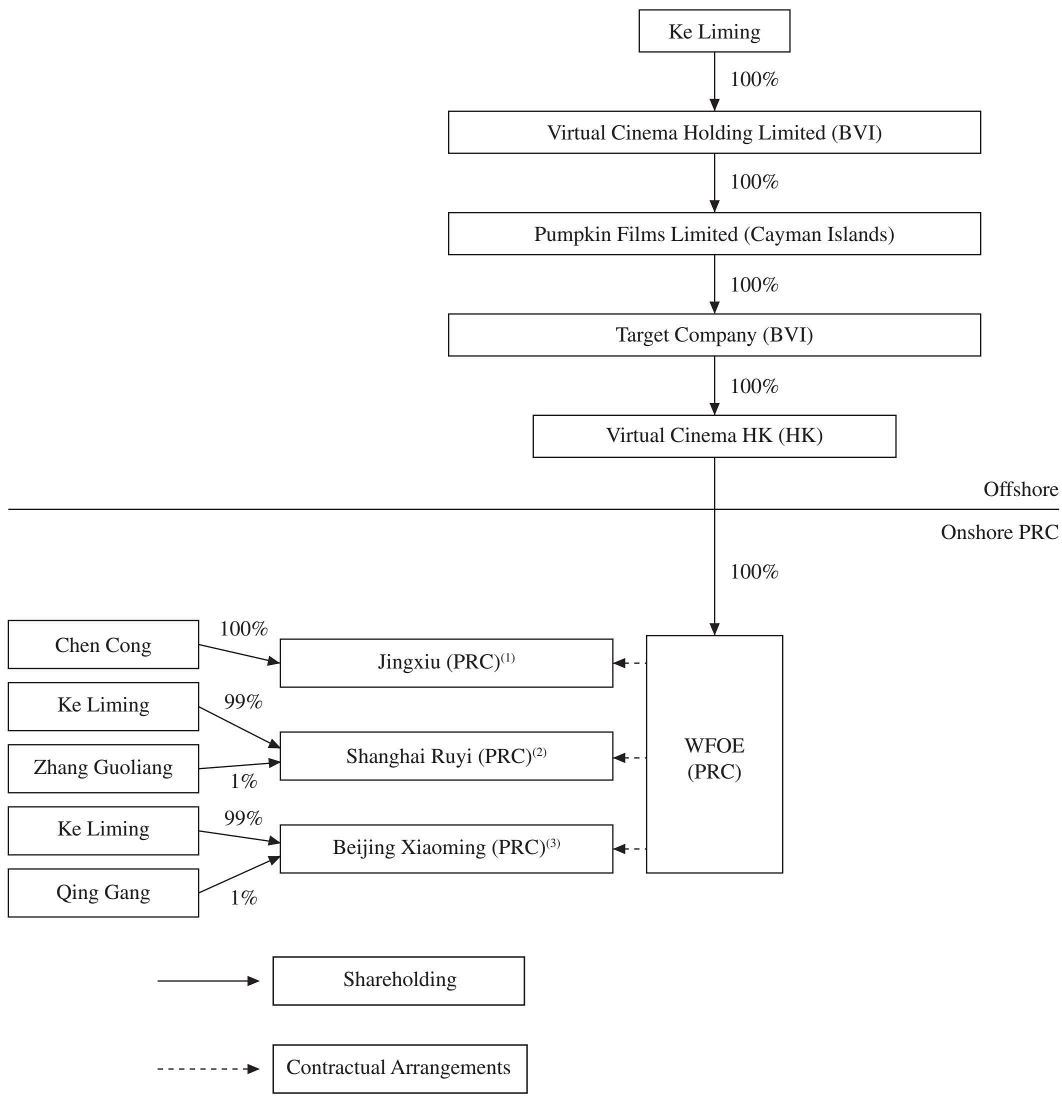
Information on the Target Group

Based on the information provided by the Sellers, the Target Company is a company incorporated in the British Virgin Islands, Virtual Cinema HK is a company incorporated in Hong Kong, and the WFOE is a company incorporated in the PRC. They are all engaged in investment holding.

Reorganisation of the Target Group

The Target Group will undergo a reorganisation (the "**Reorganisation**"), pursuant to which, (i) each Variable Interest Entity shall terminate the existing nominee shareholding arrangements (if any) with the PRC Registered Shareholders and the PRC Registered Shareholders shall transfer such relevant interest in the Variable Interest Entity(ies) in the form to the satisfaction of the Purchaser (if requested by the Purchaser); (ii) the WFOE shall enter into the VIE Contracts with the Variable Interest Entities, the PRC Beneficial Owner, PRC Registered Shareholders and/or person(s) or entity(ies) as designated by the Purchaser in the form to the satisfaction of the Purchaser such that the respective economic benefits, control of the board of directors and member's voting rights and operations of the Variable Interest Entities will be enjoyed by the Target Company via the WFOE after the Reorganisation; and (iii) the registration(s) of the equity pledge over all the equity interests in the Variable Interest Entities by the then registered owner(s) to the WFOE shall be completed and registered with the relevant branches of the market supervision authority in the PRC. It is expected that, upon completion of the Reorganisation, the Variable Interest Entities will be accounted as subsidiaries of the Target Company by virtue of the arrangement under the VIE Contracts.

Shareholding structure of the Target Group immediately after completion of the Reorganisation but before completion of the Acquisition



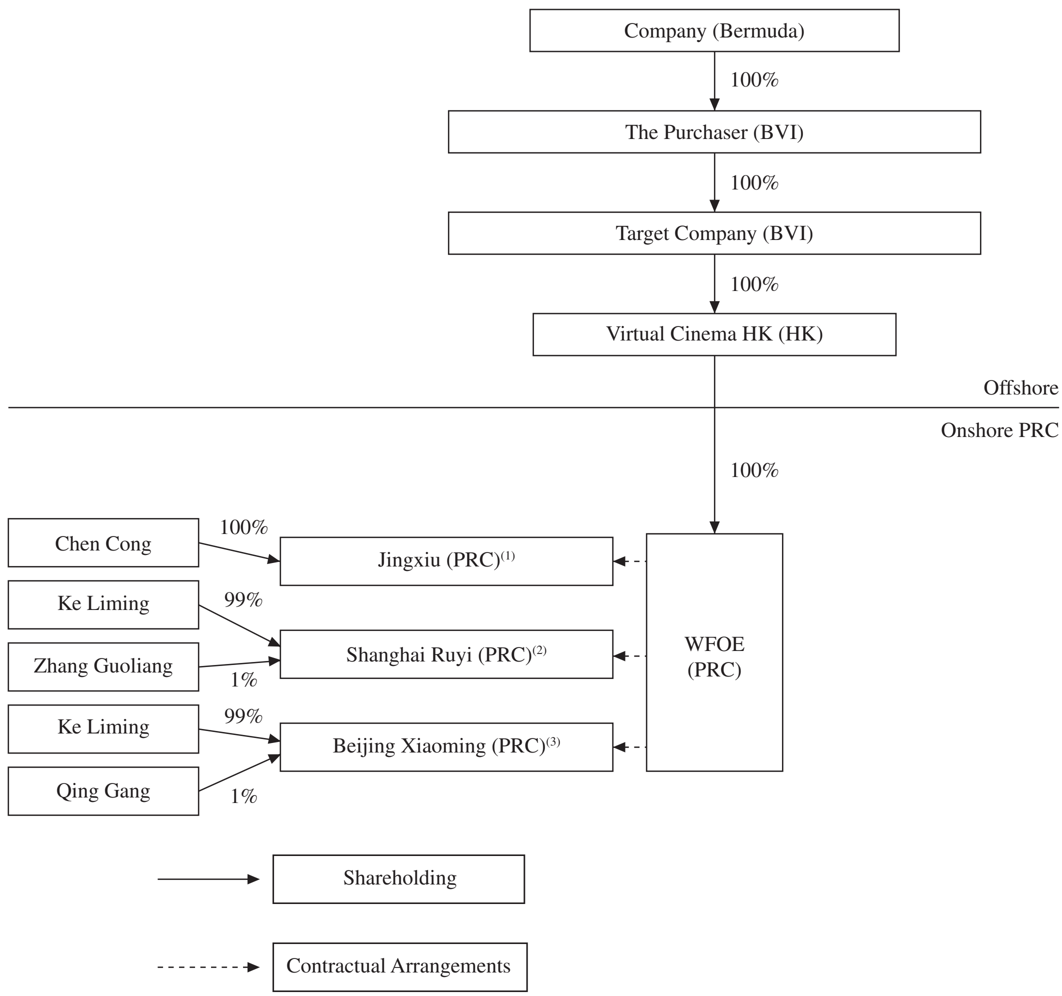
Notes:

(1) Jingxiu held 40% interest in a company incorporated in the PRC which had no business operations as at the Latest Practicable Date. It is intended that such company be deregistered or the equity interest be disposed of within 90 days after Completion.

(2) Shanghai Ruyi has a branch located in Beijing, the PRC.

(3) Beijing Xiaoming has a branch located in Hangzhou, the PRC.

Shareholding structure of the Target Group immediately after completion of the Acquisition



Notes:

(1) Jingxiu held 40% interest in a company incorporated in the PRC which had no business operations as at the Latest Practicable Date. It is intended that such company be deregistered or the equity interest be disposed of within 90 days after Completion.

(2) Shanghai Ruyi has a branch located in Beijing, the PRC.

(3) Beijing Xiaoming has a branch located in Hangzhou, the PRC.

INFORMATION ON THE VARIABLE INTEREST ENTITIES AND THE VIE CONTRACTS

Information on the Variable Interest Entities

As at the Latest Practicable Date, based on the information provided by the Sellers:

(1) Jingxiu was a company established in the PRC with limited liability principally engaged in the business of contents development, production, broadcasting and service provision in the online streaming industry, the PRC Registered Shareholder of which was Mr. Chen;

(2) Shanghai Ruyi was a company established in the PRC with limited liability principally engaged in the radio television programme and film production and operation. It was an independent industry-chain production company that had its own development and production systems, and it was also one of the few dual-product production companies that produces both movies and television series. Major movie productions by Shanghai Ruyi included "So Young" (《致我們終將逝去的青春》), "Old Boys: The Way of the Dragon"(《老男孩猛龍過江》), "Animal World" (《動物世界》) and "City of Rock" (《縫紉機樂隊》); whereas major television series productions included "All Quiet in Peking"(《北平無戰事》). "Doctor of Traditional Chinese Medicine" (《老中醫》), "Frontier of Love" (《愛情的邊疆》) and "The Legendary Tavern" (《老酒館》). The PRC Registered Shareholders of Shanghai Ruyi were Mr. Ke and Mr. Zhang and key team members looking over the production and development were Mr. Ke, Ms. Chen Xi and Mr. Xi Xiaotang. In particular, Mr. Ke, Ms. Chen Xi and Mr. Xi Xiaotang were the main producers of a myriad of cinematic works; and

(3) Beijing Xiaoming was a company established in the PRC with limited liability principally engaged in data processing, technology development, promotion, transfer consulting and service, the PRC Registered Shareholders of which were Mr. Ke and Mr. Qing.

Collectively, the Variable Interest Entities operate a membership based online streaming platform named "Pumpkin Film Streaming" which is principally engaged in the business of operating online video platforms, including but not limited to uploading, converting, storing and playing back video content on the Internet and over-the-top channels, film and television series production and related intellectual properties franchising.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Variable Interest Entities and the PRC Registered Shareholders is an Independent Third Party.

Financial information of the Variable Interest Entities

As extracted from the accountant's report of the Target Group, set out below is the audited combined financial statements of the Variable Interest Entities for the two financial years ended 31 December 2018 and 2019:

	For the year ended 31 December 2018 *(RMB)*	For the year ended 31 December 2019 *(RMB)*
Revenue	233,456,000	276,167,000
Net profit/(loss) before taxation	(37,619,000)	42,927,000
Net profit/(loss) after taxation	(40,337,000)	26,589,000

As at 30 June 2020, the combined audited net liabilities of the Variable Interest Entities amounted to approximately RMB85,953,000.

Background and Reasons for use of the VIE Contracts

The PRC Legal Advisers advised that under the applicable PRC laws and regulations, the business of each of the Variable Interest Entities falls into a restricted or prohibited foreign-invested category. Notwithstanding that under the new arrangement, Beijing Xiaoming shall only provide services to Jingxiu for Jingxiu to operate Pumpkin Film Streaming, given that the business operations of Pumpkin Film Streaming fall under a strictly restricted foreign-invested category (i.e. provision of internet audio-visual program services that would trigger the need to obtain the AVSP License which is completely off-limit to foreign investment), the WFOE should also gain management control over Beijing Xiaoming via the VIE Contracts to avoid the relevant PRC authorities deeming Beijing Xiaoming to be illegally operating under a restricted foreign-invested category, as advised by the PRC Legal Advisers. As such, the WFOE has entered into the VIE Contracts with each of the Variable Interest Entities before completion of the Acquisition to enable the WFOE to gain management control over the operation of each of the Variable Interest Entities and to enable the entire economic benefits and risks of the business of each of the Variable Interest Entities to be vested into the WFOE. The Company confirms that the use of the VIE Contracts would be solely for addressing the abovementioned foreign ownership restriction.

The VIE Contracts have been executed by the relevant parties prior to completion of the Acquisition and the VIE Contracts have become effective upon execution. In the event that the Variable Interest Entities' applications for the licenses are rejected and the business of any of the Variable Interest Entities becomes illegal, it is agreed that such relevant set of VIE Contracts shall be terminated.

The PRC Beneficial Owner and PRC Registered Shareholders agree that in the event it is permissible under the relevant PRC laws, rules and regulations for the WFOE to engage directly in production and operation of the audio-visual program services, for-profit internet cultural management activities and the value-added telecommunication services (as the case may be) in the PRC in the future, the WFOE is entitled to exercise the option under the relevant Call Option Agreement as soon as practicable and the relevant set of VIE Contracts can be terminated.

Prior to the signing of the Sale and Purchase Agreement, Jingxiu has entered into (i) an exclusive service agreement under which Jingxiu engages and pays services fees to the WFOE to be an exclusive service provider; (ii) a nominee shareholding agreement, under which Mr. Chen holds 100% equity interest in the registered capital of Jingxiu for and on behalf of Mr. Ke; (iii) an equity pledge agreement under which Mr. Chen has established a pledge over 100% equity interest of Jingxiu for the benefit of the WFOE; (iv) a call option agreement, under which Mr. Chen has agreed to, upon the instruction of the WFOE, dispose of all or part of equity interest of Jingxiu to the WFOE or its designated person; and (v) a shareholder voting right delegation agreement and a proxy power of attorney, under which Mr. Chen has authorised the WFOE to exercise shareholder voting rights over Jingxiu at the sole discretion of the WFOE.

In order to conform with the relevant Listing Rules and guidance letter issued by the Stock Exchange from time to time, including but not limited to Guidance Letter 77–14, the WFOE has re-entered into the VIE Contracts with Jingxiu and has entered into VIE Contracts with the other remaining Variable Interest Entities. Each set of the VIE Contracts consists of: (i) the Exclusive Service Agreement; (ii) the Equity Pledge Agreement; (iii) the Call Option Agreement; (iv) the Shareholder Voting Right Delegation Agreement; (v) the Management and Operation Agreement; (vi) the Nominee Shareholding Agreement; and (vii) the Spouse Consent Letter.

PROPOSED TERMS OF THE VIE CONTRACTS

A summary of the principal terms of the VIE Contracts re-entered into by Jingxiu and entered into by Shanghai Ruyi and Beijing Xiaoming and related consent is set out below.

(i) Exclusive Service Agreements

	Jingxiu	*Shanghai Ruyi*	*Beijing Xiaoming*
Parties	(i) the WFOE (ii) Jingxiu	(i) the WFOE (ii) Shanghai Ruyi	(i) the WFOE (ii) Beijing Xiaoming

Term	Each of the Exclusive Service Agreements shall be effective upon execution by all relevant parties. Save for the WFOE has been fraudulent towards the relevant Variable Interest Entity, each of the Variable Interest Entities shall not be allowed to terminate the respective Exclusive Service Agreement. The WFOE may unconditionally terminate each of the Exclusive Service Agreement by giving 30 days' prior written notice to the relevant Variable Interest Entity and shall not be liable for any breach of contract in respect of the unilateral termination of the relevant Exclusive Service Agreement. The payment of service fees for services that have already been rendered as of the date of termination of the relevant Exclusive Service Agreement shall not be affected by the termination of such Exclusive Service Agreement. In the event that the Stock Exchange or any other regulatory authority proposes any amendment to the Exclusive Service Agreements, or the relevant requirements under the Listing Rules have been amended, the Exclusive Service Agreements shall be amended accordingly.
Subject	Each of the Variable Interest Entities shall engage the WFOE as the exclusive service provider to provide technology support, business support and consultancy services as set out in the relevant Exclusive Service Agreements. Pursuant to the Exclusive Service Agreements, to the extent permissible by the applicable laws, each of the Variable Interest Entities shall pay the WFOE a service fee that equals to the audited profits after taxation. The service fee shall be payable on a quarterly basis.

(ii) Equity Pledge Agreements

	Jingxiu	*Shanghai Ruyi*	*Beijing Xiaoming*
Parties	(i) the WFOE (ii) Jingxiu (iii) Mr. Ke (iv) Mr. Chen	(i) the WFOE (ii) Shanghai Ruyi (iii) Mr. Ke (iv) Mr. Zhang	(i) the WFOE (ii) Beijing Xiaoming (iii) Mr. Ke (iv) Mr. Qing

Term	Each of the Equity Pledge Agreements shall be effective upon execution by all relevant parties and shall remain effective until all obligations of all parties other than the WFOE under the relevant set of VIE Contracts are fully performed and all fees (including service fees) payable to the WFOE under such set of VIE Contracts are fully paid. Upon the fulfillment of all the obligations under the relevant set of VIE Contracts and the full payment of the fees payable to the WFOE, the WFOE shall release the relevant Equity Pledge Agreement as soon as reasonably practicable. In the event that the Stock Exchange or any other regulatory authority proposes any amendment to the Equity Pledge Agreements, or the relevant requirements under the Listing Rules have been amended, the Equity Pledge Agreements shall be amended accordingly.
Subject	Pursuant to the Equity Pledge Agreements, the relevant PRC Registered Shareholders and the PRC Beneficial Owner of each of the Variable Interest Entities shall agree to pledge all equity interests in the relevant Variable Interest Entities held to the WFOE, as continuing security for the performance of all their obligations and that of the relevant Variable Interest Entity under the relevant set of VIE Contracts.

(iii) Call Option Agreements

	Jingxiu	*Shanghai Ruyi*	*Beijing Xiaoming*
Parties	(i) the WFOE (ii) Jingxiu (iii) Mr. Ke (iv) Mr. Chen	(i) the WFOE (ii) Shanghai Ruyi (iii) Mr. Ke (iv) Mr. Zhang	(i) the WFOE (ii) Beijing Xiaoming (iii) Mr. Ke (iv) Mr. Qing
Term	Each of the Call Option Agreements shall be effective upon execution by all relevant parties and shall remain effective unless terminated in accordance with the terms and conditions set out in the relevant Call Option Agreement or is required to be terminated under applicable PRC laws and regulations.		

During the term of each of the Call Option Agreements, save for where the WFOE has been fraudulent towards other parties under the relevant Call Option Agreement, such other parties shall not terminate the relevant Call Option Agreement. The WFOE may unconditionally terminate each of the Call Option Agreements by giving 30 days' prior written notice to other parties under the relevant Call Option Agreement and shall not be liable for any breach of contract in respect of the unilateral termination of the relevant Call Option Agreement.

Subject — Pursuant to the Call Option Agreements, the relevant PRC Registered Shareholders and the PRC Beneficial Owner of each of the Variable Interest Entities shall agree to dispose of all or part of the equity interests in the relevant Variable Interest Entity to the WFOE or its designated nominee.

(iv) Shareholder Voting Right Delegation Agreements

	Jingxiu	*Shanghai Ruyi*	*Beijing Xiaoming*
Parties	(i) the WFOE (ii) Jingxiu (iii) Mr. Ke (iv) Mr. Chen	(i) the WFOE (ii) Shanghai Ruyi (iii) Mr. Ke (iv) Mr. Zhang	(i) the WFOE (ii) Beijing Xiaoming (iii) Mr. Ke (iv) Mr. Qing

Term — Each of the Shareholder Voting Right Delegation Agreements shall be effective upon execution by all relevant parties and shall remain effective unless terminated in accordance with the terms and conditions set out in the relevant Shareholder Voting Right Delegation Agreement or is required to be terminated under applicable PRC laws and regulations.

During the term of each of the Shareholder Voting Right Delegation Agreements, save for where the WFOE has been fraudulent towards other parties under the relevant Shareholder Voting Right Delegation Agreement, such other parties shall not terminate the relevant Shareholder Voting Right Delegation Agreement. The WFOE may unconditionally terminate each of the Shareholder Voting Right Delegation Agreements by giving 30 days' prior written notice to other parties under the relevant Shareholder Voting Right Delegation Agreement and shall not be liable for any breach of contract in respect of the unilateral termination of the relevant Shareholder Voting Right Delegation Agreement.

	In the event that the Stock Exchange or any other regulatory authority proposes any amendment to the Shareholder Voting Right Delegation Agreements, or the relevant requirements under the Listing Rules have been amended, the Shareholder Voting Right Delegation Agreements shall be amended accordingly.
Subject	Pursuant to the Shareholder Voting Right Delegation Agreements, the relevant PRC Registered Shareholders and the PRC Beneficial Owner of each of the Variable Interest Entities agree to authorise the WFOE, its designated nominee and the Company to exercise shareholder voting rights over the relevant Variable Interest Entity at the sole discretion of the WFOE, its designated nominee and the Company.

(v) Management and Operation Agreements

	Jingxiu	*Shanghai Ruyi*	*Beijing Xiaoming*
Parties	(i) the WFOE (ii) Jingxiu (iii) Mr. Ke (iv) Mr. Chen	(i) the WFOE (ii) Shanghai Ruyi (iii) Mr. Ke (iv) Mr. Zhang	(i) the WFOE (ii) Beijing Xiaoming (iii) Mr. Ke (iv) Mr. Qing

Term	Each of the Management and Operation Agreements shall be effective upon execution by all relevant parties and shall remain effective unless terminated in accordance with the terms and conditions set out in the relevant Management and Operation Agreements or is required to be terminated under applicable PRC laws and regulations. During the term of each of the Management and Operation Agreements, save for where the WFOE has been fraudulent towards other parties under the relevant Management and Operation Agreement, such other parties shall not terminate the relevant Management and Operation Agreement. The WFOE may unconditionally terminate each of the Management and Operation Agreements by giving 30 days' prior written notice to other parties under the relevant Management and Operation Agreement and shall not be liable for any breach of contract in respect of the unilateral termination of the relevant Management and Operation Agreement.

In the event that the Stock Exchange or any other regulatory authority proposes any amendment to the Management and Operation Agreements, or the relevant requirements under the Listing Rules have been amended, the Management and Operation Agreements shall be amended accordingly.

Subject	Pursuant to the Management and Operation Agreements, each of the Variable Interest Entities and its relevant PRC Registered Shareholders and the PRC Beneficial Owner agree and undertake that, without the WFOE's prior written consent or unless otherwise provided in the VIE Contracts, it shall not in any way engage in any conduct that may adversely affect or materially affect the assets, business, personnel, rights and obligations, business model, business activities, management model and management activities of the relevant Variable Interest Entities and its subsidiaries (if any). Without limiting the foregoing, each of the Variable Interest Entities and its relevant PRC Registered Shareholder and the PRC Beneficial Owner undertake, among other things, that (i) its articles of association shall not be supplemented; (ii) its registered capital shall not be increased or decreased; (iii) it shall not set up any subsidiaries; (iv) save as otherwise provided by the relevant set of the VIE Contracts, its shareholding and the legal or beneficial interests in any assets, businesses or income (except for the transfer of accounts receivable arising in the ordinary course of its principal business) shall not be disposed of; (v) save as contracts entered into during ordinary course of business, it shall not enter into any substantial contact with the value of over RMB5,000,000; (vi) it shall not provide financial assistance or loans to anyone; and (vii) its business operation model, profit model, marketing strategy, business policy or customer relationship shall not be substantially adjusted.

(vi) Nominee Shareholding Agreements

	Jingxiu	*Shanghai Ruyi*	*Beijing Xiaoming*
PRC Beneficial Owner	Mr. Ke	Mr. Ke	Mr. Ke
PRC Registered Shareholder(s) (other than Mr. Ke)	Mr. Chen	Mr. Zhang	Mr. Qing
Term	Each of the Nominee Shareholding Agreements shall be effective upon execution by all relevant parties and shall remain effective unless terminated in accordance with the terms and conditions set out in the relevant Nominee Shareholding Agreement or is required to be terminated under applicable PRC laws and regulations. In the event that the Stock Exchange or any other regulatory authority proposes any amendment to the Nominee Shareholding Agreements, or the relevant requirements under the Listing Rules have been amended, the Nominee Shareholding Agreements shall be amended accordingly.		
Subject	Pursuant to the Nominee Shareholding Agreements, the relevant PRC Registered Shareholder(s) is the nominee of the PRC Beneficial Owner for the beneficial interests and rights in each of the Variable Interest Entities.		

