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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.

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HENG TEN 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) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE COOPERATION WITH TENCENT TECHNOLOGY IN THE PROVISION OF BROADCASTING SERVICES; AND (2) NOTICE OF SGM

Independent financial adviser to the Company



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 5 to 16 of this circular.

A notice convening the special general meeting (the “SGM”) of HengTen Networks Group Limited to be held at Island Ballroom C, Level 5, Island Shangri-La Hotel, Pacific Place Supreme Court Road, Central, Hong Kong on Monday, 28 June 2021 at 11:30 a.m. (or such time immediately following the conclusion (or adjournment) of the annual general meeting of the Company to be held on the same day and at the same place) is set out on pages SGM-1 to SGM-3 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.

2 June 2021

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DEFINITIONS

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

“affiliate”	with respect to any designated entity, any other entity that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such entity. For the purpose of this circular, Tencent Technology together with its affiliates and the Company together with its affiliates will not be deemed as the affiliates of the counterpart
“Announcement”	the announcement of the Company dated 20 April 2021 in relation to the Cooperation Agreement
“Annual Caps”	Tencent Technology’s expected maximum annual transaction amount receivable from Beijing Xiaoming for each of the five financial years ending 31 December 2025 in respect of the transactions contemplated under the Cooperation Agreement is the “annual cap” of the corresponding year
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Xiaoming”	Beijing Xiaoming Zhu Meng 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 and a subsidiary of the Company
“Board”	the board of directors of the Company
“Company”	HengTen Networks Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 136)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Cooperation Agreement”	the cooperation agreement dated 19 April 2021 entered into between Beijing Xiaoming and Tencent Technology pursuant to which Beijing Xiaoming and Tencent Technology agreed to enter into in-depth cooperation between Pumpkin Films and Tencent Video, allowing subscribers of Pumpkin Films to gain access to exclusive copyright over an extensive number of Dramas and Movies works of Tencent

DEFINITIONS

“Copyrights”	the copyrights, including rights of publication, authorship, alteration, integrity, reproduction, distribution, rental, exhibition, performance, release, broadcasting, online dissemination, shooting and production, adaption, translation, compiling and other rights to which the copyright owner is entitled to
“Director(s)”	the director(s) of the Company
“Dramas and Movies”	collectively, the movies, TV dramas and online dramas
“Effective Term”	the term of the Cooperation Agreement which is set out in the section headed “THE COOPERATION AGREEMENT — Effective Term” in this circular
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising Mr. Chau Shing Yim, David, Mr. Nie Zhixin, Mr. Chen Haiquan and Professor Shi Zhuomin, being the independent non-executive Directors, formed to advise the Independent Shareholders on the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps)
“Independent Financial Adviser”	Maxa Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), being appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps)
“Independent Shareholders”	Shareholders, other than Water Lily Investment Limited and its associates
“Latest Practicable Date”	28 May 2021, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

DEFINITIONS

“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
“Pumpkin Films”	a vertical online video and streaming service platform operated by Beijing Xiaoming’s affiliate
“RMB”	Renminbi, the lawful currency of the PRC
“Sample Contracts”	has the meaning ascribed to it in the sub-section headed “ <i>Comparison with other arrangements with independent video suppliers of the Group</i> ” in this circular
“Shanghai Ruyi” or “Ruyi Films”	Shanghai Ruyi Movie Television Production Co., Ltd.* (上海儒意影視製作有限公司), a company established in the PRC with limited liability, a variable interest entity controlled by the Company which is principally engaged in the radio television programme and film production and operation
“SGM”	the special general meeting of the Company to be convened for the Independent Shareholders to consider, and vote on, the Cooperation Agreement and the transactions contemplated thereunder and the Annual Caps
“Share(s)”	the ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholders”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Warrants”	has the meaning ascribed to it in the circular of the Company dated 31 December 2020
“Target Dramas and Movies”	the movies, TV dramas and online dramas (whose copyrights are owned by Tencent Technology) provided by Tencent Technology to Beijing Xiaoming for streaming
“Tencent Holdings”	Tencent Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700) and the holding company of Tencent Technology

DEFINITIONS

“Tencent Technology”	Tencent Technology (Beijing) Company Limited* (騰訊科技(北京)有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Tencent Holdings
“Tencent Video”	an integrated online video and streaming service platform operated by Tencent Technology’s affiliate
“%”	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.*



HENG TEN 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
Mr. Chen Cong

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent Non-executive Directors:

Mr. Chau Shing Yim, David
Mr. Nie Zhixin
Mr. Chen Haiquan
Professor Shi Zhuomin

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

23rd Floor
China Evergrande Centre
38 Gloucester Road
Wanchai
Hong Kong

2 June 2021

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
THE COOPERATION WITH TENCENT TECHNOLOGY
IN THE PROVISION OF BROADCASTING SERVICES; AND
(2) NOTICE OF SGM**

INTRODUCTION

Reference is made to the Announcement. The purpose of this circular is to provide you with, among other things, (i) further details of the Cooperation Agreement and the transactions contemplated thereunder; (ii) the recommendations of the Independent Board Committee; (iii) the advice of the Independent Financial Adviser; and (iv) notice of the SGM.