(vii) Spouse Consent Letters

	Jingxiu	*Shanghai Ruyi*	*Beijing Xiaoming*
Party	Ms. Li Mengxiao (李夢曉)	Ms. Li Mengxiao (李夢曉)	Ms. Li Mengxiao (李夢曉)
Term	Each of the Spouse Consent Letters shall be effective upon execution by the relevant party.		

Subject	Pursuant to the Spouse Consent Letters, the spouse of Mr. Ke (i.e. Ms. Li Mengxiao (李夢曉)) confirms and agrees that (i) Mr. Ke may enter into the VIE Contracts and dispose of the 100% beneficial interests in each of the Variable Interest Entities; (ii) the beneficial interests held by Mr. Ke in each of the Variable Interest Entities are his individual property, not the joint property of Mr. Ke and her; and (iii) she shall not make any claim in relation to the beneficial interests in each of the Variable Interest Entities.

Compliance of VIE Contracts with PRC laws, rules and regulations

Based on the legal advice from the PRC Legal Advisers, the VIE Contracts are binding on the parties, will not contravene the articles of association of the WFOE and each of the Variable Interest Entities, and will not be deemed as "concealing illegal intentions with a lawful form" and void under the PRC contract law. Further, the PRC Legal Advisers confirmed that the VIE Contracts do not constitute a breach of the relevant laws and regulations.

Succession

The provisions set out in the VIE Contracts are also binding on the successors of the PRC Registered Shareholders and/or the PRC Beneficial Owner, as if the successors were a signing party to the VIE Contracts. Although the VIE Contracts do not specify the identities of successors to such PRC Registered Shareholders and/or the PRC Beneficial Owner, under the Law of Succession of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents, and any breach by the successors would be deemed to be a breach of the VIE Contracts.

Settlement of potential dispute arising from the VIE Contracts

The VIE Contracts are governed by the PRC laws. When a dispute arises under any of the VIE Contracts, the relevant parties thereto shall settle the dispute through negotiation in an amicable manner. In case the dispute is not resolved, the VIE Contracts provide that any dispute shall be submitted to the China International Economic and Trade Arbitration Commission, Shanghai Sub-commission for arbitration to be conducted in Shanghai. The decision of such arbitration is final and binding on the parties concerned. The VIE Contracts contain dispute resolution clauses that (i) provide for arbitration and that arbitrators may award remedies over the equity interests or assets of the Variable Interest Entities, injunctive relief or order the winding up of the Variable Interest Entities; and (ii) provide the courts of competent jurisdictions with the power to grant interim remedies in support of the arbitration pending formation of the arbitration panel. The courts of the PRC, Bermuda and Hong Kong are specified as having jurisdiction for this purpose.

Measures to mitigate potential conflict of interests

Each of the PRC Registered Shareholders and the PRC Beneficial Owner (if applicable) shall undertake in the relevant VIE Contracts that he will perform all obligations in full compliance with relevant VIE Contracts and he will not affect the validity or enforceability of relevant VIE Contracts by any act or omission.

To ensure effective control of each of the Variable Interest Entities, the Company has taken steps to prevent potential conflicts of interest between the WFOE and the Sellers. Firstly, under the Call Option Agreements, the PRC Registered Shareholders and the PRC Beneficial Owner shall irrevocably and unconditionally grant to the WFOE (or through its designated nominee) an exclusive option to purchase at any time, when permitted by the applicable PRC laws and regulations, all or any part of the equity interests of the Variable Interest Entities. Secondly, pursuant to the Shareholder Voting Right Delegation Agreements, the PRC Registered Shareholders and the PRC Beneficial Owner (if applicable) shall irrevocably entrust to the WFOE, its designated nominee and the Company to exercise on his behalf all rights as a shareholder of the relevant Variable Interest Entity. Furthermore, the Sellers and their respective affiliates shall enter into a Deed of Non-Competition Undertaking in favour of the Enlarged Group pursuant to which each of they shall undertake that he/she will not (other than through the Group or the Variable Interest Entities) directly or indirectly operate, engage in, or have an interest in, invest in or otherwise participate in, through any corporate body, partnership, joint venture or other contractual arrangement (whether or not acting as a principal or agent for profit or other reasons), any business which is similar to or in competition with or may be in competition with any business conducted by the Variable Interest Entities or associated companies hereof from time to time or any such business which the Variable Interest Entities or its associated companies engage in, invest in or otherwise participate in unless otherwise provided for in the Deed of Non-Competition Undertaking.

Internal control measures

In order to have effective control over and to safeguard the assets of the Variable Interest Entities, the VIE Contracts provide that, without the prior written consent of the WFOE, the PRC Registered Shareholders and the PRC Beneficial Owner (if applicable) shall not or shall not procure to at any time sell, transfer, mortgage or dispose of in any manner any assets, legitimate interests in the business or revenue of the Variable Interest Entities, or allow any encumbrance thereon of any security interest (other than pursuant to the relevant Equity Pledge Agreements). Under the Management and Operation Agreements, each of the Variable Interest Entities will appoint its directors and senior management as recommended by the WFOE. The WFOE shall regularly and at any time review the books and records of each of the Variable Interest Entities.

Each of the Variable Interest Entities shall always operate all of its businesses in the ordinary and usual course of business and shall maintain its asset value and refrain from any action/omission that may adversely affect the its operating status and asset value.

Unwinding the VIE Contracts

The WFOE is entitled to unwind the relevant VIE Contracts as soon as the relevant PRC laws and regulations governing foreign investment in the operation of the relevant Variable Interest Entity's business are relaxed which allow the Company or any of its wholly-owned subsidiaries to register itself as the shareholder of such Variable Interest Entity. Pursuant to the Call Option Agreements, the consideration that the WFOE or its nominee pays for such transfer of equity interests to the PRC Beneficial Owner and/or the respective PRC Registered Shareholder(s) shall be RMB 1. If the consideration actually paid by the WFOE or its nominee is higher than RMB 1 as required by applicable laws, the PRC Beneficial Owner and the respective PRC Registered Shareholder(s) shall, upon the WFOE's instruction, immediately return the consideration in a legally compliant manner to the WFOE or its nominee.

Insurance to cover the risks relating to the VIE Contracts

The insurance of the Company does not cover the risks relating to the enforcement of the VIE Contracts and the transactions contemplated thereunder and the Company has no intention to purchase any new insurance in this regard. However, the Company will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, as mentioned above, the Company will implement relevant internal control measures to reduce the operational risk.

Potential exposure of the Company to losses

To ensure that the cash flow requirements of the Variable Interest Entities' ordinary operations are met and/or to set off any loss accrued during such operations, the WFOE may, at its own discretion and only to the extent permissible under the PRC laws, provide financial support to the Variable Interest Entities, whether or not the Variable Interest Entities actually incurs any such operational loss. The WFOE's financial support to the Variable Interest Entities may take the form of bank entrusted loans or direct loans. As the financial position and results of operations of the Variable Interest Entities will be consolidated into the Group's financial statements under the applicable accounting principles after completion of the Acquisition, the Company's business, financial position and results of operations would be adversely affected if the Variable Interest Entities suffer losses.

All intellectual properties or permits or other approvals owned by or to be transferred to the Variable Interest Entities shall be flawless, otherwise the WFOE may bear the loss resulted from the flaw thereof.

The Board's view on the VIE Contracts

Based on the abovementioned and as advised by the PRC Legal Advisers, the VIE Contracts enable the WFOE to gain management control over the Variable Interest Entities, and to be entitled to the entire economic interests and benefits of the Variable Interest Entities. Pursuant to the relevant provisions of the VIE Contracts, the WFOE has the right to unwind the VIE Contracts as soon as the relevant PRC laws and regulations allow the WFOE to register itself as the shareholder of the Variable Interest Entities. As advised by the PRC Legal Advisers, save as disclosed, the VIE Contracts are enforceable under the relevant PRC laws and regulations, and that the VIE Contracts provide a mechanism that enables the WFOE to exercise effective control over the Variable Interest Entities. As such, the Board is of the view that the VIE Contracts are narrowly tailored to achieve the Variable Interest Entities' respectively business purposes and to minimise the potential conflicts with and are enforceable under the relevant PRC laws and regulations.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, each of the Variable Interest Entities had not encountered any interference or encumbrance from any governing bodies in operating its business, except that historically Beijing Xiaoming has been imposed with administrative fines (figures of which were minimal) for not obtaining the AVSP License (as defined below) in respect of its online streaming business operations. The remedial arrangements for such deviation are set forth in below sections.

RISK FACTORS IN RELATION TO THE VIE CONTRACTS

The WFOE will not have any direct equity ownership in the Variable Interest Entities and will only rely on the VIE Contracts to control, operate, and be entitled to the economic benefits and risks arising from the production and operation of audio-visual program services, internet cultural management activities, and the value-added telecommunication services business in the PRC conducted through the Variable Interest Entities. However, there are risks involved with the operations of the Variable Interest Entities' production and operation of audio-visual program services, internet cultural management activities, and the value-added telecommunication services businesses under the VIE Contracts.

The government may determine that the contract do not comply with applicable regulations

There is no assurance that the VIE Contracts could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the VIE Contracts do not comply with applicable regulations.

Jingxiu and Beijing Xiaoming provide various audio-visual programs via internet to users for enjoyment through, *inter alia*, Pumpkin Film Streaming platform. Pursuant to the Administrative Provisions on Audio-visual Program Services via Internet amended by the National Radio and Television Administration on 28 August 2015, Jingxiu and/or Beijing Xiaoming should apply for the License for Spreading Audio-Visual Programs via Information Network (信息網絡傳播視聽節目許可證) ("**AVSP License**") in accordance with the relevant provisions of the competent departments. Under the current PRC laws and regulations, only state-owned or state-controlled company, with the exception of a few Chinese non-state-related companies, are able to secure AVSP Licenses.

Pursuant to the Interim Administrative Provisions on Internet Culture promulgated by the Ministry of Culture and Tourism, for operating the abovementioned online streaming platform as for-profit internet cultural management activities, Jingxiu and/or Beijing Xiaoming should also apply for the Internet Culture Operation License (網絡文化經營許可證) ("**ICO License**") in accordance with the relevant provisions of the competent departments. Under the current PRC laws and regulations, only domestic PRC companies or Sino-foreign joint ventures in which CEPA (Closer Economic Partnership Arrangements) permit holder investing in no more than 50% equity interest may apply for the ICO License.

Pursuant to the Telecommunications Regulations promulgated by the State Council, the Administrative Measures for the Licensing of Telecommunications Services promulgated by the Ministry of Industry and Information Technology ("**MIIT**") and the Classification Catalogue of Telecommunications Services promulgated by the MIIT, the operation of the abovementioned online streaming platforms would constitute the internet information services that triggers the need to obtain the value-added telecommunications services operation license (增值電信業務經營許可證) ("**VATS License**"). Under the current PRC laws and regulations, foreign ownership in the internet information services providers may not exceed 50%. The Company is a Bermuda incorporated company and its wholly-owned subsidiary established in the PRC, the WFOE, may not operate value-added telecommunications business in the PRC under current PRC laws and regulations. As a result, the Group will have to conduct its online streaming operations in the PRC through the VIE Contracts. The Circular on Strengthening the Administration of Foreign Investment in the Operation of Value-added Telecommunications Services issued by the MIIT on 13 July 2006 (the "**MIIT Circular**") provides that a domestic company that holds a VATS License is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to operate telecommunications business illegally in the PRC. Due to a lack of interpretative materials from the authorities, the Group cannot assure that the MIIT will not consider the corporate structure and contractual arrangements upon completion of the Acquisition as a kind of foreign investment in telecommunication services, in which case the Variable Interest Entities may be found in violation of the MIIT Circular and as a result may be subject to various penalties, including fines and the discontinuation of or restrictions on the Variable Interest Entities' operations. On 11 December 2001, the State Council promulgated Regulations for the Administration of Foreign-invested Telecommunications Enterprises (the "**FITE Regulations**"), which were subsequently amended on 10 September 2008 and 6 February 2016. Under the FITE Regulations, foreign ownership of companies that provide value-added telecommunication services is limited to 50%. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "**Qualification Requirement**"). Currently, none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirement. If the restrictions on foreign ownership in value-added telecommunications businesses in relation to the provision of internet information services by Jingxiu and/or Beijing Xiaoming are lifted in the PRC, the WFOE may be required to unwind the VIE Contracts before Jingxiu and/or Beijing Xiaoming is in a position to fully comply with the Qualification Requirement.

Shanghai Ruyi is primarily engaging in the production of films and television series business. Pursuant to the Administrative Provisions on the Production and Distribution of Radio and Television Program promulgated by the National Radio and Television Administration on 19 July 2004, Shanghai Ruyi should apply for a Permit for Production and Distribution of Radio and Television Program (廣播電視節目製作經營許可證) and a Permit for Production of Television Series (電視劇製作許可證). Under the current PRC laws and regulations, foreign-invested enterprises, irrespective of the foreign ownership percentage, is completely prohibited from applying for these permits.

Despite the fact that there is no indication that the VIE Contracts will be interfered or objected by any PRC regulatory authorities, the PRC Legal Advisers has advised that there is a possibility that the PRC authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the VIE Contracts comply with the current PRC laws, regulations or rules or those that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the VIE Contracts. If the authorities deny the validity, effectiveness and enforceability of the VIE Contracts, it could have a material adverse impact on the Group's businesses, financial condition and results of operations. Further, as mentioned in the paragraph headed "Settlement of potential dispute arising from the VIE Contracts" above, although the VIE Contracts contain dispute resolution clauses in the event that a dispute arises, these provisions may not be enforceable under PRC laws and regulations. For example, an arbitration institution is not entitled to grant such injunction and shall not order an Variable Interest Entity to be liquidated in accordance with the prevailing PRC laws. In addition, temporary remedies granted by overseas courts such as Hong Kong and Bermuda courts may not be recognised or otherwise be enforceable in the PRC.

The VIE Contracts may not be as effective in providing control over and entitlement to the economic interests in the Variable Interest Entities as direct ownership

The VIE Contracts may not be as effective in providing the WFOE with control over and entitlement to the economic interests in the Variable Interest Entities as direct ownership. If the WFOE had direct ownership of the Variable Interest Entities, the WFOE would be able to directly exercise its rights as a shareholder to effect changes in the board of directors of the Variable Interest Entities. However, under the VIE Contracts, the WFOE can only look to and rely on the Variable Interest Entities, the PRC Registered Shareholders and the PRC Beneficial Owner to perform their contractual obligations under the VIE Contracts such that the WFOE can exercise effective control over the Variable Interest Entities. The PRC Registered Shareholders and the PRC Beneficial Owner may not act in the best interests of the WFOE or may not perform its obligations under the VIE Contracts. The WFOE may replace the PRC Registered Shareholders as registered shareholder of the Variable Interest Entities by its other nominees pursuant to the VIE Contracts. However, if any dispute relating to the VIE Contracts remains unresolved, the WFOE will have to enforce its rights under the VIE Contracts and seek to interpret the terms of the VIE Contracts in accordance with the PRC laws and will be subject to uncertainties in the PRC legal system. The VIE Contracts are governed by the PRC laws. When a dispute arises under any of the VIE Contracts, the relevant parties thereto shall settle the dispute through negotiation in an amicable manner. In case the dispute is not resolved, the parties to the dispute may have to rely on legal remedies under the PRC laws. The VIE Contracts provide that dispute will be submitted to the China International Economic and Trade Arbitration Commission, Shanghai Sub-commission for arbitration to be conducted in Shanghai. The decision of such arbitration is final and binding on the parties to the dispute.

Since the legal environment in the PRC is different from that in Hong Kong and other jurisdictions, the uncertainties in the PRC legal system could limit the ability of the WFOE to enforce the VIE Contracts. There is no assurance that such arbitration result will be in favour of the WFOE and/or that there will not be any difficulties in enforcing any arbitral awards granted, including specific performance or injunctive relief and claiming damages by the WFOE. As the WFOE may not be able to obtain sufficient remedies in a timely manner, its ability to exert effective control over the Variable Interest Entities and the conduct of the Variable Interest Entities' businesses could be materially and adversely affected, and may disrupt the business of the WFOE and have a material adverse impact on the WFOE's business, prospects and results of operation.

The VIE Contracts may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed

The VIE Contracts may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed on the WFOE. The WFOE may face adverse tax consequences if the PRC tax authorities determine that the VIE Contracts were not entered into based on arm's length negotiations. If the PRC tax authorities determine that the VIE Contracts were not entered into on an arm's length basis, they may adjust the income and expenses of the WFOE for the PRC tax purposes, which could result in higher tax liabilities on the WFOE. The operation results of the WFOE may be materially and adversely affected if the tax liabilities of the Variable Interest Entities or those of the WFOE increase significantly or if they are required to pay interest on late payments.

The WFOE's ability to acquire the entire equity interests in the Variable Interest Entities may be subject to various limitations and substantial costs

In case the WFOE exercises its options to acquire all or part of the equity interests of the Variable Interest Entities under the Call Option Agreements, the acquisition of the entire equity interests in the Variable Interest Entities may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals (as applicable), registrations and relevant procedures under applicable PRC laws. In addition, the abovementioned acquisition may be subject to a minimum price limitation (such as an appraised value for the entire equity interests in the Variable Interest Entities) or other limitations as imposed by applicable PRC laws. Further, a substantial amount of other costs (if any), expenses and time may be involved in transferring the ownership of the Variable Interest Entities, which may have a material adverse impact on the WFOE's businesses and results of operation.

The PRC Registered Shareholders and the PRC Beneficial Owner may have potential conflicts of interest with the Group

The Group's control over the Variable Interest Entities is based on the contractual arrangement under the VIE Contracts. Therefore, conflict of interests of the PRC Registered Shareholders and the PRC Beneficial Owner will adversely affect the interests of the Group. Pursuant to the Shareholder Voting Right Delegation Agreements, the PRC Registered Shareholders and the PRC Beneficial Owner shall irrevocably authorise the WFOE, persons designated by the WFOE and the Company as their representative to exercise all of their rights as shareholders of the relevant Variable Interest Entities.

Therefore, it is unlikely that there will be potential conflict of interests between the Group and the PRC Registered Shareholders and the PRC Beneficial Owner.

Furthermore, the Sellers and their respective affiliates will enter into the Deed of Non-Competition Undertaking in favour of the Enlarged Group pursuant to which each of the parties shall undertake that he/she/it will not (other than through the Group or the Variable Interest Entities) directly or indirectly operate, engage in, or have an interest in, invest in or otherwise participate in, through any corporate body, partnership, joint venture or other contractual arrangement (whether or not acting as a principal or agent for profit or other reasons), any business which is similar to or in competition with or may be in competition with any business conducted by the Variable Interest Entities or associated companies hereof from time to time or any such business which the Variable Interest Entities or its associated companies engage in, invest in or otherwise participate in, unless otherwise provided for in the Deed of Non-Competition Undertaking.

Measures adopted by the Company to mitigate against any potential risk arising from the Foreign Investment Law

The Foreign Investment Law was approved by the National People's Congress of the PRC on 15 March 2019 and came into effect on 1 January 2020. The Board will closely monitor the development of the Foreign Investment Law with the help of the Company's PRC legal adviser, including but not limited to any new negative list issued by or approved to be issued by the State Council, or any future laws, administrative regulations or provisions prescribed by relevant governmental authorities. The Company will then discuss with its PRC legal adviser in order to assess any possible impact arising from the development of the Foreign Investment Law on the VIE Contracts and the business operation of the Group. In case there would be material and adverse effect on the Group or the business of the Target Group arising from the Foreign Investment Law, the Company will disclose, as soon as possible: (i) updates of material development to the Foreign Investment Law as and when it occurs; and (ii) specific measures taken by the Company to fully comply with the development to the Foreign Investment Law supported by a PRC legal opinion and any material impact of the development of the Foreign Investment Law on the Company's operations and financial position.

Shanghai Ruyi

As advised by the PRC Legal Advisers, as at the Latest Practicable Date, Shanghai Ruyi had obtained all significant and necessary licenses and approvals material for its business operations.

Jingxiu and Beijing Xiaoming

Based on the representations of the Sellers, Jingxiu and Beijing Xiaoming stream movie via the mobile application, television and website (**www.vcinema.cn** and **www.guoing.com**) (the "**Pumpkin Film Streaming**"). Based on the PRC Administrative Provisions on Internet Audio-Visual Programme Service (互聯網視聽節目服務管理規定) enacted on 20 December 2007, Jingxiu is required to obtain the AVSP License in respect of its business activities. As at the Latest Practicable Date, Jingxiu had obtained the AVSP License in respect of production and broadcasting services of network plays (films) under the domain name of **www.guoing.com** for streaming via computers. The business scope of the AVSP License therefore did not comprehensively include all activities under Pumpkin Film Streaming (which is required when the Pumpkin Film Streaming business is consolidated under the operation of Jingxiu).

Jingxiu made an application on 12 November 2020 to the Radio and Television Administration of Guangdong Province (廣東省廣播電視局) to rectify the non-compliance by extending the business scope of the AVSP License to include the collection and broadcasting of films, television plays and cartoons, and the receiving terminal of the AVSP License for the enlarged business scope to include streaming via hand held devices such as mobile devices. On 23 November 2020, the Radio and Television Administration of Guangdong Province (廣東省廣播電視局) issued a notice to Jingxiu that its application has passed the preliminary examination. The Radio and Television Administration of Guangdong Province (廣東省廣播電視局) has submitted the application to the National Radio and Television Administration (國家廣播電視總局) for examination and approval. According to the notice, Jingxiu will be further notified once the National Radio and Television Administration (國家廣播電視總局) has made a decision. According to the PRC Legal Advisers, as at the Latest Practicable Date, there were no material legal impediments identified in relation to obtaining the final approval from the National Radio and Television Administration (國家廣播電視總局), but the final approval ultimately depends on the decision of the National Radio and Television Administration (國家廣播電視總局).

It is contemplated that once the aforesaid application is approved, Jingxiu will apply to change the website and/or the relevant domain name under the AVSP License, the VATS License and the ICO License to "Pumpkin Films" (南瓜電影) and "**nanguadianying.com**" respectively. According to the PRC Legal Advisers, as of the date of issuance of its legal opinion, there were no major legal obstacles in obtaining the approvals to the aforementioned applications; however, the final approval ultimately depends on the decision of relevant authorities including the National Radio and Television Administration (國家廣播電視總局). In addition, under the new arrangement whereby Pumpkin Film Streaming business is consolidated under the operation of Jingxiu, the operation of Pumpkin Film Streaming business will be merged into Jingxiu, and such business will be operated under Jingxiu's AVSP License, ICO License, VATS License and other operating permits. Therefore, Beijing Xiaoming may not be required to hold these licenses and permits once the Pumpkin Film Streaming business is fully merged into Jingxiu. Beijing Xiaoming will provide support services to Jingxiu in the operation of online streaming platforms.

As interim measures to mitigate the risks arising from the above, Beijing Xiaoming has entered into a cooperation agreement with a subsidiary of a company listed on the Shanghai Stock Exchange (the "**Partner**") on 15 December 2020, amongst which, the Partner will support the operation of Pumpkin Film Streaming application and conduct pro forma content screening for Pumpkin Film Streaming. According to the PRC Legal Advisers, the Partner's AVSP License does not encompass the entire business operations of Pumpkin Film Streaming and therefore does not fundamentally resolve the compliance risks that Beijing Xiaoming may face in the interim period, but such cooperation shall mitigate the risks to a certain extent such that it would reduce the possibility of operations of Pumpkin Film Streaming being ordered to be ceased during the abovementioned interim period. Whilst historically Beijing Xiaoming had been penalized for not obtaining the AVSP License in respect of its business operations, the fines were minimal and according to the PRC Legal Advisers, given that Jingxiu is taking steps to remedy the compliance status in respect of its licenses and the Radio and Television Administration of Guangdong Province (廣東省廣播電視局) provided their preliminary approval, on the assumption that the contents of Pumpkin Film Streaming is compliant with the relevant laws and regulations in the PRC, there is a low risk for the authorities to suspend the operations of Pumpkin Film Streaming during the tenure of the application.

DEED OF NON-COMPETITION UNDERTAKING TO BE ENTERED INTO PURSUANT TO THE ACQUISITION

It is contemplated that the following parties will enter into the Deed of Non-Competition Undertaking on or before Completion with the Group.

Deed of Non-Competition Undertaking

Parties	(i) Mr. Ke (ii) Pumpkin Films (iii) Mr. Ke Jiuming, brother of Mr. Ke (iv) Mr. Chen Cong (v) Mr. Zhang Guoliang (vi) Ms. Chen Xi
Term	From the date of execution until the earlier of (i) the Shares of the Company ceased trading on the Main Board of the Stock Exchange or delisted, (ii) each parties or their connected persons do not hold (whether directly or indirectly) interests of the Company, or (iii) the Company disposes of the Restricted Business to the parties.

Subject	Each of the parties shall undertake to the Enlarged Group that he/she/it, his/her/its associates, relatives, companies under his/her/its control or joint ventures which he/she/it is a party shall not be engaged in any business which is similar to or in competition with or may be in competition with the business of each of the Variable Interest Entities or its associated companies from time to time (the "Restricted Business").

Pursuant to the Deed of Non-Competition Undertaking:

(i) certain companies shall be deregistered or the equity interest as held by the relevant party shall be disposed of within 90 days after Completion;

(ii) for certain companies which are considered as start-up project companies engaging in Restricted Business, Mr. Ke shall report to the Board on a quarterly basis on their respective operating status with supporting documents in order for the Board to assess whether the Company would consider to participate in such new business opportunity. Should the Company decides to participate, subject to compliance with the relevant Listing Rules, it would have the right to acquire or co-invest in such business opportunity at cost;

(iii) for these companies engaging in Restricted Businesses but provide services that would be beneficial to the Enlarged Group, subject to compliance with the relevant Listing Rules, the Company would have the first right of refusal to seek provision of such services; and

(iv) each of the parties shall further undertake to the Enlarged Group that if that party is presented with the opportunity to participate in any business which may be similar to the Restricted Business, that party shall first offer the business opportunity to the Company for consideration and that party will only engage in such business after the Company has decided not to proceed with these business opportunities.

LISTING RULES IMPLICATIONS OF THE ACQUISITION

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Acquisition exceed 25% but all are less than 100%, the Acquisition constitutes a major transaction for the Company and is therefore subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

(2) PROPOSED SHARE CONSOLIDATION

As disclosed in the Share Consolidation Announcement, the Board proposes to implement the Share Consolidation pursuant to which every ten (10) issued and unissued Existing Shares be consolidated into one (1) Consolidated Share.

Effect of the Share Consolidation

As at the Latest Practicable Date, the authorised share capital of the Company was HK$2,000,000,000 divided into 1,000,000,000,000 Existing Shares with a par value of HK$0.002 each, of which 80,803,166,025 Existing Shares have been issued and are fully paid or credited as fully paid. Assuming that no further Existing Shares are issued or repurchased between the Latest Practicable Date and the date of the SGM, immediately after the Share Consolidation, the authorised share capital of the Company shall become HK$2,000,000,000 divided into 100,000,000,000 Consolidated Shares of par value of HK$0.02 each, of which 8,080,316,602 Consolidated Shares will be in issue and fully paid or credited as fully paid.

Upon the Share Consolidation becoming effective, the Consolidated Shares shall rank *pari passu* in all respects with each other in accordance with the Company's memorandum of association and bye-laws.

As at the Latest Practicable Date, the Company did not have any other derivatives, options, warrants, other securities or conversion rights or other similar rights which are convertible or exchangeable into any Existing Shares or Consolidated Shares.

Other than the Acquisition and the Share Consolidation, as at the Latest Practicable Date, the Company had no intention to carry out corporate actions in the next 12 months which may have an effect of undermining or negating the intended purpose of the Share Consolidation, and the Company does not have any concrete plan to conduct any fundraising activities in the next 12 months. However, the Board cannot rule out the possibility that the Company will conduct debt and/or equity fundraising exercises when suitable fundraising opportunities arise in order to support future development of the Group.

Effects of the Share Consolidation in relation to the Acquisition

The total consideration of the Acquisition includes 11,543,309,432 Existing Shares at the issue price of HK$0.30, and 18,342,793,070 Warrants (representing 18,342,793,070 Existing Shares in the form of warrant shares and divided into three tranches of 6,114,264,356 warrants for tranche 1, 6,114,264,357 warrants for tranche 2, and 6,114,264,357 warrants for tranche 3) at the warrants exercise price of HK$0.096. The warrants exercise price is subject to customary adjustment events, including but not limited to a consolidation or subdivision of Shares.

Assuming that the Share Consolidation is effective prior to the completion of the Acquisition, the total consideration of the Acquisition will be adjusted to:

(a) 1,154,330,943 Consolidated Shares at the issue price of HK$3.00; and

(b) 1,834,279,307 warrants divided into three tranches at the warrants exercise price of HK$0.96 which comprise:

(i) 611,426,435 warrants for tranche 1

(ii) 611,426,436 warrants for tranche 2; and

(iii) 611,426,436 warrants for tranche 3.

Fractional entitlement to Consolidated Shares

Fractional Consolidated Shares, if any, will not be issued to the Shareholders but will be aggregated and, if possible, sold for the benefit of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of existing share certificates held by such holder.

Conditions and expected effective date of the Share Consolidation

The Share Consolidation is conditional upon the fulfilment of the following conditions:

1. the passing of an ordinary resolution by the Shareholders by way of poll to approve the Share Consolidation;

2. the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares upon the Share Consolidation becoming effective; and

3. compliance with the relevant procedures and requirements under the applicable laws of Bermuda and the Listing Rules to effect the Share Consolidation.

Subject to the fulfilment of the conditions of the Share Consolidation, the effective date of the Share Consolidation is expected to be Wednesday, 20 January 2021. As at the Latest Practicable Date, none of the conditions above have been fulfilled.

Application for listing of the Consolidated Shares

An application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in, the Consolidated Shares upon the Share Consolidation becoming effective.

Subject to the granting of listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange upon the Share Consolidation becoming effective, as well as compliance with the stock admission requirements of the HKSCC, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS

Operational Procedures in effect from time to time. All necessary arrangements will be made by the Company for the Consolidated Shares to be admitted into CCASS established and operated by HKSCC.

None of the Existing Shares are listed or dealt in any other stock exchange other than the Stock Exchange, and at the time of the Share Consolidation becoming effective, the Consolidated Shares in issue will not be listed or dealt in on any stock exchange other than the Stock Exchange, and no such listing or permission to deal is being or is proposed to be sought.

No change in board lot size

As at the Latest Practicable Date, the Shares were traded on the Stock Exchange in a board lot size of 4,000 Existing Shares. The existing board lot size of 4,000 Shares will remain unchanged upon the Share Consolidation becoming effective. The value of the current board lot, based on the closing price of HK$0.260 per Existing Share as at the Latest Practicable Date, is HK$1,040. Upon the Share Consolidation becoming effective, the expected value of each board lot of 4,000 Consolidated Shares, based solely on the closing price of HK$0.260 per Existing Share as at the Latest Practicable Date (equivalent to the theoretical closing price of HK$2.60 per Consolidated Share as at the Latest Practicable Date), is expected to be HK$10,400.

The Company considers that increasing its board lot size may not provide any upward adjustment to the Share price of the Company. As a result of the low trading price of the Existing Shares, potential investors are likely to have the impression that the market value of the Company is also low, which makes investing in the Existing Shares less attractive. The Company considers that after completion of the Share Consolidation, the market image of the Company will become more positive, thereby attracting more investors and improving the liquidity of the Shares. Therefore, with a higher trading price of the Consolidated Shares and reduction in the transaction costs as a proportion of the market value of each board lot, the Company believes that the Share Consolidation will enhance the corporate image of the Company and make investing in the Consolidated Shares more attractive to a broader range of institutional and professional investors and other members of the investing public. For further details regarding the reasons for and benefits of the Share Consolidation, please refer to the subsection headed "Reasons for and benefits of the Share Consolidation".

Arrangement on odd lot trading and matching services

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares arising from the Share Consolidation the Company has appointed CITIC Securities Brokerage (HK) Limited as an agent to stand in the market to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares. Holders of odd lot(s) of the Consolidated Shares represented by valid share certificates for the Consolidated Shares who wish to take advantage of this facility either to dispose of their odd lots of the Consolidated Shares or to top up their odd lots to a full new board lot may, directly or through their brokers, contract Mr.

Erik Ho of CITIC Securities Brokerage (HK) Limited at (852) 2237 6534 during the matching period which commences from 9:00 a.m. on Wednesday, 3 February 2021 to 4:10 p.m. on Thursday, 25 February 2021 (both days inclusive).

Holders of odd lots of the Consolidated Shares should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Any Shareholder, who is in any doubt about the odd lot arrangement, is recommended to consult his/her/its own professional advisers.

Exchange of share certificates

Subject to the Share Consolidation having become effective, Shareholders, may during the specified period, submit share certificates for the Existing Shares to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, in exchange, at the expense of the Company, for new share certificates for the Consolidated Shares. Thereafter, certificates for the Existing Shares will be accepted for exchange only on payment of a fee of HK$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate for the Existing Shares cancelled or each new share certificate issued for the Consolidated Shares, whichever number of certificates cancelled/issued is higher. The existing share certificates will only be valid for delivery, trading and settlement purposes for the period up to 4:10 p.m. on Thursday, 25 February 2021, and thereafter will not be accepted for delivery, trading and settlement purposes. However, the existing share certificates will continue to be good evidence of title to the Consolidated Shares on the basis of ten (10) Shares for one (1) Consolidated Share. The new share certificates for the Consolidated Shares will be issued in light blue colour in order to distinguish them from the share certificates for the Existing Shares which are in pink colour.

Reasons for and benefits of the Share Consolidation

Pursuant to the "Guide on Trading Arrangements for Selected Types of Corporate Actions" issued by the Stock Exchange, (i) the market price of the Shares at a level less than HK$0.1 each will be considered as trading at extremity as referred to under Rule 13.64 of the Listing Rules; and (ii) the expected board lot value should be greater than HK$2,000 per board lot taking into account the minimum transaction costs for a securities trade. As at the Latest Practicable Date, the closing price of each Share was HK$0.260. With a board lot size of 4,000 Shares, the Company was trading under HK$2,000 per board lot. For illustration purposes, the average closing price of the Shares from 17 December 2018 to 15 December 2020 has always been less than HK$0.50 and the highest average closing price during the period from 17 December 2018 to 15 December 2020 was on 14 September 2020 with the average closing price of HK$0.40. As such, the board lot of the Shares had always been trading under HK$2,000 from 17 December 2018 to 15 December 2020. In addition, the Shares have been traded close to and under extremity from September 2019 to May 2020 with the lowest price being HK$0.068 per share on 5 May 2020. The Company has always been exploring opportune moments in order to restore the board lot value to a value greater than HK$2,000 per board lot to be in compliant with the "Guide on Trading Arrangements for Selected

Types of Corporate Actions". The Board therefore proposes the Share Consolidation for the purpose of reducing the transaction costs and fees per transaction and increasing the liquidity of the Shares.

The Share Consolidation will increase the par value of the Existing Shares and decrease the total number of Existing Shares currently in issue. As at the Latest Practicable Date, the Company has over 80.8 billion Shares in issue. Based on the statistics shown on the 2019 Fact Book published by the Stock Exchange, among the 50 leading companies in market capitalisation, only 3 companies had more than 80.8 billion Shares in issue. As disclosed in the Share Consolidated Announcement, the total consideration of the Acquisition includes 11,543,309,432 Existing Shares and 18,342,793,070 Warrant Shares. In view of the number of Shares that the Company will issue pursuant to the Acquisition, the Company proposes to conduct the Share Consolidation based on the proposed ratio of 10:1 such that it can reduce the number of Existing Shares and be convergent with the number of issued shares of other Main Board issuers.

The Share Consolidation will increase the market price of Shares by ten times theoretically upon the Share Consolidation becoming effective and increase the nominal value of the Shares to HK$0.02 each. The Company proposed the ratio of the consolidation of every ten issued and unissued Existing Shares of HK$0.002 each into one (1) Consolidated Share of HK$0.02 each, with the aim to minimise the odd lot effect caused to the Shareholders as a result of the Share Consolidation (if any) as well as not to increase the nominal value of the Shares to a great extent (if any). Given that the board lot will not be changed pursuant to the Share Consolidation, there should not be any significant odd lot caused causing to the Shareholders as a result of the Share Consolidation. In any event, the Company will appoint a designated broker to stand in the market to provide matching services for the sale and purchase of odd lots.

Whilst the Board has considered other ratios of Share Consolidation which will also enable the Group to achieve the trading of each board lot above HK$2,000, in light of the issuance of Consideration Shares and Warrant Shares pursuant to the Acquisition, the Board considers the current proposed ratio of 10:1 to be one that can achieve the Board's intention to reduce the number of Existing Shares.

It is expected that the Share Consolidation would bring about a corresponding upward adjustment in the trading price per board lot of the Consolidated Shares on the Stock Exchange. The Share Consolidation will reduce the number of new board lots and increase the value of each new board lot. Furthermore, as the theoretical market value of each board lot of the Consolidated Shares upon the Share Consolidation becoming effective will be higher than the market value of each board lot of the Existing Shares, the transaction cost as a proportion of the market value of each board lot will be lower. Typically, transaction fees are charged either per board lot or by trading amount. For transaction fees charged per board lot, transaction costs of dealings in fewer board lots are lower than those for more board lots. For transaction fees charged by trading amount, particularly for those that are subject to a minimum charge, increasing the value of each board lot will save costs for investors. This would in turn maintain the trading amount for each board lot at a reasonable level in order to attract more investors and to extend the shareholder base of the

Company. It is hoped that the Share Consolidation will make investing in the Shares more attractive to a broader range of investors, in particular to institutional investors whose house rules might otherwise prohibit or restrict trading in securities that are priced below a prescribed floor. and thus help to further broaden the shareholder base of the Company. It is also expected that the liquidity in trading of the Existing Shares will increase accordingly.

In view of the above reasons, the Company considers the Share Consolidation to be justifiable notwithstanding of the potential costs and impact arising from creation of odd lots to Shareholders. Accordingly, the Board is of the view that the Share Consolidation is beneficial to and in the interests of the Company and the Shareholders as a whole.

The Board believes that the Share Consolidation will not have any material adverse effect on the financial position of the Group nor result in change in the relative rights of the Shareholders.

(3) RE-ELECTION OF AN EXECUTIVE DIRECTOR

Mr. Wan Chao, who was appointed by the Board as an executive Director with effect from 16 June 2020, shall in accordance with bye-law 86(2) of the Company hold office until the SGM and offer himself for re-election at the SGM. The biography of Mr. Wan Chao is set out in Appendix VI to this circular.

WARNING

Shareholders and potential investors of the Company should take note that the Share Consolidation is conditional upon satisfaction of conditions set out in the paragraph headed "CONDITIONS AND EXPECTED EFFECTIVE DATE OF THE SHARE CONSOLIDATION" above. Therefore, the Share Consolidation may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers

CLOSURE OF REGISTER OF MEMBERS

For determining the Shareholders' entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 13 January 2021 to Monday, 18 January 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the SGM, all transfer of Shares accompanied by the relevant share certificate(s) must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 12 January 2021.

SGM

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder, the Share Consolidation and the re-election of Mr. Wan Chao as an executive Director. A notice convening the SGM to be held at 3:00 p.m. on Monday, 18 January 2021 at Taishan Room, Level 5, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong is set out on pages 163 to 166 of this circular.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition and the Share Consolidation which is different from other Shareholders, and thus no Shareholder is required to abstain from voting at the SGM.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM or any adjournment thereof (as the case may be), you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit it at the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not less than 48 hours before the time appointed for holding the SGM (i.e. no later than 3:00 p.m. on Saturday, 16 January 2021) or any adjournment thereof (as the case may be). 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 (as the case may be) if you so wish.

RECOMMENDATIONS

The Board considers that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable and that the Acquisition and the Share Consolidation are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate), the Share Consolidation and the re-election of Mr. Wan Chao as an executive Director.

ADDITIONAL INFORMATION

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

FORWARD-LOOKING STATEMENTS

There can be no assurance that any forward-looking statements regarding the business development of the Group and/or the Enlarged Group set out in this circular and any of the matters set out herein are attainable, will actually occur or will be realised or are complete or accurate. Shareholders and/or potential investors of the Company are advised to exercise caution when dealing in the securities of the Company and not to place any excessive reliance on the information disclosed herein. Any Shareholder or potential investor who is in doubt is advised to seek advice from professional advisors.

Yours faithfully,
By order of the Board
HengTen Networks Group Limited
Xu Wen
Chairman

FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the six months ended 30 June 2020 were disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the Company's website (www.htmimi.com):

- interim report of the Company for the six months ended 30 June 2020 published on 23 September 2020 (pages 3–30):
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0923/2020092300378.pdf;

- annual report of the Company for the year ended 31 December 2019 published on 27 April 2020 (pages 46 to 123):
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042700605.pdf;

- annual report of the Company for the year ended 31 December 2018 published on 26 April 2019 (pages 79 to 165):
https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn20190426803.pdf; and

- annual report of the Company for the year ended 31 December 2017 published on 27 April 2018 (pages 69 to 154):
https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0427/ltn20180427684.pdf.

STATEMENT OF INDEBTEDNESS

As at the close of business on 30 November 2020, the Enlarged Group had outstanding indebtedness of approximately RMB297,866,000, details of which are set out as follows:

	Unsecured but guaranteed	**Unsecured and unguaranteed**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Amounts due to related parties	—	117,911	117,911
Other borrowings	150,000	10,000	160,000
Lease liabilities	—	19,955	19,955
Total	150,000	147,866	297,866

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 30 November 2020, the Enlarged Group did not have any material debt securities issued and outstanding, and authorised or otherwise created but unissued, or term loans or other borrowings or indebtedness in the nature of borrowing of the Enlarged Group including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments or outstanding mortgages and charges or, guarantees or other material contingent liabilities.

RECENT DEVELOPMENT AND FINANCIAL AND TRADING PROSPECT

After completion of the Acquisition the principal businesses of the Enlarged Group will comprise (i) internet community services and related businesses; (ii) manufacture and sales of accessories for photographic and electrical products; (iii) investment and trading of securities; (iv) movie and television series research and development, production, distribution and advertisement; and (v) internet streaming business.

In terms of internet home furnishing business, the Group will build a more effective marketing system from the perspectives of marketing strategy planning, marketing team building, sales promotion policy formulation, channel building and establishment of price system. In addition, the Group will further expand into more categories and strive to provide products covering all categories in the field of home furnishing. In the future, the Group plans to continuously expand the number of communities and user base it serves through regulated management, standardised services and localised marketing. In order to further expand the coverage of customised, semi-finished products and other categories in sales orders, the Group will increase investment and utilise its accumulated precise customer traffic to promote in-depth cooperation with production companies with the basis of Industry 4.0, and research and develop a "design-production" integrated industry standardised platform to further consolidate design and orders with production end and delivery end, so as to present users with a real "what you see is what you get" experience offering personalised programs and integrated delivery, thereby achieving a higher level of development of the internet home furnishing business.

In terms of internet materials business, the Group will continue to enhance online/offline customer flow as well as increasing customer flow access points. The Group will also continuously strengthen content and brand output to achieve precision reach and effective conversion of the target group. In response to users' needs for whole house solutions, the Group will continue to expand its product categories, enrich the categories and SKUs of the products under its own brand, and carry out high-frequency updates and iterations of the products under its own brand, classify different categories into the same design and marketing system to form a holistic space solution for entire house. At the same time, the Group will continue to provide stable services for city operators across the country, leverage on China Evergrande Group's advantages in supply chain system and centralised procurement scale, in order to provide better services.

Looking forward, the Group will continue to adapt to new trends, adopt new technologies and explore new channels, so as to realise the transformation and upgrading of online marketing channels, and improve the experience integrating marketing and delivery which boasts "what you see is what you get" for the entire house. The Group will also effectively address issues arising during industry transformation and development, cultivate the core competitiveness for the future, enhance the momentum and resilience for business development, and promote the continuous and positive business development of the Group. Such strategy is consistent with the Acquisition for the reasons as stated under in the section headed "Letter from the Board — Reasons for and Benefit of the Acquisition", given that the Acquisition will, amongst others, expose the Group to wide scope of potential clients and provide the Group with more advertising channels. For details, please refer to the section headed "Letter from the Board — Reasons for and Benefit of the Acquisition".

In relation to the business plan for the internet streaming business, the Enlarged Group will continue to enhance its current online distribution platform. The management predicts that viewing platforms, especially vertical field video-playing, will be the trend and there are few other service providers who offer a similarly established platform for film and television viewing from genuine sources available among various devices.

Furthermore, the China online streaming market has recorded rapid growths in recent years and the annual revenue reached approximately RMB62.7 billion in 2020. As the business products of the entities in Enlarged Group have been widely recognised by customers and the online streaming platform's traffic has been increasing, the Group is well positioned to tap on the burgeoning streaming market in the PRC. The programmes produced by the entities in Enlarged Group enjoy a good reputation and is able to effectively improve the Enlarged Group's awareness and reputation.

The Company will continue to invest in improving the quality of the programmes and their contents. Besides, it is anticipated that investment will be increased for self-developed dramas which is achievable through the synergy of Shanghai Ruyi's production capacities to produce top-tier self-developed drama series. The management believes that with the relentless efforts, the Company will continue to experience the growth in production, streaming and advertising income.

The Acquisition is expected to further diversify the revenue stream of the Company. Looking ahead, the Company will continue its strategy of making focused efforts to expand into the self-developed drama business. The Company will maintain its core strategy and continue to strengthen its brand. It is also actively stepping up business expansion and cementing partnership. The Company will dedicate vigorous efforts in its business expansion through enrichment of streaming contents and development of new productions. The Company will also strike to form stronger partnership with a number of media partners in relation to the expansion of sale channels. It is anticipated that with the production experience of Shanghai Ruyi, the Enlarged Group may leverage on their expertise and experience to create self-developed drama productions, that will stimulate membership growth and create more value and diversified revenue stream to the Enlarged Group.

WORKING CAPITAL

The Directors are of the opinion that, taking into account the completion of the Acquisition and the financial resources available to the Enlarged Group, including the internally generated funds, the working capital available to the Enlarged Group is sufficient for the Enlarged Group's requirements for at least 12 months from the date of the circular.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2019, the date to which the latest published audited financial statements of the Group were made up.

The following is the text of a report set out on pages 68 to 128, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HENGTEN NETWORKS GROUP LIMITED

Introduction

We report on the historical financial information of Virtual Cinema Entertainment Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages 71 to 128, which comprises the combined statements of financial position as at 31 December 2017, 2018 and 2019 and 30 June 2020, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages 71 to 128 forms an integral part of this report, which has been prepared for inclusion in the circular of HengTen Networks Group Limited (the "**Company**") dated 31 December 2020 (the "**Circular**") in connection with the proposed acquisition of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target Group for the Track Record Period (the "Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements in accordance with the basis of presentation and preparation set out therein which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"),

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and for such internal control as the directors determine is necessary to enable the preparation of Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the combined financial position of the Target Group as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
31 December 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	*5*	336,439	233,456	276,167	123,768	70,926
Cost of sales and services	*8*	(311,882)	(252,360)	(222,229)	(106,359)	(59,068)
Gross profit/(loss)		24,557	(18,904)	53,938	17,409	11,858
Other income	*7*	4,187	3,826	6,242	1,130	2,340
Other (losses)/gains		(34)	(1)	—	—	10
Selling and marketing costs	*8*	(329)	(1,697)	(1,324)	(600)	(533)
Administrative expenses	*8*	(6,959)	(7,265)	(13,220)	(5,831)	(5,606)
Impairment (losses)/write back on financial assets	*3.1(b)*	(5,014)	(7,308)	2,520	1,193	(345)
Other operating expenses		(94)	(1,876)	(141)	(110)	—
Operating profit/(loss)		16,314	(33,225)	48,015	13,191	7,724
Finance income	*10*	1,002	91	92	67	127
Finance costs	*10*	(1,603)	(4,485)	(5,180)	(2,359)	(1,314)
Finance costs, net	*10*	(601)	(4,394)	(5,088)	(2,292)	(1,187)
Profit/(loss) before tax		15,713	(37,619)	42,927	10,899	6,537
Income tax expense	*11*	(13,242)	(2,718)	(16,338)	(7,737)	(249)
Profit/(loss) and total comprehensive income/(loss) for the year/period		2,471	(40,337)	26,589	3,162	6,288
Attributable to:						
Owners of the Target Company		(15,298)	(42,813)	11,397	(4,047)	6,158
Non-controlling interests		17,769	2,476	15,192	7,209	130
		2,471	(40,337)	26,589	3,162	6,288

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
		2017	2018	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	*14*	905	739	905	817
Right-of-use assets	*15*	844	557	4,258	2,781
Intangible assets	*16*	108	92	381	234
Prepayments for film and television programmes rights	*18*	109,576	120,825	49,520	55,471
Film and television programmes rights	*19*	140,565	131,805	126,487	88,567
Deferred income tax assets	*22*	870	2,629	2,212	2,259
		252,868	256,647	183,763	150,129
CURRENT ASSETS					
Film and television programmes rights	*19*	109,572	127,292	1,835	31,521
Prepayments, trade and other receivables	*20*	947,388	960,915	129,222	146,971
Cash and cash equivalents	*21*	5,904	36,863	14,984	11,777
		1,062,864	1,125,070	146,041	190,269
Total assets		1,315,732	1,381,717	329,804	340,398
EQUITY					
Combined capital	*26*	5,043	5,463	5,463	5,463
Other reserves	*27*	822	23,917	23,917	23,917
Retained earnings/(accumulated losses)		9,726	(122,504)	(138,620)	(132,462)
		15,591	(93,124)	(109,240)	(103,082)
Non-controlling interests		75,916	14,294	16,999	17,129
Total equity/(deficit)		91,507	(78,830)	(92,241)	(85,953)