LETTER FROM THE BOARD

THE COOPERATION AGREEMENT

Date

19 April 2021

Parties

- (1) Tencent Technology, a subsidiary of Tencent Holdings and an associate of a connected person of the Company; and
- (2) Beijing Xiaoming, a subsidiary of the Company

Effective Term

The Cooperation Agreement shall be effective for a term of five years ending on 9 December 2025.

Principal terms

Pumpkin Films

Pumpkin Films is a vertical online video and streaming service platform operated by Beijing Xiaoming. It provides users with premium-quality content and ultimate viewing experience through big data analysis and high-quality content. Since the acquisition of Pumpkin Films by the Company, the membership of Pumpkin Films has achieved substantial growth through empowerment of shareholders and consolidation of ecosystem resources.

Through promotions via mobile applications, advertisements, search engine optimisation and the impact of word of mouth, Pumpkin Films sources subscribers who download the application of Pumpkin Films. As at the end of April, there were 48,727,731 members and 15,692,830 paying subscribers, which represented a rapid increase by approximately 57.6 times from approximately 272,470 subscribers as at 31 December 2017.

Provision of Target Dramas and Movies broadcasting services

Under the Cooperation Agreement, Tencent Technology will provide Target Dramas and Movies for Beijing Xiaoming to broadcast to the subscribers of Pumpkin Films through the Pumpkin Films platform. Beijing Xiaoming's right to use the authorized content shall be limited to the PRC (excluding Hong Kong, Macau and Taiwan for the purpose of the Cooperation Agreement). Beijing Xiaoming has the non-exclusive and non-transferrable right of information network dissemination of the copyrighted content authorized by Tencent Technology within the term of authorization as specified under the Cooperation Agreement.

LETTER FROM THE BOARD

Accordingly, Tencent Technology shall have the right to receive a portion of the subscription income of Pumpkin Films from Beijing Xiaoming, which is calculated as follows:

$$\begin{array}{lcl} \text{Portion of subscription} & = & \text{Total confirmed} \\ \text{income} & & \text{subscription income of} \\ & & \text{Beijing Xiaoming of} \\ & & \text{the relevant month} \end{array} \times \begin{array}{l} \text{(Total runtime of videos supplied} \\ \text{by Tencent Technology/Total} \\ \text{runtime across the platform of} \\ \text{Beijing Xiaoming)} \end{array}$$

The value and prospect of Pumpkin Films is derived from the quality of the video contents broadcast to the users. The Directors believe that video content suppliers including Tencent Technology represent as important assets to Pumpkin Films and the value brought by those video content suppliers is best determined and quantified by the user traffic. Therefore, it is considered that the total runtime of videos supplied by Tencent Technology is an appropriate indicator of the value brought by Tencent Technology, and thus used to determine the fees payable to Tencent Technology.

Comparison with other arrangements with independent video suppliers of the Group

As at the Latest Practicable Date, Pumpkin Films has entered into arrangements/agreements, the terms of which were similar to that of the Cooperation Agreement, with independent third parties in relation to the broadcasting and/or distribution right of the licensed Dramas and Movies on Pumpkin Films platform. Nonetheless, due to differences in terms of nature, popularity and ranking of the Dramas and Movies, the Directors considered that there is no standardized formula or calculation basis for determining fees chargeable by the licensors. The license fee arrangements will vary depending on the quality and commercial potential of the licensed content and will be negotiated by parties on a case-by-case basis. In addition, in the assessment of the fairness and reasonableness of the fee arrangement contemplated under the Cooperation Agreement, the Directors have considered the following:

- (a) For comparison purposes, the Group has selected, on a random basis, customary contracts entered into by Shanghai Ruyi with independent third parties in relation to the broadcasting right of licensed Dramas and Movies between 2017 and 2021 (the “**Sample Contracts**”);
- (b) Amongst such Sample Contracts, license fees were usually structured in form of (i) fixed payment from the licensee to the licensor; or (ii) greater of a minimum guarantee fee or variable fee chargeable by the licensor which is determined with reference to the number of subscribers or revenue generated from the subscribers. With such fee structure, the Group is typically required to pay a fixed or minimum amount of license fee to the licensor regardless of actual viewership or runtime of the licensed Dramas and Movies on Pumpkin Films platform. In addition, the Group is also required to pay a top-up license fee depending on the actual number of subscribers or revenue generated from Pumpkins Film platform;