		As at 31 December			As at 30 June
		2017	2018	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITY					
Lease liabilities	*15*	48	171	1,392	—
CURRENT LIABILITIES					
Contract liabilities	*6*	67,040	81,508	34,522	35,264
Lease liabilities	*15*	814	391	2,964	2,876
Trade and other payables	*23*	883,845	1,207,140	273,515	290,081
Film and television programmes investment funds from investors	*24*	234,468	122,262	59,456	59,783
Borrowings	*25*	20,000	36,000	34,500	34,500
Current income tax liabilities		18,010	13,075	15,696	3,847
		1,224,177	1,460,376	420,653	426,351
Total liabilities		1,224,225	1,460,547	422,045	426,351
Total equity and liabilities		1,315,732	1,381,717	329,804	340,398

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company					
	Combined capital *(Note 26)* *RMB'000*	**Other reserves** *(Note 27)* *RMB'000*	**Retained earnings/ (accumulated losses)** *RMB'000*	**Subtotal** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total** *RMB'000*
At 1 January 2017	5,043	822	25,024	30,889	58,147	89,036
(Loss)/profit for the year	—	—	(15,298)	(15,298)	17,769	2,471
At 31 December 2017	5,043	822	9,726	15,591	75,916	91,507
At 1 January 2018	5,043	822	9,726	15,591	75,916	91,507
(Loss)/profit for the year	—	—	(42,813)	(42,813)	2,476	(40,337)
Transactions with owners:						
— Dividends	—	—	(89,417)	(89,417)	(40,583)	(130,000)
— Changes in ownership interests in subsidiaries without change of control	420	23,095	—	23,515	(23,515)	—
At 31 December 2018	5,463	23,917	(122,504)	(93,124)	14,294	(78,830)
At 1 January 2019	5,463	23,917	(122,504)	(93,124)	14,294	(78,830)
Profit for the year	—	—	11,397	11,397	15,192	26,589
Transactions with owners:						
— Dividends	—	—	(27,513)	(27,513)	(12,487)	(40,000)
At 31 December 2019	5,463	23,917	(138,620)	(109,240)	16,999	(92,241)
For the six months ended 30 June 2020						
At 1 January 2020	5,463	23,917	(138,620)	(109,240)	16,999	(92,241)
Profit for the period	—	—	6,158	6,158	130	6,288
At 30 June 2020	5,463	23,917	(132,462)	(103,082)	17,129	(85,953)
For the six months ended 30 June 2019 (Unaudited)						
At 1 January 2019	5,463	23,917	(122,504)	(93,124)	14,294	(78,830)
(Loss)/profit for the period	—	—	(4,047)	(4,047)	7,209	3,162
At 30 June 2019	5,463	23,917	(126,551)	(97,171)	21,503	(75,668)

COMBINED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cash flows from operating activities						
Cash generated from operations	*28*	161,676	(24,089)	405,077	291,868	8,284
Interest paid		(750)	(2,399)	(3,228)	(878)	—
Interest received		1,002	91	92	67	127
Income tax paid		(15,948)	(9,412)	(13,300)	(13,301)	(12,145)
Net cash generated from/(used in) operating activities		145,980	(35,809)	388,641	277,756	(3,734)
Cash flows from investing activities						
Purchase of property, plant and equipment	*14*	(912)	(564)	(532)	(361)	(94)
Purchase of intangible assets	*16*	—	—	(398)	—	—
Cash advance to related parties		(529,572)	(36,691)	(868)	(22,419)	(36,649)
Cash repayment from related parties		—	45,456	497,653	8,538	11,710
Net cash generated from/(used in) investing activities		(530,484)	8,201	495,855	(14,242)	(25,033)
Cash flows from financing activities						
Proceeds from other borrowings		20,000	36,000	34,500	10,000	—
Repayments of other borrowings		—	(20,000)	(36,000)	(3,000)	—
Principal elements of lease payments		(884)	(1,034)	(3,253)	(1,643)	(1,640)
Dividend paid		—	(130,000)	(40,000)	—	—
Cash repayment to related parties		(366,256)	(3)	(163,069)	(175,659)	(14,517)
Cash advance from related parties		3,982	173,604	1,396	1,374	41,720
Funds received from investor		700,000	—	—	—	—
Funds repayment to investor		—	—	(700,000)	(125,000)	—
Net cash generated from/(used in) financing activities		356,842	58,567	(906,426)	(293,928)	25,563
Net (decrease)/increase in cash and cash equivalents		(27,662)	30,959	(21,930)	(30,414)	(3,204)
Cash and cash equivalents at beginning of the year/period		33,566	5,904	36,863	36,863	14,984
Effects of exchange rate changes on cash and cash equivalents		—	—	51	30	(3)
Cash and cash equivalents at end of the year/period	*21*	5,904	36,863	14,984	6,479	11,777

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL, REORGANISATION AND BASIS OF PREPARATION

1.1 General information

Virtual Cinema Entertainment Limited (the "Target Company") was incorporated in the British Virgin Islands on 27 November 2018 as an exempted company with limited liability. Virtual Cinema Culture Limited ("Virtual Cinema HK"), a wholly-owned subsidiary of the Target Company, was incorporated in Hong Kong on 7 December 2018 with limited liability. Shanghai Muzhou Network Technology Co., Ltd. (the "WFOE"), an indirect subsidiary of the Target Company, was incorporated in the People's Republic of China (the "PRC") on 15 May 2019 as a wholly foreign-owned enterprise.

The Target Company, Virtual Cinema HK and the WFOE are all engaged in investment holding, and each of them has not recorded any profits as it has had no business operation since incorporation. The ultimate controlling shareholder (the "Controlling Shareholder") is Mr. Ke Liming ("Mr. Ke").

These combined financial statements of the Target Company and its subsidiaries (collectively referred to as the "Target Group") are presented in Renminbi ("RMB"), unless otherwise stated.

1.2 Reorganisation

In preparation for the proposed acquisition (the "Acquisition") of the Target Group by HengTen Networks Group Limited ("HengTen Networks"), the Target Group underwent a reorganisation (the "Reorganisation"), pursuant to which,

(i) Beijing Xiaoming Zhumeng Data Service Co., Ltd. ("Beijing Xiaoming"), Shanghai Ruyi Movie Television Production Co., Ltd. ("Shanghai Ruyi") and Shenzhen Jingxiu Network Technology Limited Company ("Jingxiu") (collectively referred to as Variable Interest Entities, "VIE") terminated the existing nominee shareholding arrangements with their PRC registered shareholders;

(ii) The WFOE entered into a series of contracts ("VIE Contracts") with the Variable Interest Entities, their PRC Beneficial Owner who is Mr. Ke, and their PRC Registered Shareholders such that the respective economic benefits, control of the board of directors and member's voting rights and operations of the Variable Interest Entities would be enjoyed by the Target Company via the WFOE after the Reorganisation; and

(iii) The registration(s) of the equity pledge over all the equity interests in the Variable Interest Entities by the then registered owner(s) to the WFOE were completed and registered with the relevant branches of the market supervision authority in the PRC. Upon completion of the Reorganisation, the Variable Interest Entities are accounted for as subsidiaries of the Target Company by virtue of the arrangement under the VIE Contracts.

Upon completion of the Reorganisation on 31 December 2020, the Target Company became the holding company of the companies now comprising the Target Group.

Upon completion of the Reorganisation and as at the date of this report, the Target Company had direct or indirect interests in the following subsidiaries:

Company name	Place and date of incorporation and nature of legal entity	Issued and paid up capital	Effective interest held 31 December 2017	31 December 2018	31 December 2019	30 June 2020	Principal activities and place of operation	Note
Directly held:								
Virtual Cinema HK	HK, 17 December 2018, limited liability company	—	—	100%	100%	100%	Investment holding	(c)
Indirectly held:								
WFOE	The PRC, 15 May 2019, limited liability company	—	—	100%	100%	100%	Investment holding	(c)
Controlled pursuant to the VIE contracts:								
Beijing Xiaoming	The PRC, 8 November 2013, limited liability company	400	100%	100%	100%	100%	Contents development, production and service provision in the telecommunication industry	(a)
Jingxiu	The PRC, 25 May 1998, limited liability company	3,000	100%	100%	100%	100%	Data processing, technology development, promotion, transfer consulting and service	(b)
Shanghai Ruyi	The PRC, 1 March 2013, limited liability company	3,000	55%	69%*	69%*	69%*	Radio television programme production and operation and film distribution	(a)

* Mr. Ke had effectively acquired the remaining shares of Shanghai Ruyi from Beijing Ruyi Xinxin Film Investment Co., Ltd prior to the completion of reorganisation.

(a) The statutory auditor for the years ended 31 December 2017, 2018 and 2019 of Beijing Xiaoming and Shanghai Ruyi was Beijing Yongqin Certified Public Accountants Co., Ltd.

(b) The statutory auditor for the years ended 31 December 2017 of Jingxiu was Beijing Yongqin Certified Public Accountants Co., Ltd. The statutory auditor for the years ended 31 December 2018 and 2019 of Jingxiu was Shenzhen Landing Certified Public Accountants Co., Ltd.

(c) No audited financial statements have been issued for these companies since their respective dates of incorporation.

(d) All companies now comprising the Target Group have adopted 31 December as their year-end date.

(e) The English translation of the WFOE, Beijing Xiaoming, Jingxiu and Shanghai Ruyi is for identification purpose only. These companies do not have official English names.

1.3 Basis of presentation

The companies now comprising the Target Group, engaging in film and TV programme production and online streaming platform business, were under common control of the Controlling Shareholder, Mr. Ke, immediately before and after the Reorganisation. Accordingly, the Reorganisation is regarded as a business combination under common control, and for the purpose of this report, the Historical Financial Information has been prepared on a combined basis.

The Historical Financial Information has been prepared by including the historical financial information of the companies now comprising the Target Group, engaging in film and TV programme production and online streaming platform business, under the common control of Mr. Ke immediately before and after the Reorganisation as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the control of Mr. Ke, whichever is a shorter period.

The net assets of the combining companies were combined using the existing book values from Mr. Ke's perspective. No amount is recognised in consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party's interest.

Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on combination.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these combined financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) *Compliance with HKFRSs*

The combined financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

(b) *Historical cost convention*

The combined financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities measured at fair value.

(c) *Going Concern*

As at 30 June 2020, the Target Group recorded a deficit of RMB85,953,000 and net current liabilities of RMB236,082,000. The Target Group has planned refinancing arrangements for the repayment of its borrowings and payables due to suppliers, including obtaining financial support from Mr. Ke, who will not demand for the Target Group's repayment of the amounts due to Mr. Ke and his related companies, up to the completion of the Acquisitions, and financial support from HengTen Networks upon completion of the Acquisition up to at least twelve months from the date of this report. Management has prepared the Target Group's cash flow forecast for at least the following twelve months from the date of this report, by taking into account the expected operating cash inflows and the commitments to provide sufficient funding from Mr. Ke and HengTen Networks. As a result, the directors of HengTen Networks have a reasonable expectation that the Target Group has adequate resources to continue in operational existence for the foreseeable future. The Target Group therefore continues to adopt the going concern basis in preparing its combined financial statements.

(d) *New and amended standards adopted by the Target Group*

In preparing the Historical Financial Information, all HKFRSs which are effective for the accounting period beginning on 1 January 2020, including but not limited to HKFRS 9 "Financial Instruments", HKFRS 15 "Revenue from contracts with customers" and HKFRS 16 "Leases", have been consistently applied by the Target Group throughout the periods presented. The Target Group has also early adopted the amendments to HKFRS 16 "COVID-19-related rent concessions" for the accounting period beginning on 1 January 2020 which has no material impact to the Target Group.

(e) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods and have not been early adopted by the Target Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendment)	Interest Rate Benchmark Reform-Phase 2	1 January 2021
HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41 (Amendments)	Annual improvements to HKFRSs 2018–2020 cycle	1 January 2022
HKAS 3 (Amendments)	Reference to the conceptual framework	1 January 2022
HKAS 16 (Amendments)	Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts — Costs of Fulfilling a Contract	1 January 2022
HKAS 1 (Amendments)	Classification of liabilities as current or non-current	1 January 2023
HKFRS 17	Insurance contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be announced

2.2 Principles of consolidation

(i) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully combined from the date on which control is transferred to the Target Group. They are decombined from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

(a) *Subsidiaries controlled through contractual arrangements*

As described in Note 1.2, the WFOE has entered into VIE Contracts with the VIE, their PRC Beneficial Owner who is Mr. Ke, and their PRC Registered Shareholders which enable the Target Company via the WFOE to:

- exercise effective financial and operational control over the VIE;
- exercise equity holders' voting rights of the VIE;
- receive substantially all of the economic interest and returns generated by the VIE in consideration for the business support, technical and consulting services provided by the WFOE, at the WFOE's discretion;

- obtain an irrevocable and exclusive right to purchase the entire equity interest in the VIE from the equity holders;

- obtain a pledge over the entire equity interest in the VIE from its equity holders as collateral security for all of the VIE's payments due to the WFOE and to secure performance of the VIE's obligations under the VIE Contracts, respectively.

The Target Group does not have any equity interest in the VIE. However, as a result of the VIE Contracts, the Target Group has rights to variable returns from its involvement with the VIE and has the ability to affect those returns through its power over the VIE and is considered to control the VIE. Consequently, the Target Company regards the VIE as a controlled structure entity and combined the financial position and result of operations of the VIE in the Historical Financial Information of the Target Group during the Track Record Period.

(ii) *Business combinations under common control*

The Historical Financial Information incorporates the financial statement items of the entities or businesses in which the common control combination occurs as if they had been combined from the date when the entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognized in consideration for goodwill or excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of profit and loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealized gains on transactions between combining entities or businesses are eliminated.

(iii) *Joint arrangements*

Under HKFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Target Group has joint operations.

Joint operations

The Target Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the combined financial statements under the appropriate headings.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes directly attributable costs of investment. The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the combined financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (the "CODM").

The executive directors of the Target Company have appointed a strategic steering committee which assesses the financial performance and position of the Target Group, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, consists of the executive directors.

2.5 Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in RMB, which is the Target Group's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the combined statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the combined statement of profit or loss on a net basis within other losses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(iii) *Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

2.6 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- Furniture, fixtures and equipment 20% to 33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

2.7 Intangible assets

Patent

Separately acquired patent used right is shown at historical cost. The patent has a finite useful life and is carried at cost less accumulated amortisation.

Amortisation is calculated using the straight-line method to allocate the cost over its estimated useful lives of 1–10 years.

2.8 Film and television programmes rights

Film and television programmes rights under production

Film and television programmes rights under production are carried at cost, less accumulated impairment loss. Cost includes all direct costs associated with the production of films and television programmes rights.

Film and television programmes rights under production are transferred to "film and television programmes rights completed" upon completion of production.

Film and television programmes rights completed

Film and television programmes rights completed are carried at cost, less accumulated amortisation and accumulated impairment losses, if any. Amortisation for these film is charged to profit or loss over the period of the first release of the films through various distribution channels, such as theatrical release, television release or internet release, and other licensing arrangement. Cost of television programmes rights is charged to profit or loss upon the delivery of master tapes of the respective television programmes.

Licensed film and television programmes rights

Licensed film and television programmes rights represent the Target Group's investments in film and television programmes rights licenses. The Target Group acquired or licensed rights from third parties for broadcasting of films or television programmes series on its online video platform or sub-licensing the license rights to other parties. Licensed film and television programmes rights are carried at cost, less accumulated amortisation and accumulated impairment losses, if any.

Licensed film and television programmes rights are amortised on a straight- line basis over their estimated useful lives of one to ten years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimation being accounted for on a prospective basis.

Derecognition

Film and television programmes rights are derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of film and television programmes rights, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life and/or not available for use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Investments and other financial assets

(i) ***Classification***

The Target Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

(ii) ***Recognition and derecognition***

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Target Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Target Group has transferred substantially all the risks and rewards of ownership.

(iii) ***Measurement***

At initial recognition, the Target Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Target Group's business model for managing the asset and the cash flow characteristics of the asset. There is one measurement category which the Target Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other losses together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the combined statement of profit or loss.

Equity instruments

The Target Group subsequently measures all equity investments at fair value. Where the Target Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Target Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other losses in the combined statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) ***Impairment***

The Target Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the Target Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

2.11 Financial liabilities

(i) ***Initial recognition and measurement***

Financial liabilities of the Target Group are classified, at initial recognition, at amortised cost. All financial liabilities are recognised initially at fair value and, in the case of financial liabilities at amortised cost, net of directly attributable transaction costs.

(ii) ***Subsequent measurement***

After initial recognition, financial liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognized as well as through the effective interest rate amortisation process.

(iii) ***Derecognition***

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the combined statement of financial position where the Target Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. They are generally due for settlement within one year and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Target Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

See Note 20 for further information about the Target Group's accounting for trade receivables and Note 3.1(b) for a description of the Target Group's impairment policies.

2.14 Cash and cash equivalents

For the purpose of presentation in the combined statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions.

2.15 Combined capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

These amounts represent liabilities for goods and services provided to the Target Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within the credit term. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Film and television programmes investment funds from investors

The amounts represent investments made by certain investors in respect of film rights developed by the Target Group and the amounts payable to these investors. In accordance with the terms of the respective investment agreements, the investors are entitled to the rights to recoup their investment amounts as appropriate by the predetermined percentage of income to be generated from the films. The financial liabilities are measured at amortised cost.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the combined statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Target Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Target Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Withholding tax

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in the PRC to a foreign investor with respect to profit derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong, under the double taxation arrangement between Mainland China and Hong Kong, the relevant withholding tax rate applicable to the Target Group will be reduced from 10% to 5% subject to the fulfilment of certain conditions.

Dividends distributed from certain jurisdictions that the Target Group's entities operate in are also subject to withholding tax at respective applicable tax rates.

2.21 Employee benefits

(i) ***Employee leave entitlements***

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the date of the statement of financial position.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) ***Retirement benefits***

In accordance with the rules and regulations in the PRC, the PRC based employees of the Target Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Target Group and the PRC based employees are required to make monthly contributions to these plans calculated at a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Target Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Target Group in independently administrated funds managed by the PRC government.

The Target Group's contributions to the defined contribution retirement schemes are expensed as incurred.

2.22 Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of services in the ordinary course of the Target Group's activities.

Revenue is recognised when or as the control of the services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the services may be transferred over time or at a point in time.

Control of the goods or services is transferred over time if the Target Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer,
- creates or enhances an asset that the customer controls as the Target Group performs; or
- does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

If control of the services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the services. Specific criteria where revenue is recognised are described below.

When either party to a contract has performed, the Target Group presents the contract in the combined statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

If a customer pays consideration or the Target Group has a right to an amount of consideration that is unconditional, before the Target Group transfers a service to the customer, the Target Group presents the contract as a contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Target Group's obligation to transfer services to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Target Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Revenue is recognised when specific criteria have been met for the Target Group's activity as described below:

(i) ***Content production***

The Target Group invests in and produces entertainment content such as film and television programmes series.

Revenue from share of box office of film is recognized when the film is shown and the right to receive payment is established.

Revenue from the licensing of television programmes rights is recognized upon the delivery of the master tapes to the customers, in accordance with the terms of the underlying contracts.

(ii) ***Online Streaming platform***

The Target Group operates an online streaming platform and provides the users with membership services.

Revenue is recognised over time during the period of membership as the users simultaneously receives and consumes the benefits provided by the membership services.

2.24 Film investment income

Film investment income is recognised in profit or loss when the right to receive payment is established.

2.25 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.26 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Target Group.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Target Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Target Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Target Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, such as term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received, and
- any initial direct costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Target Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Target Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Target Group.

Payments associated with short-term leases of properties and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.27 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2.28 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

This note explains the Target Group's exposure to financial risks and how these risks could affect the Target Group's future financial performance. Current year profit or loss information has been included where relevant to add further context.

The Target Group's management monitors and manages the financial risks relating to the operations of the Target Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

There has been no change to the types of the Target Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

(a) ***Market risk***

(i) *Foreign exchange risk*

The Target Group operates in Hong Kong and the PRC with most of the transactions denominated and settled in RMB, the functional currency of relevant group entities.

The Target Group is mainly exposed to the fluctuation of RMB and United States Dollars ("US$"), arising from foreign currency cash and cash equivalents, trade and other payables.

The carrying amounts of the Target Group's foreign currency denominated monetary assets and monetary liabilities at the end of reporting period are as follows:

	Assets			
	As at 31 December			**As at 30 June**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Monetary assets				
— US$	—	—	1,381	936

	Liabilities			
	As at 31 December			**As at 30 June**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Monetary liabilities				
— US$	—	—	1,396	16

Sensitivity analysis

The following table details the Target Group's sensitivity to a 5% increase and decrease in RMB against the above foreign currencies for the year ended 31 December 2019 and the six months ended 30 June 2020. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. A (negative)/positive number below indicates a (increase)/decrease in loss for the year ended 31 December 2019 or (decrease)/

increase in profit for the six months ended 30 June 2020 where the above foreign currencies strengthen 5% against RMB. For a 5% weakening of the above foreign currencies against RMB, there would be an equal and opposite impact on the profit/(loss) for the year.

	Year ended 31 December			Six months ended 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(Decrease)/increase in profit for the year/ period — US$	—	—	(1)	35

(ii) *Interest rate risk*

The Target Group's cash flow interest rate risk arises from cash at banks.

The Target Group is also exposed to fair value interest rate risk in relation to fixed-rate borrowing (Note 25). The directors consider that the fair value risk in relation to the fixed-rate borrowing is insignificant as the borrowing has a short maturity period.

The Target Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Target Group's exposure on an ongoing basis and will consider hedging the interest rate risk should the need arise.

(b) *Credit risk*

(i) *Risk management*

Credit risk is managed on a group basis. The credit risk of the Target Group mainly arises from financial assets, cash and cash equivalents, trade receivables and other receivables. The carrying amounts of these balances represent the Target Group's maximum exposure to credit risk in relation to these assets.

In respect of cash at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as at 31 December 2017, 2018 and 2019 and six months ended 30 June 2020.

For trade and other receivables, the Target Group assesses the credit quality of the customers, taking into account of their financial positions, past experience and other factors.

(ii) *Impairment of financial assets*

The Target Group has two types of financial assets that are subject to the expected credit loss model:

- trade receivables, and
- other receivables

While cash and cash equivalents and bank deposits are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

For trade receivables that do not share same risk characteristics with others, management assesses their expected credit losses on an individual basis. For trade receivables that share same risk characteristics with others, management calculates the expected credit losses using the roll rate model. The model first groups the customers based on their different risk characteristics, and then recalculates their respective historical credit loss information. The model further incorporates forward-looking adjustments to reflect the management's forecasts of macroeconomic factors in different scenarios, such as GDP, as this affects the customers' ability to settle the receivables.

	Lifetime expected credit loss rate	**Gross carrying amount**	**Lifetime expected credit loss**	**Net carrying amount**
		RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2017				
Trade receivables				
Provision on individual basis	25.0%	9,713	(2,428)	7,285
Provision on collective basis	0.4%	170,015	(605)	169,410
As at 31 December 2018				
Trade receivables				
Provision on individual basis	50.0%	9,713	(4,856)	4,857
Provision on collective basis	3.9%	47,948	(1,847)	46,101
As at 31 December 2019				
Trade receivables				
Provision on individual basis	50.0%	9,713	(4,856)	4,857
Provision on collective basis	3.0%	44,589	(1,358)	43,231
As at 30 June 2020				
Trade receivables				
Provision on individual basis	50.0%	9,713	(4,856)	4,857
Provision on collective basis	3.2%	43,580	(1,413)	42,167

Other receivables

Other receivables, which mainly included deposit, staff advance and amounts due from related parties, are measured at either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of receivables has occurred since initial recognition, then impairment is measured as lifetime expected credit losses. Management assesses the expected credit losses of other receivables on a collective basis. The expected credit losses are assessed with reference to the credit status of the recipients.

Movement of provision for loss allowance

As at 31 December 2017, the loss allowance provision for trade and other receivables reconciles to the opening loss allowance for that provision as follows:

	Trade receivables	Other receivables	Total
	RMB'000	*RMB'000*	*RMB'000*
Balance as at 1 January 2017 (under HKFRS 9)	—	—	—
Provision for loss allowance recognised in profit or loss for the year	3,033	1,981	5,014
Balance as at 31 December 2017 (under HKFRS 9)	3,033	1,981	5,014

As at 31 December 2018, the loss allowance provision for trade and other receivables reconciles to the opening loss allowance for that provision as follows:

	Trade receivables	Other receivables	Total
	RMB'000	*RMB'000*	*RMB'000*
Balance as at 1 January 2018 (under HKFRS 9)	3,033	1,981	5,014
Provision for loss allowance recognised in profit or loss for the year	3,670	3,638	7,308
Balance as at 31 December 2018 (under HKFRS 9)	6,703	5,619	12,322

As at 31 December 2019, the loss allowance provision for trade and other receivables reconciles to the opening loss allowance for that provision as follows:

	Trade receivables	Other receivables	Total
	RMB'000	*RMB'000*	*RMB'000*
Balance as at 1 January 2019 (under HKFRS 9)	6,703	5,619	12,322
Provision/(write off) for loss allowance recognised in profit or loss for the year	116	(2,636)	(2,520)
Receivables written off as uncollectible	(605)	(43)	(648)
Balance as at 31 December 2019 (under HKFRS 9)	6,214	2,940	9,154

As at 30 June 2020, the loss allowance provision for trade and other receivables reconciles to the opening loss allowance for that provision as follows:

	Trade receivables *RMB'000*	Other receivables *RMB'000*	Total *RMB'000*
Balance as at 1 January 2020 (under HKFRS 9)	6,214	2,940	9,154
Provision for loss allowance recognised in profit or loss for the period	55	290	345
Balance as at 30 June 2020 (under HKFRS 9)	6,269	3,230	9,499

(c) ***Liquidity risk***

The Target Group exercises prudent liquidity risk management by maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Target Group aims at maintaining flexibility in funding by maintaining adequate amount of cash and cash equivalents.