LETTER FROM THE BOARD

- (c) In comparison, the fee structure contemplated under the Cooperation Agreement is one of “revenue-sharing” nature and does not contain any guarantee or minimum fee element. The Company considered that such terms are more favourable to the Group as Beijing Xiaoming is not required to incur any upfront or minimum cost for broadcasting the Target Dramas and Movies on Pumpkin Films platform. The revenue-sharing fee structure adopted is also not an uncommon business practice; and
- (d) Furthermore, as disclosed above, the value and prospect of Pumpkin Films is derived from the quality of the streaming video contents and hence, the license fee arrangements shall vary depending on the quality and commercial potential of the licensed contents (which are also considered the primary factors in attracting and retaining subscribers), and be negotiated by parties on a case-by-case basis. With runtime of the Target Dramas and Movies being a relatively subjective measure of the popularity or level of acceptance of a particular movie or TV series on a video streaming platform, the Company considered that using the runtime of the Target Dramas and Movies in determining the amount of the revenue shared by Tencent Technology is justifiable.

On the above basis, the Directors are of the view that the above fee payable to Tencent Technology by Beijing Xiaoming under the Cooperation Agreement is fair and reasonable and in the interest of the Company and its shareholders as a whole.

In any event, the above fees payable to Tencent Technology by Beijing Xiaoming shall be no more favourable to Tencent Technology, nor shall they be less favourable to Beijing Xiaoming, compared with those available to or from any independent third party under identical or similar conditions. The Group will semi-annually review such fees by comparing them against the fees for comparable cooperation receivable by the Group from any independent third party.

ANNUAL CAPS AND BASIS OF DETERMINATION OF ANNUAL CAPS

Annual Caps for the three financial years ending 31 December 2021, 2022 and 2023

The expected annual maximum transaction amounts for the continuing connected transactions under the Cooperation Agreement for the three financial years ending 31 December 2023 amount to RMB41,000,000, RMB99,500,000 and RMB169,500,000, respectively.

Basis of Determination

The above Annual Caps for the three financial years ending 31 December 2023 have been determined by the Directors with reference to the major factor of the annual business plan for the broadcasting of Dramas and Movies on the Pumpkin Films platform of the Group. In addition, the Directors have also considered:

- (a) The market demand for and development trend of streaming media content. According to a report entitled “The 47th China Statistical Report on Internet Development” released by China Internet Network Information Center, a business unit under the Office of the

LETTER FROM THE BOARD

Central Cyberspace Affairs Commission of the PRC, the number of online video users in the PRC reached approximately 926.8 million as at 31 December 2020, increased by approximately 60.1% as compared to approximately 578.9 million as at 31 December 2017. The online video streaming space represents a massive and fast-growing industry and it is expected that the size of the online video streaming market in the PRC will reach approximately RMB174.4 billion by 2022;

- (b) The development and production cycle, budget control, production crew and quality of Dramas and Movies. The Directors believe that the relatively new and high-quality Target Dramas and Movies with popular production crew are of higher value within the market, and tend to attract more user traffic; and
- (c) The market influence of different types of Dramas and Movies. The Directors believe that the Target Dramas and Movies are of premium quality and shall be well-received in the market. For example, TV Dramas including People's Prosecutor (《人民檢察官》), Parents' Love (《父母愛情》) and Meng's Family Mansion (《海上孟府》) were all well-received in the market.

According to the Cooperation Agreement, the amount of subscription income by Tencent Technology will depend on the proportion of the total runtime of the Target Dramas and Movies over the total runtime across the platform of Beijing Xiaoming. The Directors believe that, due to the unpredictability in the user's viewing habits and behaviour as well as the popularity or ratings of the Target Dramas and Movies offered on Pumpkin Film platform, it would be difficult to reasonably estimate the runtime of the Target Dramas and Movies for the next few years. Therefore, when determining the Annual Caps, a straight-forward approach is adopted by referencing the total length (in terms of hours) of the Target Dramas and Movies and the total length (in terms of hours) of video content which is expected to be offered on Pumpkin Film platform for three years ending 31 December 2021, 2022 and 2023. The Directors consider that the above direct approach is justifiable particularly given the constant changes in the user's behaviour and the uncertainty in the levels of acceptance or popularity of the Target Drama and Movies offered on Pumpkin Films platform.