The table below analyzes the Target Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Total *RMB'000*
At 31 December 2017			
Trade and other payables*	873,740	—	873,740
Film investment funds from investor	234,468	—	234,468
Lease liabilities	835	50	885
	1,109,043	50	1,109,093
At 31 December 2018			
Trade and other payables*	1,206,738	—	1,206,738
Film investment funds from investor	122,262	—	122,262
Lease liabilities	454	175	629
	1,329,454	175	1,329,629
At 31 December 2019			
Trade and other payables*	263,962	—	263,962
Film investment funds from investor	59,456	—	59,456
Lease liabilities	3,105	1,412	4,517
	326,523	1,412	327,935
At 30 June 2020			
Trade and other payables*	284,784	—	284,784
Film investment funds from investor	59,783	—	59,783
Lease liabilities	2,951	—	2,951
	347,518	—	347,518

* Excluding provisions for other taxes.

3.2 Capital management

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged from prior year.

The capital structure of the Target Group consists of debt which includes amounts due to related parties, and borrowings in Notes 31 and 25, respectively and equity attributable to owners of the Target Company, comprising issued share capital and various reserves.

The directors of the Target Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Target Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt or reduction in capital.

3.3 Fair value estimation

(i) *Fair value hierarchy*

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Target Group has classified its financial instruments into the three levels prescribed under the accounting standards.

As at 31 December 2017, 2018 and 2019 and 30 June 2019 and 2020, there is no financial instrument measured at fair value.

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

The Target Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Target Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

4 CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of combined financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Target Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Revenue derived from content production income

The directors of the Target Company considered the detailed criteria including satisfying the performance obligation and the right to receive payment for the recognition of revenue derived from content production and measurement of film investment income set out in the applicable standards. In the event where the aforementioned criteria are met but the final box office income statement of the relevant film has not yet been received, judgement is required to estimate the revenue and related costs of the film investment. Revenue from content production income of approximately RMB332,087,000, RMB214,083,000, RMB201,892,000, RMB104,674,000 and nil were recognized during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 respectively, which is in line with the Target Group's general policy of recognising revenue and film investment income as set out in Note 2.22 and 2.23.

In making the judgement, the directors of the Target Company considered the detailed criteria included satisfying the performance obligation and the right to receive payment for the recognition of revenue derived from content production and measurement of film investment income set out in the applicable standards. In the event where the aforementioned criteria are met but the final box office income statement of the relevant film has not yet been received, judgement is required to estimate the revenue and related costs of the film investment.

(b) Measurement, amortisation and impairment of film and television programmes rights classified as intangible assets

At the end of each reporting period, the directors of the Target Group assessed the amortisation policy and expected useful lives of the film and television programmes rights classified as intangible asset. The determination of amortisation policy and expected useful lives requires management's significant judgement.

The Target Group amortises the film and television programmes rights completed based on the management's assessment of their potential benefits brought to the Target Group and the expected consumption pattern.

Based on the management's assessment, amortisation of film is charged to profit or loss over the period of the first release of the films through various distribution channels, such as theatrical release, television release or internet release, and other licensing arrangement. Cost of television programmes rights is charged to profit or loss upon the delivery of master tapes of the respective television programmes.

Other than the amortisation, the directors also assessed whether impairment indicator exists on film and television programmes rights classified as intangible assets and provide impairment up to its recoverable amount. For film and television programmes rights classified as intangible assets, the assessment was made on a film-by-film basis. The recoverable amount of the film and television programmes rights classified as intangible assets was determined by using the fair value less cost of disposal approach.

In determining the recoverable amount of film and television programmes rights classified as intangible assets, the Target Group takes into consideration both internal and external market information, for example, the sales forecasts, the production, sales and distribution costs budget and the general economic condition of the relevant markets.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amount of film and television programmes rights classified as intangible asset amounted to approximately RMB250,137,000, RMB259,097,000, RMB128,322,000 and RMB120,088,000 respectively. The directors of the Target Company determined that no impairment provision to be charged to film and television programmes rights classified as intangible assets during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020. Changes in assumptions used in this assessment, including the forecasted revenue, may result in additional provision being made in the combined financial statements.

(c) Estimated impairment of prepayments for film and television programmes rights

At the end of each reporting period, the management of the Target Group assesses whether impairment indicator exists on prepayments for film and television programmes rights based on the contract terms of the agreements, estimated budget of the proposed production and the progress on how the prepayment has been used.

Based on the management's assessment on the recoverability of prepayments of film and television programmes rights, the directors of the Target Company determined that no impairment provision is required to be charged to prepayments of film and television programmes rights during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020.

(d) Loss allowances of trade receivables and other receivables

The loss allowances of trade receivables and other receivables are based on assumptions about risk of default, expected loss rates and forward-looking information. The Target Group uses judgements in making these assumptions and selecting the inputs to the calculation, based on the Target Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1(b).

(e) Subsidiaries arising from contractual arrangements

As described in Note 2.2, the Target Company does not hold equity shares directly or indirectly in the VIE. However, as a result of the VIE Contacts, the Target Group has rights to variable returns from its involvement with the VIE; and the ability to affect those returns through its power over the VIE; and is considered to have control over the VIE. Consequently, the Target Company regards the VIE as an indirect subsidiary. The Target Group has included the financial position and results of the VIE in the combined financial statements.

Nevertheless, these contractual arrangements may not be as effective as direct legal ownership in providing the Target Group with direct control over the VIE and uncertainties presented by the PRC legal system could impede the Target Group's beneficiary rights to the results, assets and liabilities of the VIE. The Target Group believes that these contractual arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

5 REVENUE AND FILM INVESTMENT INCOME

An analysis of the Target Group's revenue during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, net of sales related tax, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue					
— Share of box office income	193,428	8,662	21,815	21,815	—
— Licensing of television programmes rights	138,659	205,421	180,077	82,859	—
— Online Streaming platform revenue	4,352	19,373	74,275	19,094	70,926
	336,439	233,456	276,167	123,768	70,926

6 SEGMENT INFORMATION

The CODM has been identified as the executive directors who review the Target Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports. The Target Group is organised into two business segments: 1) film and television programmes production; and 2) online streaming platform business. As the CODM of the Target Group consider most of the Target Group's combined revenue and results are attributable from the market in the PRC and most of the non-current assets are located in the PRC, geographical segment information is not considered necessary.

The CODM assesses the performance of the operating segments based on segment results, which is calculated as profit before income tax before deducting finance costs.

The following is an analysis of the Target Group's revenue and results by operating and reportable segments:

	Six months ended 30 June 2020		
	Film and television programmes production	**Online streaming platform business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue			
Timing of revenue recognition			
At a point in time	—	—	—
Over time	—	70,926	70,926
Total	—	70,926	70,926
Segment profit	1,730	5,994	7,724
Finance costs, net			(1,187)
Profit before tax			6,537
Income tax expense			(249)
Profit for the period			6,288
Depreciation	—	1,730	1,730
Amortisation	—	19,837	19,837

	Six months ended 30 June 2019		
	Film and television programmes production	**Online streaming platform business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue			
Timing of revenue recognition			
At a point in time	104,674	—	104,674
Over time	—	19,094	19,094
Total	104,674	19,094	123,768
Segment profit/(loss)	32,883	(19,692)	13,191
Finance costs, net			(2,292)
Profit before tax			10,899
Income tax expense			(7,737)
Profit for the period			3,162
Depreciation	—	1,737	1,737
Amortisation	73,606	14,180	87,786

	Year ended 31 December 2019		
	Film and television programmes production	**Online streaming platform business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue			
Timing of revenue recognition			
At a point in time	201,892	—	201,892
Over time	—	74,275	74,275
Total	201,892	74,275	276,167
Segment profit/(loss)	69,742	(21,727)	48,015
Finance costs, net			(5,088)
Profit before tax			42,927
Income tax expense			(16,338)
Profit for the year			26,589
Depreciation	—	3,443	3,443
Amortisation	137,489	27,825	165,314

	Year ended 31 December 2018		
	Film and television programmes production *RMB'000*	**Online streaming platform business** *RMB'000*	**Total** *RMB'000*
Segment revenue			
Timing of revenue recognition			
At a point in time	214,083	—	214,083
Over time	—	19,373	19,373
Total	214,083	19,373	233,456
Segment profit/(loss)	15,046	(48,271)	(33,225)
Finance costs, net			(4,394)
Loss before tax			(37,619)
Income tax expense			(2,718)
Loss for the year			(40,337)
Depreciation	4	1,302	1,306
Amortisation	192,995	22,095	215,090

	Year ended 31 December 2017		
	Film and television programmes production *RMB'000*	**Online streaming platform business** *RMB'000*	**Total** *RMB'000*
Segment revenue			
Timing of revenue recognition			
At a point in time	332,087	—	332,087
Over time	—	4,352	4,352
Total	332,087	4,352	336,439
Segment profit/(loss)	54,015	(37,701)	16,314
Finance costs, net			(601)
Profit before tax			15,713
Income tax expense			(13,242)
Profit for the year			2,471
Depreciation	10	1,049	1,059
Amortisation	277,123	8,693	285,816

All of the segment revenue reported above was derived from external customers.

The accounting policies of the operating segments are the same as the Target Group's accounting policies described in Note 2. Segment profit/(loss) represents the profit/(loss) from each segment without finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Target Group's assets and liabilities by reportable segments:

	As at 30 June 2020		
	Film and television programmes production	**Online streaming platform business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Segment assets	280,676	57,463	338,139
Unallocated assets			2,259
Total assets			340,398
LIABILITIES			
Segment liabilities	225,028	197,476	422,504
Unallocated liabilities			3,847
Total liabilities			426,351
Additions to non-current assets*	50	94	144

	As at 31 December 2019		
	Film and television programmes production	**Online streaming platform business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Segment assets	283,502	44,090	327,592
Unallocated assets			2,212
Total assets			329,804
LIABILITIES			
Segment liabilities	216,382	189,967	406,349
Unallocated liabilities			15,696
Total liabilities			422,045
Additions to non-current assets*	—	7,996	7,996

	As at 31 December 2018		
	Film and television programmes production	**Online streaming platform business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Segment assets	628,532	750,556	1,379,088
Unallocated assets			2,629
Total assets			1,381,717
LIABILITIES			
Segment liabilities	573,104	874,368	1,447,472
Unallocated liabilities			13,075
Total liabilities			1,460,547
Additions to non-current assets*	144,941	6,732	151,673

	As at 31 December 2017		
	Film and television programmes production	**Online streaming platform business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Segment assets	633,301	681,561	1,314,862
Unallocated assets			870
Total assets			1,315,732
LIABILITIES			
Segment liabilities	449,100	757,115	1,206,215
Unallocated liabilities			18,010
Total liabilities			1,224,225
Additions to non-current assets*	260,641	6,571	267,212

* Other than financial assets and deferred income tax assets

For the purposes of monitoring segment performances and allocating resources between segments:

— all assets are allocated to reportable segment other than deferred income tax assets; and

— all liabilities are allocated to reportable segment other than current income tax liabilities.

Information about major customers

During the year, revenue derived for the customers contributing over 10% of the total revenue of the Target Group are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Customer A[1]	182,156	—	—	—	—
Customer B[1]	35,193	117,390	—	—	—
Customer C[1]	—	—	67,488	61,321	—
Customer D[1]	—	—	34,779	—	—
Customer E[1]	—	—	33,962	—	—
Customer F[1]	—	—	—	12,724	—

1 The revenue was derived from investments in film and television programmes rights in the PRC.

Liabilities related to contracts with customers

The Target Group has recognised the following liabilities related to contracts with customers:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities	67,040	81,508	34,522	35,264

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year/ period				
Film and television programmes production	—	—	78,000	—
Online streaming platform business	258	2,040	3,508	14,611
	258	2,040	81,508	14,611

7 OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Tax refund	4,185	3,814	6,235	1,130	2,274
Sundry income	2	12	7	—	66
	4,187	3,826	6,242	1,130	2,340

8 EXPENSES BY NATURE

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Employee benefit expenses	*9*	10,066	13,536	18,138	7,820	7,735
Depreciation						
— Property, plant and equipment	*14*	215	315	366	182	182
— Right-of-use assets	*15(b)*	844	991	3,077	1,555	1,548
Amortisation						
— Film and television programmes rights	*19*	285,800	215,074	165,205	87,778	19,690
— Intangible assets	*16*	16	16	109	8	147
Distribution cost and payment handling fees		5,767	11,122	18,182	4,200	15,951
Travelling and entertainment expenses		1,303	1,434	2,635	894	926
Bandwidth and server custody fees		11,863	14,885	23,265	8,064	17,104
Utilities and office expenses		2,160	1,260	3,761	1,922	1,283
Auditor's remuneration						
— Audit services		28	35	57	—	28
— Non-audit services		—	—	—	—	—
Other expenses		1,108	2,654	1,978	367	613
Total cost of sales and services, selling and marketing costs and administrative expenses		319,170	261,322	236,773	112,790	65,207

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Wages and salaries	8,964	10,970	14,022	5,838	6,501
Pension costs — defined contribution plans	881	2,047	3,695	1,833	1,036
Other employment benefits	221	519	421	149	198
Total employee benefit expenses	10,066	13,536	18,138	7,820	7,735

(a) Pensions — defined contribution plans

Contributions totaling approximately RMB55,000, RMB215,000, RMB247,000 and RMB48,000 were payable as at 31 December 2017, 2018 and 2019 and 30 June 2020.

(b) Five highest paid individuals

The five highest paid employees, all are not directors of the Target Company, during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Wages and salaries	2,103	2,992	3,622	1,518	1,500
Pension costs — defined contribution plans	110	463	756	283	259
Other employment benefits	43	49	49	16	15
	2,256	3,504	4,427	1,817	1,774

The number of the highest paid employees whose remuneration fell within the following bands are as follows:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
HK$ nil to HK$500,000	3	—	—	3	3
HK$500,001 to HK$750,000	2	3	1	2	2
HK$750,001 to HK$1,000,000	—	—	2	—	—
HK$1,000,001 to HK$1,250,000	—	2	1	—	—
HK$1,250,001 to HK$1,500,000	—	—	1	—	—
	5	5	5	5	5

10 FINANCE COSTS, NET

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Finance income					
Bank interest income	1,002	91	92	67	127
Finance costs					
Interest on borrowings	(1,545)	(4,455)	(4,911)	(2,209)	(1,225)
Financial charges for lease liabilities *(Note 15(b))*	(58)	(30)	(269)	(150)	(89)
	(1,603)	(4,485)	(5,180)	(2,359)	(1,314)
Finance costs, net	(601)	(4,394)	(5,088)	(2,292)	(1,187)

11 INCOME TAX EXPENSE

Income tax expense charged to the profit or loss represents:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Current income tax	14,112	4,477	15,921	7,447	296
Deferred income tax	(870)	(1,759)	417	290	(47)
	13,242	2,718	16,338	7,737	249

(a) PRC corporate income tax

Income tax provision of the Target Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year or period, based on the existing legislation, interpretations and practices in respect thereof. The general corporate income tax rate in Mainland China is 25% according to the CIT Law.

(b) Hong Kong profits tax

No Hong Kong profits tax was provided as there was no estimated assessable profits that was subject to Hong Kong profits tax for the years or period.

The income tax on the Target Group's profit/(loss) before tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the Target Group entities as below:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit/(loss) before tax	15,713	(37,619)	42,927	10,899	6,537
Tax calculated at domestic tax rates applicable to profit/(loss) in the respective countries	3,928	(9,405)	10,732	2,725	1,634
Expenses not deductible for tax purpose	159	98	229	96	181
Utilisation of tax loss previously not recognised	—	—	—	—	(1,604)
Tax losses for which no deferred income tax asset was recognised	9,155	12,025	5,377	4,916	38
Income tax expense	13,242	2,718	16,338	7,737	249

12 BENEFITS AND INTEREST OF DIRECTORS

No benefits and interest were paid by the Target Group to any of the directors of the Target Company as an inducement to join or upon joining the Target Group or as compensation for loss of office. The directors' benefits and interest were born by the Target Company's related entity Beijing Ruyi Xinxin Film Investment Co., Ltd. which did not allocate a fee to the Target Company.

13 DIVIDENDS

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, dividends were declared and paid by Shanghai Ruyi to its then shareholder, Beijing Ruyi Xinxin Film Investment Co., Ltd, at the amounts of nil, RMB130,000,000 and RMB40,000,000, nil and nil respectively.

14 PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment
	RMB'000
As at 1 January 2017	
Cost	575
Accumulated depreciation	(367)
Net book amount	208
Year ended 31 December 2017	
Opening net book amount	208
Additions	912
Disposals	—
Depreciation charge *(Note 8)*	(215)
Closing net book amount	905
As at 31 December 2017	
Cost	1,487
Accumulated depreciation	(582)
Net book amount	905
As at 31 December 2018	
Opening net book amount	905
Additions	564
Disposals	(415)
Depreciation charge *(Note 8)*	(315)
Closing net book amount	739
As at 31 December 2018	
Cost	1,636
Accumulated depreciation	(897)
Net book amount	739

	Furniture, fixtures and equipment
	RMB'000
Year ended 31 December 2019	
Opening net book amount	739
Additions	532
Disposals	—
Depreciation charge *(Note 8)*	(366)
Closing net book amount	905
As at 31 December 2019	
Cost	2,064
Accumulated depreciation	(1,159)
Net book amount	905
Six months ended 30 June 2020	
Opening net book amount	905
Additions	94
Disposals	—
Depreciation charge *(Note 8)*	(182)
Closing net book amount	817
As at 30 June 2020	
Cost	2,158
Accumulated depreciation	(1,341)
Net book amount	817

Depreciation charges during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 are included in administrative expenses of approximately RMB215,000, RMB315,000, RMB366,000 and RMB182,000 respectively.

15 LEASES

This note provides information for leases where the Target Group is a lessee.

(a) Amounts recognised in the combined statements of financial position

The combined statements of financial position show the following amounts relating to leases:

As a lessee

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Right-of-use assets				
Properties	844	557	4,258	2,781
Lease liabilities				
Current	814	391	2,964	2,876
Non-current	48	171	1,392	—
	862	562	4,356	2,876

Additions to the right-of-use assets during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 were approximately RMB159,000, RMB704,000, RMB6,778,000, and RMB71,000 respectively.

(b) Amounts recognised in the combined statements of profit or loss and other comprehensive income

The combined statements of profit or loss and other comprehensive income show the following amounts related to leases:

		Year ended 31 December			Six months ended 30 June	
		2017	**2018**	**2019**	**2019**	**2020**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Depreciation charge of right-of-use assets						
Properties	*8*	844	991	3,077	1,555	1,548
Finance charges (included in finance cost)	*10*	58	30	269	150	89

(c) The Target Group's leasing activities

The Target Group leases properties. Rental contracts are typically made for fixed periods of 1–3 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(d) Termination options

Termination options are included in a number of property and equipment leases across the Target Group. These are used to maximise operational flexibility in terms of managing the assets used in the Target Group's operations. The majority of termination options held are exercisable by both parties.

16 INTANGIBLE ASSETS

	Patent
	RMB'000
As at 1 January 2017	
Cost	159
Accumulated amortisation	(35)
Net book amount	124
Year ended 31 December 2017	
Opening net book amount	124
Amortisation charge *(Note 8)*	(16)
Closing net book amount	108
As at 31 December 2017	
Cost	159
Accumulated amortisation	(51)
Net book amount	108
Year ended 31 December 2018	
Opening net book amount	108
Amortisation charge *(Note 8)*	(16)
Closing net book amount	92
As at 31 December 2018	
Cost	159
Accumulated amortisation	(67)
Net book amount	92
Year ended 31 December 2019	
Opening net book amount	92
Additions	398
Amortisation charge *(Note 8)*	(109)
Closing net book amount	381

	Patent
	RMB'000
As at 31 December 2019	
Cost	556
Accumulated amortisation	(175)
Net book amount	381
Six months ended 30 June 2020	
Opening net book amount	381
Amortisation charge *(Note 8)*	(147)
Closing net book amount	234
As at 30 June 2020	
Cost	556
Accumulated amortisation	(322)
Net book amount	234

Amortisation expenses during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 are included in cost of sales and services of approximately RMB16,000, RMB16,000, RMB109,000 and RMB147,000 respectively.

17 FINANCIAL INSTRUMENTS BY CATEGORY

The Target Group holds the following financial instruments:

Financial assets

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at amortised cost:				
Trade and other receivables	945,624	954,696	123,859	139,808
Cash and cash equivalents	5,904	36,863	14,984	11,777
	951,528	991,559	138,843	151,585

Financial liabilities

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities at amortised cost:				
Trade and other payables *(a)*	872,783	1,205,150	262,149	284,768
Film and television programmes investment funds from investors	234,468	122,262	59,456	59,783
Borrowings	20,000	36,000	34,500	34,500
Lease liabilities	862	562	4,356	2,876
	1,128,113	1,363,974	360,461	381,927

(a): Excluding accrued expenses and provisions for other taxes.

The Target Group's exposure to various risks associated with the financial instruments is disclosed in Note 3.1. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

18 PREPAYMENTS FOR FILM AND TELEVISION PROGRAMMES RIGHTS

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments for film and television programmes rights	105,805	115,425	44,120	50,071
Prepayments for film directors' fees	3,771	5,400	5,400	5,400
	109,576	120,825	49,520	55,471

Prepayments for film and television programmes rights represented the prepayments made by the Target Group to the respective parties in relation to the film and television programmes rights. The prepayments will form part of the contribution by the Target Group for the investment in production of film and television programmes rights. The related terms will be further agreed between the respective parties upon signing of the agreements.

19 FILM AND TELEVISION PROGRAMMES RIGHTS

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Film and television programmes rights completed	1,947	11,332	2,117	34,666
Film and television programmes rights under production	228,630	222,981	101,531	69,117
Licensed film and television programmes rights	19,560	24,784	24,674	16,305
	250,137	259,097	128,322	120,088
Less: Current portion	(109,572)	(127,292)	(1,835)	(31,521)
	140,565	131,805	126,487	88,567

	Film and television programmes rights completed	**Film and television programmes rights under production**	**Licensed film and television programmes rights**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2017	25,851	32,319	7,898	66,068
Additions	13	449,517	20,339	469,869
Transfer	253,206	(253,206)	—	—
Amortisation *(Note 8)*	(277,123)	—	(8,677)	(285,800)
As at 31 December 2017	1,947	228,630	19,560	250,137
Additions	211	196,520	27,303	224,034
Transfer	202,169	(202,169)	—	—
Amortisation *(Note 8)*	(192,995)	—	(22,079)	(215,074)
As at 31 December 2018	11,332	222,981	24,784	259,097
Additions	106	6,718	27,606	34,430
Transfer	128,168	(128,168)	—	—
Amortisation *(Note 8)*	(137,489)	—	(27,716)	(165,205)
As at 31 December 2019	2,117	101,531	24,674	128,322
Additions	—	135	11,321	11,456
Transfer	32,549	(32,549)	—	—
Amortisation *(Note 8)*	—	—	(19,690)	(19,690)
As at 30 June 2020	34,666	69,117	16,305	120,088

20 PREPAYMENTS, TRADE AND OTHER RECEIVABLES

	As at 31 December			as at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables — gross				
— Amounts due from related parties *(Note 30)*	9,148	9,148	237	237
— Amounts due from third parties	170,580	48,513	54,065	53,056
	179,728	57,661	54,302	53,293
Loss allowance *(see Note 3.1(b))*	(3,033)	(6,703)	(6,214)	(6,269)
Trade receivables — net	176,695	50,958	48,088	47,024
Other receivables — gross				
— Amounts due from related parties *(Note 30)*	530,571	521,806	25,021	49,960
— Amounts due from third parties	240,339	387,551	53,690	46,054
Loss allowance *(see Note 3.1(b))*	(1,981)	(5,619)	(2,940)	(3,230)
Other receivables — net	768,929	903,738	75,771	92,784
Prepayments	1,764	6,219	5,363	7,163
Prepayments, trade and other receivables	947,388	960,915	129,222	146,971

The credit period is generally within 30 day as stipulated in the respective agreements.

The aging analysis of the trade receivables, net of loss allowance, presented based on invoice date are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–60 days	169,410	12,694	10,089	7,848
61–150 days	—	—	29	158
151–365 days	—	8,012	233	1,108
Over 365 days	7,285	30,252	37,737	37,910
	176,695	50,958	48,088	47,024

(i) Fair values of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount approximates the same as their fair value.

21 CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks	5,886	36,845	14,966	11,759
Cash on hand	18	18	18	18
	5,904	36,863	14,984	11,777

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	5,904	36,863	13,603	10,841
US$	—	—	1,381	936
	5,904	36,863	14,984	11,777

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Target Group had total cash and cash equivalents amounting to approximately RMB5,904,000, RMB36,863,000, RMB14,984,000 and RMB11,777,000 which are held in the PRC. These cash and bank balances are subject to the rule and regulations of foreign exchange control promulgated by the PRC government.

22 DEFERRED INCOME TAX ASSETS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets:				
— Deferred tax asset to be recovered within 12 months	870	2,629	2,212	2,259
	870	2,629	2,212	2,259

(a) Deferred tax assets

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The balance comprises temporary differences attributable to:				
— Loss allowance for trade and other receivables	870	2,629	2,212	2,259

(b) Movements

	Loss allowance for trade and other receivables
	RMB'000
At 1 January 2017	—
Recognised in income tax credit	870
At 31 December 2017	870
At 1 January 2018	870
Recognised in income tax credit	1,759
At 31 December 2018	2,629
At 1 January 2019	2,629
Recognised in income tax expense	(417)
At 31 December 2019	2,212
At 1 January 2020	2,212
Recognised in income tax credit	47
At 30 June 2020	2,259

23 TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	14,755	35,816	39,801	24,500
Other payables				
— Amounts due to related parties *(Note 30)*	85,362	258,963	97,290	124,493
— Amounts due to third parties	771,871	907,520	120,525	130,017
Accruals	11,857	4,841	15,899	11,071
	883,845	1,207,140	273,515	290,081

The carrying amounts of trade and other payables approximated their fair values.

The aging analysis of the trade payables based on invoice date are as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–90 days	11,355	29,436	13,096	7,706
91–180 days	2,155	5,843	12,780	15,874
181–365 days	1,245	—	10,950	837
Over 365 days	—	537	2,975	83
	14,755	35,816	39,801	24,500

Trade and other payables and accruals are denominated in the following currencies:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	883,845	1,207,140	272,119	290,065
US$	—	—	1,396	16
	883,845	1,207,140	273,515	290,081

24 FILM AND TELEVISION PROGRAMMES INVESTMENT FUNDS FROM INVESTORS

The amounts represent investments made by certain investors in respect of film and television programmes rights held by the Target Group. In accordance with the terms of the respective investment agreements, the investors are entitled to recoup their investment amounts as appropriate by the predetermined percentage of income to be generated from the films and television programmes. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the amounts refundable to investors, including the income generated from completed film and television programmes rights, were RMB111,241,000, RMB102,204,000, RMB59,456,000 and RMB58,183,000 respectively. The remaining balances represent funds which the underlying films are not yet shown or the underlying television programmes rights are not licensed. The directors expect that these investment funds will be fully repaid to the investors. The financial liabilities were measured at amortised cost.

25 BORROWINGS

	As at year ended 31 December			As at six months ended 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other borrowings				
Unsecured but guaranteed	—	—	24,500	24,500
Unsecured and unguaranteed	20,000	36,000	10,000	10,000
	20,000	36,000	34,500	34,500

As at 31 December 2017, 2018 and 2019 and 30 June 2020, other borrowings were interest-bearing ranged from 6% to 15% per annum and repayable within one year.

Other borrowings of RMB24,500,000 and RMB24,500,000, as at 31 December 2019 and June 30 2020, respectively were guaranteed by Mr. Ke (Note 30).

26 COMBINED CAPITAL

Combined capital represent the share capital of companies comprising the Target Group as at 31 December 2017, 2018 and 2019 and 30 June 2020, after elimination of inter-company investments.

27 OTHER RESERVES

Pursuant to the relevant rules and regulation concerning foreign investment enterprise established in the PRC and the articles of association of certain PRC subsidiaries of the Target Group, those subsidiaries are required to transfer an amount of their profit after taxation to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund may be distributed to equity holders in form of bonus issue.

28 CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES

	Year ended 31 December			**Six months ended 30 June**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit/(loss) before tax	15,713	(37,619)	42,927	10,899	6,537
Adjustments for:					
Depreciation of property, plant and equipment *(Note 8)*	215	315	366	182	182
Depreciation of right-of-use assets *(Note 8)*	844	991	3,077	1,555	1,548
Amortisation of film and television programmes rights *(Note 8)*	285,800	215,074	165,205	87,778	19,690
Amortisation of intangible assets *(Note 8)*	16	16	109	8	147
Interest income from bank deposits *(Note 10)*	(1,002)	(91)	(92)	(67)	(127)
Finance expense *(Note 10)*	1,603	4,485	5,180	2,359	1,314
Operating cash flows before working capital changes	303,189	183,171	216,772	102,714	29,291
Changes in working capital:					
Trade and other receivables	(253,981)	(17,422)	334,001	61,914	8,993
Film and television programmes rights	(469,869)	(224,034)	(34,430)	(8,168)	(11,456)
Prepayments of film and television programmes rights	218,432	(15,704)	72,161	69,952	(7,751)
Trade and other payables	27,521	147,638	(73,635)	107,094	(11,862)
Film and television programmes investment funds from investors	269,344	(112,206)	(62,806)	(25,906)	327
Contract liabilities	67,040	14,468	(46,986)	(15,732)	742
Cash generated from/(used in) operations	161,676	(24,089)	405,077	291,868	8,284

(a) Reconciliation of liabilities arising from financing activities

The table below details changes in the Target Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target Group's combined statement of cash flows as cash flows from financing activities.

	Balance with related parties and shareholders	**Borrowing**	**Lease liabilities**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 30)	*(Note 25)*	*(Note 15)*	
As at 1 January 2017	447,636	—	1,529	449,165
Financing cash flows	(362,274)	20,000	(884)	(343,158)
Acquisition of leases *(Note 15)*	—	—	159	159
Accrued interest expenses	—	—	58	58
As at 31 December 2017	85,362	20,000	862	106,224
As at 1 January 2018				
Financing cash flows	173,601	16,000	(1,034)	188,567
Acquisition of leases *(Note 15)*	—	—	704	704
Accrued interest expenses	—	—	30	30
As at 31 December 2018	258,963	36,000	562	295,525
As at 1 January 2019				
Financing cash flows	(161,673)	(1,500)	(3,253)	(166,426)
Acquisition of leases *(Note 15)*	—	—	6,778	6,778
Accrued interest expenses	—	—	269	269
As at 31 December 2019	97,290	34,500	4,356	136,146
As at 1 January 2020				
Financing cash flows	27,203	—	(1,640)	25,563
Acquisition of leases *(Note 15)*	—	—	71	71
Accrued interest expenses	—	—	89	89
As at 30 June 2020	124,493	34,500	2,876	161,869
(Unaudited)				
As at 1 January 2019	258,963	36,000	562	295,525
Financing cash flows	(174,285)	7,000	(1,643)	(168,928)
Acquisition of leases	—	—	6,368	6,368
Accrued interest expenses	—	—	150	150
As at 30 June 2019	84,678	43,000	5,437	133,115

29 COMMITMENTS

(a) Commitments

	Year ended 31 December			Six months ended 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Commitments in respect of the acquisition and production of film and television programmes rights contracted for but not provided in the combined financial statements	156,844	232,564	68,823	85,359
Operating lease commitment	—	—	11	—

30 RELATED PARTY DISCLOSURES

The ultimate controlling shareholder of the Target Group is Mr. Ke. The directors of the Target Group are of the view that the following individuals and companies were related parties that had transactions or balances with the Target Group as at and during the years/periods:

Name of related party	**Relationship with the Target Group**
Beijing Ruyi Xingrong Culture Media Co., Ltd. ("北京儒意興榮文化傳媒有限公司")	Controlled by a close family member of the controlling shareholder
Virtual Cinema Holding Limited	Controlled by the controlling shareholder
Beijing Zhumeng Qiming Culture & Arts Co., Ltd. ("北京築夢啟明文化藝術有限公司")	Controlled by the controlling shareholder
Beijing Fanhua Jiutian Film Co., Ltd. ("北京繁花九天影業有限公司")	Controlled by the controlling shareholder
Shanghai Tacheng Film Co., Ltd. ("上海他城影業有限公司")	Significantly influenced by the controlling shareholder or a close family member of the controlling shareholder
Beijing Ruyi Xinxin Film Investment Co., Ltd. ("北京儒意欣欣影業投資有限公司")	Controlled by the controlling shareholder
Beijing Mumatang Film Investment Co., Ltd. ("上海木馬糖影業有限公司")	Controlled by the controlling shareholder
Yongxin Changqingteng Culture Service Center (Limited partnership) ("永新縣常青藤文化服務中心(有限合夥)")	Controlled by the controlling shareholder
Mr. Zhang Guoliang	Key management personnel
Mr. Hu Jian	Key management personnel
Ms. Bai Yingying	Key management personnel
Mr. Qing Gang	Key management personnel
Mr. Liu Rui	Key management personnel

(a) Related party transactions

During the year ended 31 December 2017, the Target Group entered into transactions with Beijing Ruyi Xinxin Film Investment Co., Ltd for purchasing copyright at the amounts of RMB660,000 and during the year ended 31 December 2018, the Target Group entered into transactions with Beijing Ruyi Xinxin Film Investment Co., Ltd for purchasing television programmes script rights at the amounts of RMB358,000.

There were no other inter-company transactions during the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2019 and 2020.

(b) Related party balances

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables due from related parties				
Shanghai Tacheng Film Co., Ltd. ("上海他城影業有限公司")	9,148	9,148	237	237
	9,148	9,148	237	237
Other receivables due from related parties				
Yongxin Changqingteng Culture Service Center (Limited partnership) ("永新縣常青藤文化服務中心(有限合夥)")	154,430	110,000	12,510	1,600
Beijing Ruyi Xinxin Film Investment Co., Ltd. ("北京儒意欣欣影業投資有限公司")	368,026	399,254	—	34,813
Beijing Ruyi Xingrong Culture Media Co., Ltd. ("北京儒意興榮文化傳媒有限公司")	1,300	800	800	—
Beijing Zhumeng Qiming Culture & Arts Co., Ltd. ("北京築夢啟明文化藝術有限公司")	700	700	700	700
Shanghai Tacheng Film Co., Ltd. ("上海他城影業有限公司")	5,000	10,000	10,000	10,000
Beijing Fanhua Jiutian Film Co., Ltd. ("北京繁花九天影業有限公司")	—	—	126	126
Mr. Qing Gang	1,114	588	—	1,358
Ms. Bai Yingying	—	31	772	1,120
Mr. Liu Rui	1	433	113	243
	530,571	521,806	25,021	49,960
Trade payables due to related parties				
Beijing Ruyi Xinxin Film Investment Co., Ltd. ("北京儒意欣欣影業投資有限公司")	660	358	—	—
	660	358	—	—
Other payables due to shareholders				
— Mr. Ke	5,110	69,110	68,110	67,810
— Mr. Zhang Guoliang	4,000	4,000	4,000	4,000
	9,110	73,110	72,110	71,810

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables due to other related parties				
Beijing Ruyi Xingrong Culture Media Co., Ltd. ("北京儒意興榮文化傳媒有限公司")	—	—	—	41,720
Beijing Ruyi Xinxin Film Investment Co., Ltd ("北京儒意欣欣影業投資有限公司")	62,750	170,998	12,837	—
Virtual Cinema Holding Limited	—	—	1,396	16
Mr. Hu Jian	9,521	9,521	9,521	9,521
Shanghai Tacheng Film Co., Ltd. ("上海他城影業有限公司")	3,978	5,328	1,426	1,426
Ms. Bai Yingying	3	—	—	—
Mr. Liu Rui	—	6	—	—
	76,252	185,853	25,180	52,683
Film and television programmes Investment funds due to related parties				
Beijing Mumatang Film Investment Co., Ltd. ("上海木馬糖影業有限公司")	—	—	—	1,600
	—	—	—	1,600
Contract Liability due to related parties				
Beijing Mumatang Film Investment Co., Ltd. ("上海木馬糖影業有限公司")	—	—	—	2,672
	—	—	—	2,672

(c) Key management personnel compensation

The remuneration of directors who were considered as key management personnel of the Target Group during the years/periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Short-term benefits	708	912	1,001	429	575
Pension costs — defined contribution plans	38	159	227	84	82
Other employment benefits	15	29	30	12	9
	761	1,100	1,258	525	666

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

(d) Received guarantee from related party

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Ke	—	—	24,500	24,500

31 CONTINGENT LIABILITIES

The Target Group did not have any material contingent liabilities or guarantees outstanding as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively.

32 JOINT ARRANGEMENTS

Joint Operation

The following is the principal joint operation of the Target Group as at 31 December 2017, 2018, 2019 and 30 June 2020.

			Percentage of ownership interest			
			Year ended 31 December			Six months ended 30 June
Name	Principal activities of the joint operation	Place of incorporation and business	2017	2018	2019	2020
Beijing Asian Union Culture & Media Investment., Ltd. (“北京中聯華盟文化傳媒投資有限公司”)	Content Production	PRC	40%	—	—	—
Shanghai Tacheng Film Co., Ltd. (“上海他城影業有限公司”)	Content Production	PRC	50%	—	—	—
Horgos Enlight Media., Ltd. (“霍爾果斯青春光線影業有限公司”)	Content Production	PRC	75%	—	—	—
Shanghai Guanyi Culture Communication Co., Ltd. (“上海貫一文化傳播有限公司”)	Content Production	PRC	50%	—	—	—
Beijing Golden Film Media Co., Ltd. (“北京金菲林影視策劃有限公司”)	Content Production	PRC	50%	50%	50%	50%
Dongyang Paige Huachuang Entertainment Co., Ltd. (“東陽派格華創影視傳媒有限公司”)	Content Production	PRC	50%	—	—	—
Beijing Ruyi Xinxin Film Investment Co., Ltd. (“北京儒意欣欣影業投資有限公司”)	Content Production	PRC	96%	96%	—	—
Horgos Ten Cloud Culture Co., Ltd. (“霍爾果斯騰雲文化傳播有限公司”)	Content Production	PRC	—	30%	5%	5%
Datang Media &Culture Co., Ltd. (“東陽大唐影視文化股份有限公司”)	Content Production	PRC	30%	30%	30%	—
Suzhou Funa Media Co., Ltd. (“蘇州福納文化科技股份有限公司”)	Content Production	PRC	60%	60%	60%	60%
Beijing panoramic space Digital Technology Co., Ltd. (“北京全景空間數位技術有限公司”)	Content Production	PRC	50%	50%	50%	50%
Ningbo Huage Times Media Co., Ltd. (“寧波華歌時代影視文化有限公司”)	Content Production	PRC	—	30%	30%	30%
Beijing Perfect Pictures and Media Co., Ltd. (“北京完美影視傳媒責任有限公司”)	Content Production	PRC	—	30%	30%	30%

33 NON-CONTROLLING INTERESTS

Set out below is summarised financial information for Shanghai Ruyi that has non-controlling interests that is material to the Target Group. The amounts disclosed are before inter-company eliminations.

Summarised balance sheet

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets	402,077	399,532	131,791	143,991
Current liabilities	467,108	586,175	232,076	228,874
Current net assets	(65,031)	(186,643)	(100,285)	(84,883)
Non-current assets	231,833	230,523	153,265	138,252
Non-current liabilities	—	—	—	—
Non-current net assets	231,833	230,523	153,265	138,252
Net assets	166,802	43,880	52,980	53,369
Accumulated NCI	75,916	14,294	16,999	17,129

Summarised statement of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue	332,087	214,083	201,892	104,674	—
Profit for the year/period	40,062	10,445	47,316	22,137	524
Total comprehensive income for the year/period	40,062	10,445	47,316	22,137	524
Profit allocated to NCI	17,769	2,476	15,192	7,209	130
Dividends paid to NCI	—	40,583	12,487	—	—

Summarised cash flows

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cash flows from operating activities	475,082	53,738	(4,451)	114,772	49,387
Cash flows from investing activities	(105,456)	82,102	14,228	(149,597)	(36,418)
Cash flows from financing activities	(397,309)	(112,898)	(32,571)	14,274	(12,832)
Net (decrease)/increase in cash and cash equivalents	(27,683)	22,942	(22,794)	(20,551)	137

On 11 May 2018, the Target Group acquired an additional 14.01% of the issued shares of Shanghai Ruyi for RMB nil. Immediately prior to the purchase, the carrying amount of the existing 45.23% non-controlling interest in Shanghai Ruyi was RMB75,916,000. The Target Group recognised a decrease in non-controlling interests of RMB23,515,000, and an increase in equity attributable to owners of the parent of RMB23,515,000, The effect on the equity attributable to the owners of Shanghai Ruyi during the year is summarised as follows:

	As at 31 December 2018
	RMB'000
Carrying amount of non-controlling interests acquired	23,515
Consideration paid to non-controlling interests	—
Being consideration paid recognised in the transactions with non-controlling interests reserve within equity	23,515

There were no transactions with non-controlling during the years ended 31 December 2017 and 2019 and six months ended 30 June 2019 and 2020.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of the companies now comprising the Target Group in respect of any period subsequent to 30 June 2020 and up to the date of this report. No dividend or distribution has been declared or made by the Target Company or any of the companies now comprising the Target Group in respect of any period subsequent to 30 June 2020.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Consolidated Statement of Assets and Liabilities**") and unaudited pro forma statement of adjusted net tangible assets of the Enlarged Group (the "**Unaudited Pro Forma Statement of Adjusted Net Tangible Assets**") (together, the "**Unaudited Pro Forma Financial Information**") have been prepared on the basis of the notes set out below for the purpose of illustrating the effects on the assets, liabilities and net tangible assets of the Enlarged Group as if the Acquisition had been completed on 30 June 2020.

The Unaudited Pro Forma Financial Information as at 30 June 2020 has been prepared based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020, as set out in its published interim report for the six months ended 30 June 2020; (ii) the audited combined statement of financial position of the Target Group as at 30 June 2020, as set out in Appendix II to this circular; and (iii) the pro forma adjustments prepared to reflect the effects of the Acquisition as explained in the notes set out below that are directly attributable to the Acquisition and are factually supportable.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information contained in this circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Group had the Acquisition been completed as at 30 June 2020 or any future date.

(I) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities

	Unaudited condensed consolidated statement of assets and liabilities of the Group	Audited combined statement of assets and liabilities of the Target Group	Pro forma adjustments: Other adjustments		Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
ASSETS					
Non-current assets					
Property, plant and equipment	14,977	817			15,794
Right-of-use assets	20,469	2,781			23,250
Intangible assets	2,244	234	351,788		354,266
Lease receivables	2,235	—			2,235
Goodwill	—	—	3,658,525		3,658,525
Deferred income tax assets	2,009	2,259			4,268
Financial asset at fair value through other comprehensive income	567	—			567
Prepayment for film and television programmes rights	—	55,471			55,471
Film and television programmes rights	—	88,567	1,130,275		1,218,842
Other non-current assets	3,235	—			3,235
	45,736	**150,129**	**5,140,588**		**5,336,453**
Current assets					
Film and television programmes rights	—	31,521			31,521
Inventories	30,178	—			30,178
Other current assets	35,048	—			35,048
Prepayment, trade and other receivables	106,384	146,971			253,355
Financial assets at fair value through profit or loss	11,046	—			11,046
Cash and cash equivalents	1,090,280	11,777			1,102,057
	1,272,936	**190,269**			**1,463,205**
Total assets	**1,318,672**	**340,398**	**5,140,588**		**6,799,658**

	Unaudited condensed consolidated statement of assets and liabilities of the Group	Audited combined statement of assets and liabilities of the Target Group	Pro forma adjustments Other adjustments		Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
LIABILITIES					
Non-current liabilities					
Lease liabilities	10,768	—			10,768
Deferred income tax liabilities	—	—	370,516		370,516
Financial liabilities at fair value through profit or loss	—	—	2,255,899		2,255,899
	10,768	**—**	**2,626,415**		**2,637,183**
Current liabilities					
Contract liabilities	6,973	35,264			42,237
Film and television programmes investment funds from investors	—	59,783			59,783
Borrowings	27,273	34,500			61,773
Lease liabilities	12,700	2,876			15,576
Trade and other payables	97,003	290,081	(67,810)	3,000	322,274
Current income tax liabilities	1,444	3,847			5,291
	145,393	**426,351**	**(67,810)**	**3,000**	**506,934**
Total liabilities	**156,161**	**426,351**	**2,558,605**	**3,000**	**3,144,117**
Net assets	**1,162,511**	**(85,953)**	**2,581,983**	**(3,000)**	**3,655,541**

Notes to the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities

1 The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 as set out in the published interim report of the Group for the six months ended 30 June 2020.

2 The amounts are extracted from the audited combined statement of financial position of the Target Group as at 30 June 2020 as set out in Appendix II to this circular.

3 The Group has applied the acquisition method in accordance with HKFRS 3 "Business Combinations" to account for the Acquisition as if the Acquisition was completed on 30 June 2020. The pro forma goodwill is calculated as follows:

	Note	*RMB'000*
Consideration transferred	*a*	4,470,164
Less:		
Carrying amount of net assets acquired		(85,953)
Pro forma fair value adjustment to intangible assets and film and television programmes rights	*b*	1,482,063
Deferred tax liabilities arising from pro forma fair value of adjustment to intangible assets and film and television programmes rights	*b*	(370,516)
Assignment of the Loan owed by the Target Group to the Sellers	*c*	67,810
Non-controlling interests of the Target Group	*d*	(281,765)
		811,639
Pro forma Goodwill	*e*	3,658,525

(a) As stipulated in the Sale and Purchase Agreement as set out in the Letter from the Board of this circular, the Purchaser, a wholly-owned subsidiary of the Company, will settle the consideration by issuing 11,543,309,432 Shares to the Sellers and 18,342,793,070 Warrant Shares to the Sellers at the initial warrant exercise price of HK$0.096 per Warrant Share and conditional on certain conditions being met. The Shares to be issued amount to approximately HK$2,424,095,000 (approximately equivalent to RMB2,214,265,000) and the Warrants to be issued amount to approximately HK$2,469,674,000 (approximately equivalent to RMB2,255,899,000). The valuation of the Shares to be issued is based on the directors' estimation of the share price of HK$0.21 per Share, which takes into account the estimated discount on the Issue Price of HK$0.30 per Share with reference to historical and future volatility of each Share upon completion of the Acquisition and prevailing market conditions. The valuation of the Warrants is based on the directors' estimation, taking into account the Issue Price of HK$0.30 per Share and the estimated likelihood of fulfilment of the exercise conditions of the Warrants as set out in the Letter from the Board to this circular. Based on the assumptions and the scenario analysis performed by management, together with the valuation report carried out by an independent qualified professional valuer not connected with the Group, the likelihood of exercise of the Warrants is estimated to be approximately 66%. The Shares to be issued will be accounted for in equity while the Warrants to be issued will be accounted for as financial liabilities at fair value through profit or loss upon completion of the Acquisition.

(b) The pro forma adjustments to intangible assets mainly relate to the fair value recognition, on a pro forma basis, of film and television programmes rights, license and software amounting to approximately RMB1,130,275,000, approximately RMB339,594,000 and approximately RMB12,194,000, respectively.

The pro forma fair values of the intangible assets and film and TV programmes rights as at 30 June 2020 are based on the directors' estimation with reference to a valuation carried out by an independent qualified professional valuer not connected with the Group.

According to the valuation report, (i) the fair value of the film and TV programmes rights and license are determined using the multi-period excess earnings method. In applying the multi-period excess earnings method, the value is estimated as the present value of the benefits anticipated from ownership of the subject intangible asset in excess of the returns required on the investment in the contributory assets necessary to realise those benefits; and (ii) the fair value of software is determined using cost approach.

The deferred income tax liabilities arising from pro forma fair value adjustment to film and TV programmes rights, license and software amounted to approximately RMB370,516,000, calculated at the PRC Corporate Income Tax rate of 25%.

For the purpose of preparing the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities, the Directors expect that the carrying amounts of identifiable assets and liabilities of the Target Group other than intangible assets, film and television programmes rights, goodwill and financial liabilities at fair value through profit or loss, approximate their respective fair values as at 30 June 2020.

(c) As stipulated in the Sale and Purchase Agreement as set out in the Letter from the Board of this circular, the Loan owed by the Target Group to the Sellers will be assigned to the Purchaser as part of the Acquisition.

(d) The non-controlling interests of the Target Group is measured at their proportionate share in the recognized fair value of the Target Group's identifiable net assets.

(e) The pro forma goodwill is attributable to the synergies arising from the Acquisition, workforce and the future profitability of the acquired business. For the purpose of the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities, the Directors have made an assessment on whether there is any impairment in respect of the goodwill arising from the Acquisition with reference to Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36"). The Company will adopt consistent accounting policies and principal assumptions and valuation method (as used in the Unaudited Pro Forma Financial Information) to assess the impairment of the Enlarged Group's goodwill in the future, and communicate such basis with its external auditor and audit committee.

The pro forma fair values of the identifiable assets and liabilities, including goodwill, intangible assets and film and television programmes rights and the financial liabilities at fair value through profit or loss in relation to the Acquisition are subject to change depending on the actual share price of the Company's shares at the share issuance date(s) and upon the completion of purchase price allocation at the completion date of the Acquisition, which may be substantially different from their estimated amounts used in the preparation of this Unaudited Pro Forma Consolidated Statement of Assets and Liabilities.

4 The adjustment represents the estimated professional fees of approximately RMB3,000,000 relating to the Acquisition. The amounts include the costs of professional advisers for the Acquisition, which is assumed to be paid after completion of the Acquisition.

5 For the purpose of the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities, the translation of HK$ to RMB was made at the rate of HK$1.00 to RMB0.91344. However, we make no comment as to the appropriateness of such rates or whether the Renminbi or Hong Kong dollars could have been, or could be, converted into Hong Kong dollars of Renminbi at that rate or at all.

6 No adjustments have been made to the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 30 June 2020.

(II) Unaudited Pro Forma Statement of Adjusted Net Tangible Assets

	Unaudited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2020	Unaudited consolidated net tangible assets attributable to equity holders of the Company per Share as at 30 June 2020	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as at 30 June 2020	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company per Share as at 30 June 2020
	RMB'000	*RMB*	*RMB'000*	*RMB*
	Note 1	*Note 2*	*Note 3*	*Note 4*
Issuance of Shares and Warrant Shares by the Company to acquire the Target Company as at 30 June 2020	1,160,267	0.0155	1,975,005	0.0189

Notes to the Unaudited Pro Forma Statement of Adjusted Net Tangible Assets

1. The unaudited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2020 is based on the unaudited consolidated net assets attributable to the equity holders of the Company as at 30 June 2020 of approximately RMB1,162,511,000 as extracted from the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020, with an adjustment for intangible assets as at 30 June 2020 of approximately RMB2,244,000.

2. The number of shares used for the calculation of the unaudited consolidated net tangible assets attributable to equity holders of the Company per Share comprises 74,611,669,087 Shares in issue as at 30 June 2020, but without taking into account of the Share Consolidated as set out in the Letter from the Board.

3. The unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as at 30 June 2020 is calculated based on the unaudited pro forma net assets as at 30 June 2020 of RMB3,655,541,000 as extracted from the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities, with adjustments for the goodwill, intangible assets and film and TV programmes rights as at 30 June 2020 of approximately RMB3,658,525,000, RMB354,266,000 and RMB1,250,363,000, respectively, net of the non-controlling interests of the Target Group's proportionate share in the recognized amounts of the Target Group's identifiable net tangible assets of approximately RMB281,765,000 and adjustments for the financial liability at fair value through profit or loss in relation to the Warrants of approximately RMB2,255,899,000 as at 30 June 2020 and cash and cash equivalents of approximately RMB1,608,484,000 assuming that the Warrants are fully exercised as at 30 June 2020.

4. The number of Shares used for the calculation of the unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company per Share comprises 74,611,669,087 Shares in issue as at 30 June 2020 as explained in note 2 above, the 11,543,309,432 Shares to be issued upon completion of the Acquisition as explained in Note 3(a) of section (I) above and the 18,342,793,070 Shares to be issued upon exercise of the Warrants, assuming that the Warrants are fully exercised as at 30 June 2020.

5. For the purpose of the Unaudited Pro Forma Statement of Adjusted Net Tangible Assets, the translation of HK$ to RMB was made at the rate of HK$1.00 to RMB0.91344. However, we make no comment as to the appropriateness of such rates or whether the Renminbi or Hong Kong dollars could have been, or could be, converted into Hong Kong dollars of Renminbi at that rate or at all.

6. No adjustments have been made to the Unaudited Pro Forma Statement of Adjusted Net Tangible Assets to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 30 June 2020.

The following is the text of a report on the unaudited pro forma financial information of the Enlarged Group received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of HengTen Networks Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of HengTen Networks Group Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), and Virtual Cinema Entertainment Limited and its subsidiaries (the "**Target Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2020, the unaudited pro forma statement of adjusted net tangible assets as at 30 June 2020 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages 129 to 134 of the Company's circular dated 31 December 2020, in connection with the proposed acquisition of the Target Group (the "**Acquisition**") by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages 129 to 134 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's financial position as at 30 June 2020 as if the Acquisition had taken place at 30 June 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's interim financial information for the period ended 30 June 2020 set out in the published interim report of the Group for the six months ended 30 June 2020, on which a review report has been issued.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

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

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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Our Independence and Quality Control

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

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 30 June 2020 would have been as presented.

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

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

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

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

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 31 December 2020

*The following is the management discussion and analysis on the Target Group for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the six months ended 30 June 2020 (the "**Relevant Periods**"). The following discussion and analysis should be read in conjunction with Appendix II — Accountant's Report of Target Group in this circular.*

BUSINESS REVIEW

The Target Company was established on 27 November 2018 in the British Virgin Islands. Virtual Cinema HK was established on 7 December 2018 in Hong Kong, and is held as to 100% by the Target Company. On 15 May 2019, Virtual Cinema HK established the WFOE in Shanghai, a wholly foreign-owned enterprise held as to 100% by Virtual Cinema HK. Each of the Target Company, Virtual Cinema HK and the WFOE is a holding company, and has had no actual business operation since establishment. Through VIE Contracts, the WFOE will control and hold 100% interests in three Variable Interest Entities in Mainland China, namely Jingxiu, Beijing Xiaoming, and Shanghai Ruyi. During the Relevant Period consisting of 2017, 2018, 2019 and for the six months ended 30 June 2020, Shanghai Ruyi was engaged in the development, production and promotion of films and dramas, Jingxiu was engaged in the internet video playback business and Beijing Xiaoming was engaged in the provision of technological support in Shenzhen. As stated under the section headed "Letter from the Board — Reasons for and benefit of the Acquisition", Shanghai Ruyi's core business is to invest and produce films and television dramas, and the "Pumpkin Film Streaming" application operated by the Variable Interest Entities is ancillary to and enhances Shanghai Ruyi's business operations. The above Target Group has been under the actual control of Mr. Ke during the Relevant Periods.

Revenue

The Target Group's revenue mainly derives from film and television series production and the online video business.

Revenue decreased by approximately 17.9% from approximately RMB336.4 million for the year ended 31 December 2017 to approximately RMB276.2 million for the year ended 31 December 2019, which was primarily due to less release in 2019 of films that were produced in prior years.

Revenue decreased by approximately 42.7% from approximately RMB123.8 million for the six months ended 30 June 2019 to approximately RMB70.9 million for the six months ended 30 June 2020, which was primarily due to the impact of the pandemic to the film and television series business.

Cost of Sales

The Target Group's cost of sales primarily includes the production costs of movies and television shows, cloud server costs for the online video business and the intangible asset amortisation costs.

Cost of sales decreased by approximately 28.8% from approximately RMB311.9 million for the year ended 31 December 2017 to approximately RMB222.2 million for the year ended 31 December 2019, also due to less release of films in 2019.

Cost of sales decreased by approximately 44.5% from approximately RMB106.4 million for the six months ended 30 June 2019 to approximately RMB59.1 million for the six months ended 30 June 2020, primarily due to the impact of the pandemic to the film and television series business.

Gross Profit

Gross profit increased by approximately 119.1% from approximately RMB24.6 million for the year ended 31 December 2017 to approximately RMB53.9 million for the year ended 31 December 2019, primarily due to growth rate of membership income resulting from the increase in members exceeding the growth rate of cost of sales during the period.

Gross profit decreased by approximately 31.7% from approximately RMB17.4 million for the six months ended 30 June 2019 to approximately RMB11.9 million for the six months ended 30 June 2020, primarily due to the impact of the pandemic to the film and television series business.

Other Income

The Target Group's other income mainly include tax refund and interest income.

Other income increased by approximately 47.6% from approximately RMB4.2 million for the year ended 31 December 2017 to approximately RMB6.2 million for the year ended 31 December 2019, primarily due to the increase of tax refund during the period.

Other income increased by approximately 109.1% from approximately RMB1.1 million for the six months ended 30 June 2019 to approximately RMB2.3 million for the six months ended 30 June 2020, primarily due to the increase of tax refund during the period.

Selling and Marketing Costs

The Target Group's selling and marketing costs mainly include staff salary and promotion expenses.

Selling and marketing costs increased by approximately 333.3% from approximately RMB0.3 million for the year ended 31 December 2017 to approximately RMB1.3 million for the year ended 31 December 2019, which was primarily attributable to the increase in the number and salary of the sales staff.

Selling and marketing costs decreased by approximately 16.7% from approximately RMB0.6 million for the six months ended 30 June 2019 to approximately RMB0.5 million for the six months ended 30 June 2020, which was primarily due to the decrease of promotion expenses during the pandemic.

Administrative Expenses

The Target Group's administrative expenses mainly include the salaries and other benefits of the administrative staff, office-related expenses, amortization of office building rent and decoration, travelling expenses and rental expenses.

Administrative expenses increased by approximately 88.6% from approximately RMB7.0 million for the year ended 31 December 2017 to approximately RMB13.2 million for the year ended 31 December 2019, which was primarily attributable to additions to the right-of-use assets which comprised the rent increase of the office building.

Administrative expenses decreased by approximately 3.4% from approximately RMB5.8 million for the six months ended 30 June 2019 to approximately RMB5.6 million for the six months ended 30 June 2020, remaining largely stable.

Net Finance Costs

The Target Group's net finance costs are mainly the interests generated by other borrowings received during the production of films and television series of the Target Group.

Net finance cost increased by approximately 750.0% from approximately RMB0.6 million for the year ended 31 December 2017 to approximately RMB5.1 million for the year ended 31 December 2019, primarily due to the increase in interests generated by other borrowings received during the production of films and television series.

Net finance cost decreased by approximately 47.8% from approximately RMB2.3 million for the six months ended 30 June 2019 to approximately RMB1.2 million for the six months ended 30 June 2020, primarily due to the decrease in interests generated by other borrowings received during the production of films and television series primarily due to the impact of the pandemic to the film and television series business.

Profit

As a result of the above factors, the Target Group's profit increased by approximately 964.0% to approximately RMB26.6 million for the year ended 31 December 2019 from approximately RMB2.5 million for the year ended 31 December 2017.

The Target Group's profit increased by approximately 96.9% from approximately RMB3.2 million for the six months ended 30 June 2019 to approximately RMB6.3 million which mainly generated from online streaming platform business for six months ended 30 June 2020.

Liquidity, Financial Resources and Capital Structure

The Target Group maintains operations by obtaining funds required for business development, by way of funds from its own operations (e.g. copyright sales revenue from past projects) and joint investment with external production companies, and shareholder contribution. With self-produced dramas generating growth in both membership and revenue, the Target Group will gradually reduce its reliance on shareholder contribution.

As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, the total assets of the Target Group were approximately RMB1,315.7 million, RMB1,381.7 million, RMB329.8 million and RMB340.4 million, respectively, which mainly included film and television production prepayments and receivables, film and television drama copyright and script adaptation rights.

As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, the total liabilities of the Target Group were approximately RMB1,224.2 million, RMB1,460.5 million, RMB422.0 million and RMB426.4 million, respectively, which mainly included film and television investment funds from investors.

Cash and Bank Balance

As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, the cash and bank balance of the Target Group was approximately RMB5.9 million, RMB36.9 million, RMB15.0 million and RMB11.8 million, respectively. The cash and bank balance is denominated in RMB and other currencies.

Borrowings

As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, the loan balance after consolidation was approximately RMB20.0 million, RMB36.0 million, RMB34.5 million and RMB34.5 million, respectively, and was at a fixed interest rate. In the course of investment in television drama, the Target Group received investment funds from the joint investors, which are at a fixed rate of return and are considered as part of the Target Group's borrowings, if any.

Gearing Ratio

As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 June 2020, gearing ratio was 93.0%, 105.7%, 128.0% and 125.3%, respectively. Gearing ratio is calculated as total liabilities divided by total assets.

Currency and Exchange Rate Risks

Almost all of the revenue of the Target Group and most expenses of its subsidiaries are denominated in RMB. The PRC government imposes control on the convertibility of RMB into foreign currencies, especially when remitting RMB from China. The shortage of foreign currency supply may restrict the ability of subsidiaries of the Target Group to remit sufficient foreign currencies to the Target Group for the payment of dividends and other purposes. Target Group's overseas sales revenue from films and dramas accounts for a small proportion of its revenue, and such sales are often conducted through outright sale by domestic distributors, hence the risk of exchange rate losses is low. Therefore, the acquisition of the overseas copyright for the Target Group in RMB will benefit from the increase in RMB value if the upward trend could be kept.

As at the Latest Practicable Date, the Target Group had no foreign exchange hedging policy. The management of the Target Group shall continue to monitor the foreign currency exchange risks of the Target Group and consider taking prudent measures when necessary.

FUTURE PLANS

Over the next three years, the Target Group has over 30 film and drama projects scheduled for production, over 40 adapted or original scripts available for film or television development in reserve, as well as multiple projects in cooperation with external directors and producers and multiple self-produced projects in pre-production for the online video business. On top of its current offerings, the Target Group intends to develop the film distribution and settlement business, in order to reduce film settlement cycle, obtain distribution agency fee income and develop a film derivative e-commerce platform on the basis of existing businesses, so as to enhance user stickiness and increase its revenue.

Future Plans for Material Investment or Capital Assets

During the years ended 31 December 2017, 31 December 2018 and 31 December 2019, and the six months ended 30 June 2020, the Target Group did not have any plans for material investment or capital assets.

Material Acquisition and Disposal

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the Target Group did not complete any material acquisition or disposal of subsidiaries, joint ventures or associates.

SEGMENT INFORMATION

During the years ended 31 December 2017, 31 December 2018 and 31 December 2019, and the six months ended 30 June 2020, the Target Group derived the majority of its revenue from film and television series production and the online video business.

In the future, profit margin will be on the decline for dramas but continue to rise for films. In addition, due to films enjoying more flexibility in schedule selection and shorter payment cycle than dramas, the Target Group, as a content producer, will divert more funds and resources to films. This, however, does not necessarily indicate a decline in the output of dramas. The Target Group will exert quantity control for copyright sales, produce more quality dramas, and divert more production capacity to its self-produced dramas. As one of the few production companies in the industry with R&D and production capacity for both films and dramas, such industry changes will not have significant impact on the Target Group's businesses. For the Target Group, the decrease in the purchase price of dramas will effectively lower its copyright acquisition costs, while the self-produced dramas supplied by the Target Group will bring in more members and revenue.

Employees and Remuneration Policy

During the years ended 31 December 2017, 31 December 2018 and 31 December 2019, and the six months ended 30 June 2020, the Target Group and its subsidiaries employed a total of 51, 59, 72 and 116 employees, respectively.

The total staff cost of the Target Group for the years ended 31 December 2017, 31 December 2018 and 31 December 2019, and the six months ended 30 June 2020 were approximately RMB10.1 million, RMB13.5 million, RMB18.1 million and RMB7.7 million, respectively. The Target Group has set up remuneration policies in line with market practices, and provides remuneration and benefits to its employees based on its needs and those of the subsidiaries, as well as the responsibilities and performance of the employees. In accordance with the PRC laws and regulations, the Target Group participates in each employee social security scheme managed by local governments for its employees, including, among others, housing provident fund, pension, medical insurance, maternity insurance, work-related injury insurance and unemployment insurance.

Charge on Assets

During the years ended 31 December 2017, 31 December 2018 and 31 December 2019, and the six months ended 30 June 2020, save from those required under the VIE Contracts, the Target Group had no other charges.

Future Plans for Material Investment or Capital Assets

Save from the office, labor costs, film and drama production costs, production purchase costs and cloud service fees (bandwidth) and self-production costs required for operations, during the years ended 31 December 2017, 31 December 2018 and 31 December 2019, and the six months ended 30 June 2020, the Target Group did not have any plans for material investment or capital assets. The Target Group expects the above required costs to be sufficiently satisfied by the revenue from its principal activities and shareholder contributions.

Contingent Liabilities

In 2017, 2018 and 2019 and as at 30 June 2020, the Target Group did not have any material contingent liabilities.

Details of adjustment of Warrants Exercise Price as follows:

1.1 Subject as hereinafter provided, the Warrants Exercise Price shall from time to time be adjusted in accordance with the following provisions (but shall however not be adjusted below the nominal value of Shares until the Exercise Right Reserve is maintained) and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of paragraphs (a) to (f) inclusive of this Condition 1, it shall be taken to fall within the first of the applicable paragraphs to the exclusion of the remaining paragraphs:

(a) If and whenever there shall be an alteration to the nominal amount of each of the Shares by reason of any consolidation or subdivision, the Warrants Exercise Price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the nominal amount of one Share immediately after such alteration; and

B = the nominal amount of one Share immediately before such alteration.

Each such adjustment shall be effective from the close of business on the business day immediately preceding the date on which the relevant consolidation or subdivision (as the case may be) becomes effective, provided that, where the Warrants Exercise Date in respect of a particular exercise of any of the Warrant Exercise Rights attaching to a Warrant shall fall on or before the said business day but the Company shall not by the close of business on the said business day have allotted the relative Shares in accordance with its obligations hereunder, such adjustment shall, for the purpose of determining the number of Shares to be allotted to the Holder exercising the said Warrants Exercise Rights, be deemed to have become effective before such Warrants Exercise Date.

(b) If and whenever the Company shall issue any Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account fund), the Warrants Exercise Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{C}{C+D}$$

where:

C = the aggregate nominal amount of the Shares in issue immediately before such issue; and

D = the aggregate nominal amount of the Shares issued in connection with and as a result of such capitalization,

Provided that if the relevant issue of Shares is made as part of an arrangement involving a reduction of capital, the Warrants Exercise Price shall be adjusted in such manner as an approved merchant bank, an approved financial adviser or the Auditors shall certify to be appropriate, having regard to the relative interests of the persons affected thereby taken as a whole and such other matters as the approved merchant bank, the approved financial adviser or the Auditors shall consider relevant. Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.

(c) If and whenever the Company shall make (whether on a reduction of capital or otherwise) any capital distribution to all holders of Shares (in their capacity as such) (including, but not limited to, such a distribution pursuant to a reduction or redemption of share capital, share premium account fund or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its Subsidiaries, the Warrants Exercise Price in force immediately prior to such capital distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{E-F}{E}$$

where:

E = the closing price per Share on the Stock Exchange on the dealing day immediately preceding the date on which the capital distribution or, as the case may be, the grant is announced (whether or not such capital distribution or grant is subject to the approval of the holders of Shares or other persons) or (if there is no such announcement) immediately preceding the date on which the Share is traded ex such capital distribution or, as the case may be, the grant (or, where there is no closing price on such dealing day, the closing price on the dealing day on which there was a closing price immediately preceding the relevant date); and

F = the amount calculated by dividing the fair market value on the day of such announcement or (as the case may require) the day immediately preceding the date on which the Share is traded ex such capital distribution or, as the case may be, the grant, as determined in good faith by an approved merchant bank, an approved financial adviser or the Auditors, of such capital distribution or of such rights by the number of Shares participating in such capital distribution or, as the case may be, in the grant of such rights,

Provided that:

(i) if in the opinion of the relevant approved merchant bank, the approved financial adviser or the Auditors, the use of the fair market value as aforesaid produces a result which, having regard to the relative interests of the persons affected thereof taken as a whole, is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant) the portion of the said closing price which should, in its opinion, properly be attributed to the value of the relevant capital distribution or rights in question; and

(ii) the provisions of this paragraph (c) shall not apply in relation to the issue of Shares credited as fully paid or partly paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the relevant capital distribution or grant.

(d) If and whenever the Company shall offer to all holders of Shares new Shares for subscription by way of rights, or shall grant to all holders of Shares any options or warrants to subscribe for new Shares, at a price per new Share which is less than 80 per cent of the market price on the date of the announcement of the terms of the offer or grant (whether or not such offer or grant is subject to the approval of the holders of Shares or other persons), the Warrants Exercise Price shall be adjusted by multiplying the Warrants Exercise Price in force immediately before the date of the announcement of such offer or grant by the following fraction

$$\frac{G+H}{G+I}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

H = the number of Shares which the aggregate of the two following amounts would purchase at such market price:

(i) the total amount (if any) payable for the rights, options or warrants being offered or granted by the Company; and

(ii) the total amount payable for all of the new Shares being offered for subscription by way of rights or comprised in the options or warrants being granted; and

I = the aggregate number of Shares being offered for subscription or comprised in the options or warrants being granted.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the relevant offer or grant. For the avoidance of doubt, no adjustment shall take effect in accordance with this paragraph (d) should such offer or grant fail to become effective or unconditional.

(e) (i) If and whenever the Company or any of its Subsidiaries shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carrying rights of subscription for new Shares, and the total Effective Consideration per new Share (as defined in paragraph (iii) below) initially receivable for such securities is less than 80 per cent of the market price on the date of the announcement of the terms of issue of such securities (whether or not such issue is subject to the approval of the holders of Shares or other persons), the Warrants Exercise Price shall be adjusted by multiplying the Warrants Exercise Price in force immediately prior to such issue by the following fraction:

$$\frac{J+K}{J+L}$$

J = the number of Shares in issue immediately before the date of the issue of such securities;

K = the number of Shares which the total Effective Consideration receivable for such securities would purchase at such market price (exclusive of any disbursements incurred in connection therewith); and

L = the maximum number of new Shares to be issued upon full conversion or exchange of, or the exercise in full of the exercise rights conferred by, such securities at their relative initial conversion or exchange rate or exercise price.

Such adjustment shall become effective (if appropriate retroactively) from the close of business on the business day immediately preceding the date on which the issuer of the relevant securities determines the conversion or exchange rate or exercise price in respect of such securities or, to the extent that the relevant issue is announced (whether or not subject to the approval of holders of Shares or other persons), and if the date of such announcement is earlier than the said date, the business day immediately preceding the date of such announcement.

(ii) If and whenever the rights of conversion or exchange or subscription attaching to any such securities as are mentioned in sub-paragraph (i) above of this paragraph (e) are modified so that the total Effective Consideration per new Share initially receivable for such securities shall be less than 80 per cent of the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Warrants Exercise Price shall be adjusted by multiplying the Warrants Exercise Price in force immediately prior to such modification by the following fraction:

$$\frac{M+N}{M+O}$$

where:

M = the number of Shares in issue immediately before the date of such modification;

N = the number of Shares which the total Effective Consideration receivable for such securities at the modified conversion or exchange rate or Warrants Exercise Price would purchase at such market price; and

O = the maximum number of new Shares to be issued upon full conversion or exchange of, or the exercise in full of the exercise rights conferred by, such securities at their relative modified conversion or exchange rate or Warrants Exercise Price.

Such adjustment shall become effective (if appropriate retroactively) as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the purposes of this paragraph (e)(ii) where it is adjusted to take account of rights or capitalization issues and other events normally giving rise to adjustments of conversion, exchange or subscription terms.

(iii) For the purposes of this paragraph (e):

(A) the "total Effective Consideration" receivable for the relevant securities shall be deemed to be the aggregate consideration receivable by the issuer of such securities for the issue thereof plus the additional minimum consideration (if any) to be received by such issuer and/or the

Company (if not the issuer) upon (and assuming) the full conversion or exchange thereof or the exercise in full of the exercise rights attaching thereto; and

(B) the "Effective Consideration per new Share" initially receivable for such securities shall be the total Effective Consideration divided by the maximum number of new Shares to be issued upon (and assuming) the full conversion or exchange thereof at the initial conversion or exchange rate or the exercise in full of the exercise rights attaching thereto at the Initial Warrants Exercise Price, in each case without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof.

(f) If and whenever the Company shall issue wholly for cash any Shares at a price which is less than 80 per cent of the market price on the date of the announcement of the terms of such issue, the Warrants Exercise Price shall be adjusted by multiplying the Warrants Exercise Price in force immediately prior to the date of such announcement by the following fraction:

$$\frac{(P+Q)}{(P+R)}$$

where:

P = the number of Shares in issue immediately before the date of such announcement;

Q = the number of Shares which the aggregate amount payable for the Shares allotted pursuant to such issue would purchase at such market price (exclusive of expenses); and

R = the number of Shares allotted pursuant to such issue.

Such adjustment shall become effective (if appropriate retroactively) on the date of the issue of such Shares.

(g) If and whenever the Company makes an offer or invitation to holders of Shares to tender for sale to the Company any Shares or if the Company shall purchase any Shares or securities convertible into Shares or any rights to acquire Shares (excluding any such purchase made on the Stock Exchange, or any recognised Stock Exchange, being a stock exchange recognised for this purpose by the Executive Director of the Corporate Finance Division of the Securities & Futures Commission of Hong Kong or equivalent authority and the Stock Exchange) and the Directors consider that it may be appropriate to make an adjustment to the Warrants Exercise Price, at that time the Directors shall appoint an approved merchant bank, an approved financial adviser or the Auditors to consider whether, for any reason whatever as a result of such purchases, an adjustment should be made to the Warrants Exercise Price fairly and appropriately to reflect the relative interests of the persons affected by such purchases by the Company and, if such approved merchant bank, approved financial adviser or the Auditors (as the case may be) shall consider in its opinion that it is appropriate to make an adjustment to the Warrants Exercise Price, an adjustment to the Warrants Exercise Price shall be made in such manner as such approved merchant bank, approved financial adviser or the Auditors (as the case may be) shall certify to be, in its opinion, appropriate. Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the business day next preceding the date on which such purchases by the Company are made.

1.2 For the purposes of Condition 1 above:

"announcement" shall include the release of an announcement to the press or the delivery or transmission by telephone, cable, facsimile transmission or otherwise of an announcement to the Stock Exchange, "date of announcement" shall mean the date on which the announcement is first so released, delivered or transmitted and "announce" shall be construed accordingly;

"capital distribution" shall (without prejudice to the generality of that phrase) include distributions in cash or specie, and any dividend charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a capital distribution, provided that any such dividend shall not be so deemed if:

(a) it is paid out of the aggregate of the net profits (less losses) and/or contributed surplus attributable to the holders of Shares in the audited consolidated profit and loss account of the Company and its Subsidiaries for any financial period of the Company; or

(b) to the extent that paragraph (a) above does not apply, the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period. In computing such rates, such adjustments may be made as are in the opinion of the Auditors or the relevant approved financial adviser appropriate in the circumstances and shall be made in the event that the lengths of such periods differ materially;

"issue" shall include allot;

"market price" means the average of the closing prices of one Share on the Stock Exchange for the five consecutive dealing days on each of which there is a closing price ending on the last such dealing day immediately preceding the day on or as of which the market price is to be ascertained;

"Shares" includes, for the purposes of Shares comprised in any issue, distribution, offer or grant pursuant to paragraphs (b), (c), (d), (e) or (f) of Condition 1 above, any such shares of the Company as, when fully paid, will be Shares;

"reserves" includes unappropriated profits and share premium account; and

"rights" includes rights in whatsoever form issued.

1.3 Except as mentioned in paragraph (a) of Condition 1 above, no such adjustment as is referred to in sub-paragraphs (b) to (f) of Condition 1 above shall be made in respect of:

(a) an issue of fully-paid Shares upon the exercise of any conversion, exchange or exercise rights attached to securities wholly or partly convertible into or exchangeable for Shares or upon the exercise of any rights (including the Warrant Exercise Rights) to acquire Shares;

(b) an issue by the Company of Shares or by the Company or any Subsidiary of securities wholly or partly convertible into or exchangeable for or carrying rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;

(c) an issue of fully-paid Shares by way of capitalization of all or part of the Exercise Right Reserve (or other profits or reserves), or any similar reserve which has been or may be established pursuant to the terms of any other securities wholly or partly convertible into or exchangeable for, or carrying rights to acquire, Shares;

(d) an issue of Shares pursuant to a scrip dividend scheme in lieu of a cash dividend where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value (which equal to the market price (as defined in Condition 2) of the Shares times the total quantity of Shares involved) of such Shares is not more than 120% of the amount of dividend which holders of Shares could elect to or would otherwise receive in cash; or

(e) an issue by the Company of Shares or by the Company or any Subsidiary of securities wholly or partly convertible into or exchangeable for or carrying rights of subscription for Shares pursuant to a Share Option Scheme.

1.4 Notwithstanding the provisions of the Warrant Instrument, in any circumstances where the Directors shall consider that an adjustment to the Warrants Exercise Price provided for under the said provisions should not be made or should be calculated on a different basis to that provided herein or that an adjustment to the Warrants Exercise Price should be made notwithstanding that no such adjustment is required, or that an adjustment should take effect on a different date or from a different time from that provided for under the provisions of the Warrant Instrument, the Company may appoint either an approved merchant bank, an approved financial adviser or the Auditors to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would not or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved merchant bank, approved financial adviser or the Auditors (as the case may be) shall consider this to be the case, the adjustment shall be modified or nullified, or an adjustment made instead of no adjustment, in such manner (including, without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time) as shall be certified by such approved merchant bank, approved financial adviser or the Auditors (as the case may be) to be in its opinion appropriate.

1.5 Any adjustment to the Warrants Exercise Price shall be made to the nearest one-thousandth of a cent (HK$0.000005 being rounded up) and in no event shall any adjustment (otherwise than upon the consolidation of Shares into shares of a larger nominal amount each or upon a repurchase of Shares) be made which would involve an increase in the Warrants Exercise Price. In addition to any determination which may be made by the Directors, every adjustment to the Warrants Exercise Price shall, save as otherwise expressly provided herein, be certified either (at the option of the Company) by the Auditors, an approved financial adviser or by an approved merchant bank.

1.6 Notwithstanding anything contained in the Warrant Instrument or the Warrant Certificates, no adjustment shall be made to the Warrants Exercise Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions of this Condition would be less than one-thousandth of a cent and any adjustment that would otherwise be required then to be made shall not be carried forward.

1.7 Whenever the Warrants Exercise Price is adjusted as herein provided, the Company shall give notice to the Holders that the Warrants Exercise Price has been so adjusted (setting forth the event giving rise to the adjustment, the Warrants Exercise Price in effect prior to such adjustment, the adjusted Warrants Exercise Price and the effective date thereof) and shall at all times thereafter so long as any of the Exercise rights remains exercisable make available for inspection by Holders at its principal place of business in Hong Kong where copies of the same may be obtained, a signed copy of the said certificate of the Auditors, of the relevant approved financial adviser or of the relevant approved merchant bank (as the case may be) and a certificate signed by a Director setting forth brief particulars of the event giving rise to the adjustment, the Warrants Exercise Price in effect prior to such adjustment, the adjusted Warrants Exercise Price and the effective date thereof and shall, on request, send a copy thereof to any Holder.

1.8 If the Company or any Subsidiary shall in any way modify the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire, Shares, the Company shall appoint either an approved merchant bank, an approved financial adviser or the Auditors to consider whether any adjustment to the Warrants Exercise Price is appropriate (and if such approved merchant bank, approved financial adviser or the Auditors (as the case may be) shall certify that any such adjustment is appropriate, the Warrants Exercise Price shall be adjusted accordingly and Conditions 6, 7 and 8 shall apply).

For the purposes of this Appendix V:

"**Auditors**" means the auditors for the time being of the Company from amongst the big four internationally recognised accounting firms (namely EY, Deloitte, PricewaterhouseCoopers and KPMG);

"**Conditions**" means the terms and conditions of the Warrants;

"**Equity Share Capital**" means the issued share capital of the Company excluding any part thereof which does not either as respects dividends or as respects capital carry any right to participate beyond a specified amount or beyond an amount calculated by reference to a specified rate in a distribution;

"**Exercise Right Reserve**"means the reserve established and maintained by the Company in accordance with the Warrant Instrument and the Bye-Laws of the Company in the amount of which shall at no time be less than the sum which for the time being would be required to be capitalised and applied in paying up in full the nominal amount of the additional Shares required to be issued and allotted credited as fully paid on the exercise in full of all the Warrants Exercise Rights outstanding (and any other exercise rights outstanding in respect of Shares under other subscription warrants);

"**Holder(s)**" means, in relation to any Warrant, the person or persons who is or are for the time being registered in the Register as the holder or joint holders of such Warrant;

"**Registrar**" means the Company or such other person, firm or company as for the time being who maintains in the Hong Kong (unless the Directors otherwise determine) Register;

"**Share Option Scheme**" means a scheme or arrangement approved by the members of the Company in general meeting under which Shares or securities convertible into or exchangeable for or carrying rights of subscription for Shares may be issued, or options or other rights to acquire any Shares or any such securities by way of subscription or otherwise may be granted, by the Company or any Subsidiary to employees and executive directors of, the Company or any Subsidiary;

"**Shares**" means the shares of HK$0.002 each in the authorised capital of the Company existing on the date of issue of the Warrants and all other (if any) stock or shares from time to time and for the time being ranking *pari passu* therewith and all other (if any) stock or shares in the Equity Share Capital of the Company resulting from any subdivision, consolidation or reclassification of Shares;

"**Subsidiary**" means a company which is for the time being and from time to time a subsidiary (within the meaning of Section 15 of the Companies Ordinance and section 86 of the Companies Act 1981 of Bermuda) of the Company and includes a company which would be a subsidiary of the Company within the meaning of the Companies Ordinance had it (and the Company) been incorporated thereunder;

"**Warrant Certificate(s)**" means the certificates (in registered form) to be issued in respect of the Warrants;

"**Warrants Exercise Notice**" means, the exercise notice to be delivered by the Holder in respect of its exercise of the Warrants; and

"**Warrants Exercise Date**" means, in relation to any Warrant, the close of business on any business day falling during the relevant Warrants Exercise Period on which any of the Warrants Exercise Rights represented by such Warrant are duly exercised by delivery of the relative Warrant Certificate to the Registrar with the relevant Warrants Exercise Notice duly completed, together with a remittance for the Warrants Exercise Price, and otherwise pursuant to the terms and conditions of the Warrants, provided that if such Warrants Exercise Rights are exercised during a period in which the register or branch register of members of the Company maintained in the territory in which the Stock Exchange for the time being is situate is closed, the Warrants Exercise Date in relation to such exercise shall be the close of business on the next following business day on which such register or branch register is open.

Mr. Wan Chao ("Mr. Wan")

Mr. Wan, aged 53, was appointed by the Board as an executive Director on 16 June 2020. He has over 30 years of extensive experience in management in the architectural field. Mr. Wan joined Tencent in 2010. He is currently the Vice President of Tencent Cloud, responsible for the management of smart construction of Tencent Cloud.

Mr. Wan graduated from Jiangxi University of Engineering in 1988 with a bachelor's degree in industrial and structure of civil construction.

As at the Latest Practicable Date, Mr. Wan was interested in the 35,800,000 Shares, of which 31,400,000 Shares was directly held by Mr. Wan and 4,400,000 Shares were deemed interests held though spouse. Mr. Wan has entered into a service contract for a term of 3 years with the Company and is subject to retirement by rotation and re-election in accordance with the memorandum of association and bye-laws of the Company. Mr. Wan does not receive any remuneration or director's fee for his position of executive Director.

As at the Latest Practicable Date, save as disclosed above, to the knowledge of the Company, Mr. Wan: (a) has not held any other directorships in any other public listed companies in the past three years and does not have any relationship with any Director, senior management of the Company or substantial or controlling Shareholder; (b) does not have any interests in the Shares or any of its associated corporations within the meaning of Part XV of the SFO; (c) does not hold any other positions in the Company or any of its subsidiaries; and (d) has no other information that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules, nor is there any matter that needs to be brought to the attention of the holders of the securities of the Company in relation to his appointment as a Director.

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. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date and (ii) immediately following the allotment and issue of the Consideration Shares and the exercise in full of the exercise rights attaching to the Warrants was/will be as follows:

(i) As at the Latest Practicable Date:

Authorised:		*HK$*
1,000,000,000,000	Shares of HK$0.002 each	2,000,000,000.0
Issued and fully paid:		
80,803,166,025	Shares of HK$0.002 each	161,606,332.05

(ii) Immediately following the allotment and issue of the Consideration Shares and the exercise in full of the exercise rights attaching to the Warrants:

Authorised:		*HK$*
1,000,000,000,000	Shares of HK$0.002 each	2,000,000,000.0
Issued and fully paid:		
80,803,166,025	Shares of HK$0.002 each	161,606,332.05
11,543,309,432	Consideration Shares of HK$0.30 per Consideration Share to be allotted and issued pursuant to the Sale and Purchase Agreement	23,086,618.86
18,342,793,070	Warrant Shares of HK$0.096 per Warrant Share to be issued upon full exercise of the Warrants pursuant to the Warrant Instrument	36,685,586.14
110,689,268,527	**Total**	**221,378,537.05**

3. DISCLOSURE OF INTERESTS

(a) Interests and short positions of directors and chief executives of the Company and its associated corporations

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

(i) ***Interest in shares of the Company***

Name of Director	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of total issued shares as at the Latest Practicable Date
Wan Chao	Beneficial owner	35,800,000 *(Note 1)*	0.04%

(ii) ***Interest in shares of an associated corporation of the Company — China Evergrande Group*** *(Note 2)*

Name of Director	Capacity/ Nature of interest	Number of shares held	Approximate percentage of total issued shares as at the Latest Practicable Date
Chau Shing Yim David	Beneficial owner	1,000,000 *(Note 3)*	0.01%
Huang Xiangui	Beneficial owner	5,300,000 *(Note 4)*	0.04%
Xu Wen	Beneficial owner	691,935 *(Note 5)*	0.00%

(iii) *Interest in shares of an associated corporation of the Company — Evergrande Property Services Group Limited* *(Note 6)*

Name of Director	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of total issued shares as at the Latest Practicable Date
Chau Shing Yim David	Beneficial owner	2,121,000 *(Note 7)*	0.02%
Xu Wen	Beneficial owner	1,000,000 *(Note 8)*	0.01%

(iv) *Interest in debentures of an associated corporation of the Company — China Evergrande Group* *(Note 2)*

Name of Director	Currency of debentures	Amount of debenture held	Amount of debentures in same class in issue
Xu Wen	HK$	23,000,000 *(Note 9)*	18,000,000,000

Notes:

1. Mr. Wan Chao was interested in 35,800,000 Shares, of which 31,400,000 Shares was directly held by Mr. Wan Chao and 4,400,000 Shares were deemed interests held though his spouse, Ms. Hu Zhengrong.

2. China Evergrande Group is a holding company of the Company.

3. Mr. Chau Shing Yim, David directly held 1,000,000 shares of China Evergrande Group.

4. Mr. Huang Xiangui was interested in 5,300,000 shares of China Evergrande Group, all of which were represented by share options.

5. Mr. Xu Wen was interested in 691,935 shares of China Evergrande Group, all of which were represented by share options.

6. Evergrande Property Services Group Limited is a subsidiary of China Evergrande Group, the holding company of the Company.

7. Mr. Chau Shing Yim, David directly held 2,121,000 shares of Evergrande Property Services Group Limited.

8. Mr. Xu Wen directly held 1,000,000 shares of Evergrande Property Services Group Limited.

9. The debentures are the 4.25% convertible bonds due 14 February 2023 issued by China Evergrande Group.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO.

(b) Interests of substantial Shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Number of ordinary shares held	Capacity	Approximate percentage of total issued shares as at the Latest Practicable Date
China Evergrande Group	44,958,001,998	Interest of a controlled corporation	55.64%
Solution Key Holdings Limited *(Note 1)*	44,958,001,998	Beneficial owner	55.64%
Ke Liming	29,886,102,502	Interest of a controlled corporation	36.99%
Virtual Cinema Holding Limited *(Note 2)*	29,886,102,502	Interest of a controlled corporation	36.99%
Pumpkin Films Limited *(Note 3)*	29,886,102,502	Beneficial owner	36.99%
Tencent Holdings Limited	15,608,572,363	Interest of a controlled corporation	19.32%
Water Lily Investment Limited *(Note 4)*	15,608,572,363	Beneficial owner	19.32%

Notes:

1. Solution Key Holdings Limited is an indirect wholly-owned subsidiary of China Evergrande Group.

2. Virtual Cinema Holding Limited is a direct wholly-owned subsidiary of Ke Liming.

3. Pumpkin Films Limited is a direct wholly-owned subsidiary of Virtual Cinema Holding Limited. The interest of Ke Liming, Virtual Cinema Holding Limited and Pumpkin Films Limited are subject to the completion of the Acquisition and approval of the Shareholders of the Company.

4. Water Lily Investment Limited is an indirect wholly-owned subsidiary of Tencent Holdings Limited.

Save as disclosed above, no other person (other than a Director or chief executive of the Company) had any interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO as at the Latest Practicable Date.

Save for (i) Mr. Huang Xiangui being an executive Director of China Evergrande Group; (ii) Mr. Xu Wen being an employee of China Evergrande Group; (iii) Mr. Wan Chao being an employee of Tencent Holdings Limited; and (iv) Mr. Chao Shing Yim, David being an independent non-executive director of China Evergrande Group, none of the Company's directors is a director or an employee of the substantial shareholders of the Company.

4. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or proposed Director or their respective close associates (as defined in the Listing Rules) had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. SERVICE CONTRACTS

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Enlarged Group which does not expire or is not terminable by the Enlarged Group within one year without payment of compensation, other than statutory compensation.

6. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, save as disclosed below, none of the Directors or proposed Director had any direct or indirect interest in any asset which had been, since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Company were made up) and up to the Latest Practicable Date, 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 Enlarged Group.

7. DIRECTORS' INTEREST IN CONTRACT

There was no contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date in which any Director was materially interested and which was significant to the business of the Enlarged Group.

8. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

9. QUALIFICATION AND CONSENTS OF EXPERTS

(a) The following is the qualification of the experts who have given opinion or advice contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
Zhong Lun Law Firm	PRC Legal Advisers

(b) As at the Latest Practicable Date, each of the Certified Public Accountants and PRC Legal Advisers did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Each of the Certified Public Accountants and PRC Legal Advisers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear respectively.

(d) As at the Latest Practicable Date, each of the Certified Public Accountants and PRC Legal Advisers did not have any interest, direct or indirect, in any assets which have been, since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

10. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, were entered into by the Enlarged Group within two years immediately preceding the Latest Practicable Date and which are or may be material:

(a) the Sale and Purchase Agreement.

11. MISCELLANEOUS

(a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(b) The principal place of business of the Company in Hong Kong is at 23rd Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong.

(c) The principal share registrar and transfer office of the Company is MUFG Fund Services (Bermuda) Limited, 4th Floor North, Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda.

(d) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The company secretary of the Company is Mr. Fong Kar Chun, Jimmy, who is a member of the Law Society of Hong Kong and a qualified solicitor in Hong Kong.

(f) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 23rd Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong on weekdays (Saturdays and public holidays excepted) up to and including 20 January 2021:

(a) the memorandum of association and bye-laws of the Company;

(b) the annual reports of the Company for the two financial years ended 31 December 2018 and 31 December 2019;

(c) the accountant's report on the financial information of the Target Company, the text of which is set out in Appendix II to this circular;

(d) the report from PricewaterhouseCoopers on unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(e) the PRC legal opinion dated 31 December 2020 issued by Zhong Lun Law Firm in relation to the VIE Contracts;

(f) the written consents of the experts as referred to under the paragraph headed "Qualification and consents of experts" in this appendix;

(g) the material contracts referred to under the paragraph headed "Material Contracts" in this appendix;

(h) each of the VIE Contracts; and

(i) this circular.

HENGTEN NETWORKS GROUP LIMITED
恒 騰 網 絡 集 團 有 限 公 司

(a company incorporated in Bermuda with limited liability)

(Stock Code: 136)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of HengTen Networks Group Limited (the "**Company**") shall be held at Taishan Room, Level 5, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong on Monday, 18 January 2021 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following ordinary resolutions. Words and expressions that are not expressly defined in this notice of SGM shall bear the same meaning as those defined in the circular of the Company dated 31 December 2020.

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the sale and purchase agreement dated 26 October 2020 (the "**Sale and Purchase Agreement**") entered into among the Company, the Purchaser and the Sellers, pursuant to which the Purchaser conditionally agreed to acquire, and the Sellers conditionally agreed to sell, the Sale Share and the Loan subject to the terms and conditions of the Agreement and the transactions contemplated under the Sale and Purchase Agreement (a copy of the Sale and Purchase Agreement is tabled at the meeting and marked "A" and initialled by the chairman of the meeting for identification purpose) be and are hereby confirmed, approved and ratified;

(b) conditional upon the fulfillment of the conditions precedent in the Sale and Purchase Agreement and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting the listing of and permission to deal in the Consideration Shares (as defined below), the Directors be and are hereby granted a specific mandate for the allotment and issuance of the 11,543,309,432 new ordinary shares (the "**Consideration Shares**") at the Issue Price of HK$0.30 per Consideration Share, and such Consideration Shares shall rank *pari passu* in all respects with the then existing issued Shares;

(c) the creation and the issuance of the Warrants by the Company in accordance with the terms and conditions of the Sale and Purchase Agreement and the Warrant Instrument be and are hereby approved;

(d) conditional upon the fulfillment of the conditions precedent in the Sale and Purchase Agreement and the Stock Exchange granting the listing of and permission to deal in the Warrant Shares (as defined below), the Directors be and are hereby granted a specific mandate for the allotment and issuance of the 18,342,793,070 new Shares (the "**Warrant Shares**") at the exercise price of HK$0.096 per Warrant Share (subject to adjustment and the terms and conditions as set out in the Sale and Purchase Agreement and the Warrant Instrument), which may fall to be allotted and issued upon the exercise of the exercise rights attaching to the Warrants, and such Warrant Shares shall rank *pari passu* in all respects with the then existing issued Shares; and

(e) any one director of the Company, be and is hereby authorised to execute all documents (including under seal) and to do all such things and take all such other steps which, in his/her opinion, may be necessary, appropriate, expedient or desirable in connection with the matters contemplated in, to implement and/or to give effect to the Sale and Purchase Agreement, the Warrant Instrument and all matters and transactions contemplated thereunder."

2. "**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting approval of the listing of, and the permission to deal in, the Consolidated Shares (as defined below) upon the Share Consolidation (as defined below) becoming effective:

(a) with effect on the second business day immediately following the date on which this resolution is passed, being a day on which shares are traded on the Stock Exchange, every ten (10) issued and unissued ordinary shares of par value HK$0.002 each in the share capital of the Company be consolidated (the "**Share Consolidation**") into one (1) share of par value of HK$0.02 each in the share capital of the Company (the "**Consolidated Shares**") and the authorised share capital of the Company shall be HK$2,000,000,000 divided into 100,000,000,000 Consolidated Shares of par value of HK$0.02 each;

(b) all of the Consolidated Shares resulting from the Share Consolidation shall rank *pari passu* in all respects with each other and have the same rights and privileges and be subject to the same restrictions contained in the articles of association of the Company;

(c) all fractional Consolidated Shares will be disregarded and will not be issued to the holders of the existing shares of HK$0.002 each in the share capital of the Company but all fractional Consolidated Shares will be aggregated and sold for the benefit of the Company, in such manner and on such terms as the directors of the Company (the "**Directors**") may think fit; and

(d) the board of Directors be and is hereby authorised to do all such acts, deeds and things and execute all such documents, including under the seal of the Company, where applicable, as it may consider necessary, appropriate, expedient or desirable to complete, implement and give effect to any and all the arrangements set out in this resolution."

3. "**THAT** Mr. Wan Chao be re-elected as an executive Director and the Board be authorised to fix his remuneration."

Yours faithfully,
By order of the Board
HengTen Networks Group Limited
Xu Wen
Chairman

Hong Kong, 31 December 2020

Notes:

1. As Sale and Purchase Agreement, the Warrant Instrument, the Specific Mandate in relation to the allotment and issue of the Consideration Shares and Warrant Shares (upon the full exercise of the Warrants) and the respective transactions contemplated thereunder are all transactions related to each other forming one significant proposal (i.e. these transactions must take effect altogether or not at all), resolutions numbered (a) to (c) are inter-conditional on each other.

2. A member entitled to attend and vote at the SGM is entitled to appoint one or, if he is the holder of two or more shares, more than one proxy to attend and vote instead of him/her/it. A proxy need not be a member.

3. A form of proxy for use at the SGM is enclosed herewith. To be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or notarially certified copy thereof must be deposited with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and, in any event, not less than 48 hours (i.e. 3:00 p.m. on Saturday, 16 January 2021) before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and deposit of the form of proxy will not preclude a shareholder from attending and voting in person at the SGM or any adjournment thereof (as the case may be).

   In view of the ongoing Coronavirus Disease 2019 (COVID-19) pandemic, the Company strongly recommends shareholders of the Company to exercise your voting rights by appointing the chairperson of the SGM as your proxy to vote on the relevant resolutions at the SGM as an alternative to attending the SGM in person.

4. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the SGM convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.

5. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it was solely entitled thereto. If more than one of such joint holders are present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

6. For determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 13 January 2021 to Monday, 18 January 2021 (both days inclusive), during which period no transfer of Shares will be registered. In order for a shareholder of the Company to be eligible to attend and vote at the SGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 12 January 2021.

7. References to time and dates in this notice are to Hong Kong time and dates.

PRECAUTIONARY MEASURES FOR THE SGM

In view of the ongoing Coronavirus Disease 2019 (COVID-19) pandemic, to safeguard the health and safety of Shareholders and prevent the spread of the disease, the Company will implement the following measures at the SGM, including:

1. Compulsory temperature screening/checks and submission of health declaration form will be carried out on every attendee at the entrance of the SGM venue. Any person with a body temperature above 37.3 degrees Celsius or the reference point announced by the Department of Health from time to time, or is exhibiting flu-like symptoms may be denied entry into the SGM venue and requested to leave the SGM venue;

2. Every attendee will be required to wear a surgical face mask at the SGM venue and throughout the SGM and to sit at a distance from the other attendees. Please note that no surgical face masks will be provided at the SGM venue and attendees should bring and wear their own masks; and

3. No refreshment, drinks, corporate gifts or gift coupons will be provided to the attendees at the SGM.

To the extent permitted under law, the Company reserves the right to deny entry into the SGM venue or require any person to leave the SGM venue so as to ensure the health and safety of the other attendees at the SGM. Subject to the development of the COVID-19 pandemic, the Company may be required to implement changes to the above SGM arrangement at short notice and may issue further announcement(s) as appropriate. Shareholders are advised to visit the websites of the Stock Exchange and the Company for updates to the SGM arrangement.

For the health and safety of the Shareholders, the Company would like to encourage the Shareholders to exercise their right to vote at the SGM by appointing the Chairman of the SGM as their proxy and to return their forms of proxy by the time specified therein, instead of attending the SGM in person.

As at the date of this notice, the executive directors of the Company are Mr. Xu Wen (Chairman), Mr. Huang Xiangui and Mr. Wan Chao; and the independent non-executive directors of the Company are Mr. Chau Shing Yim, David, Mr. Nie Zhixin, Mr. Chen Haiquan and Professor Shi Zhuomin.