The year-on-year increase of the amount of the proposed Annual Cap from 2021 to 2022 is 142.68%, while that from 2022 to 2023 is 70.35%. A relatively higher increase of the proposed Annual Cap from the first financial year is primarily attributable to the business plan of the Group that more exclusive and premium-quality Dramas and Movies produced by, *inter alia*, the Group, Tencent Technology together with other domestic and overseas distributors to the users of Pumpkin Films in the future. In the forthcoming years, it is expected that the Group, as a content provider itself, will be able to serve a larger variety of exclusive Dramas and Movies on the Pumpkin Films platform. With the introduction of Dramas and Movies produced in-house by the Group, it is expected that the number of subscribers and subscription income of Pumpkin Films shall increase sharply during 2022, and thus resulting in a relatively higher increment in the portion of the subscription income payable to Tencent Technology under the Cooperation Agreement from 2021 to 2022, compared to that from 2022 to 2023.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Group, through Shanghai Ruyi, 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. Some of these film and drama projects are currently under production and scheduled for release on the Pumpkin Films platform in the next few years. The Directors considered that the successful track record and strong film and television production capabilities of Shanghai Ruyi shall continue to provide strong content support for Pumpkin Films which contributes to the growth in both members and subscription income of Pumpkin Films. For instance, the film “Hi, Mom” (《你好，李焕英》), which Shanghai Ruyi acted as the main producer and the largest guaranteed distributor, has recorded a cumulative box office of over RMB5 billion. Another film released by Shanghai Ruyi, “A Little Red Flower” (《送你一朵小紅花》), had recorded a cumulative box office of over RMB1.43 billion and became the top-grossing film on New Year’s Day in the PRC. The Directors expect that, by continuously enriching the Pumpkin Films platform with high-quality and original content, the Group can increase user penetration and boost the paying subscriber base of Pumpkin Films in the next few years.

With Pumpkin Films offering more streaming runtime with its in-house content, which is believed by the Company to be the main attraction of Pumpkin Films, the Directors are of the opinion that the proportion of the Target Dramas and Movies to be provided by Tencent Technology, in terms of the number of streaming contents, content playback time, and user traffic drawn amongst all the Dramas and Movies on the Pumpkin Films platform, will decrease in the future and thus the Annual Cap will grow at a relatively lower rate as compared to the first financial year.

Having considered the above factors and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps), the Directors are of the view that the proposed Annual Caps are fair and reasonable and in the interest of the Company and its shareholders as a whole.

From the date of the Cooperation Agreement up until the date of approval by Independent Shareholders of the Annual Caps for the three financial years ending 31 December 2023 under the Cooperation Agreement of the SGM, the highest applicable percentage ratio in relation to the annual maximum transaction amount under the Cooperation Agreement shall remain below 5%. From the date of the Cooperation Agreement up until the Latest Practicable Date, there were no transactions entered into under the Cooperation Agreement. There was no transaction between Beijing Xiaoming and Tencent Technology prior to the entering of the Cooperation Agreement.

LETTER FROM THE BOARD

Annual Cap for the two financial years ending 31 December 2024 and 2025

For the continuing connected transactions contemplated under the Cooperation Agreement, the Company will first determine the Annual Caps for the three financial years ending 31 December 2023, but not for the two financial years ending 31 December 2024 and 2025 for the following reasons:

- (a) it is impractical to estimate the transaction amounts to be incurred in the two financial years ending 31 December 2024 and 2025 because such transaction amounts ultimately depend on factors such as the current and future levels of acceptance and popularity of Dramas and Movies and the user traffic of the Pumpkin Films platform of the Group, which are beyond the control of the Group and Tencent Technology as at the date of the Announcement and as at the Latest Practicable Date;
- (b) due to the introduction of new business models and channels by the Group, the entry of new competitors into the industry and the constant changes in the internet users' behaviour, the industry environment has been rapidly changing in the past few years. The Company reasonably expects that the broadcasting industry of Dramas and Movies will experience changes in the foreseeable future. As the Company's Dramas and Movies development, production, publicity, and streaming video platform businesses are still in the early stages of industry development and facing unpredictability, the Company will continue to adjust and optimize strategies to cope with the technological challenges and the ever-changing users, platform users and portfolios in the rapidly developing internet industry in the PRC; and
- (c) in view of the unpredictability surrounding the industry's business dynamics, in addition to the fact that it is impractical to accurately estimate the transaction amount that may be incurred in the continuing connected transactions contemplated under the Cooperation Agreement after three years, there is no necessary correlation between the future business trend and the historical transaction amount. Therefore, it is not appropriate to establish an Annual Cap for the continuing connected transactions contemplated under the Cooperation Agreement for the two financial years ending 31 December 2025.

Prior to the commencement of the continuing connected transactions under the Cooperation Agreement for the two financial years ending 31 December 2024 and 2025, the Company will ensure that the requirements under Chapter 14A of the Listing Rules (including, where necessary, the annual review, reporting, announcement and independent shareholders' approval requirements) are complied with.

LETTER FROM THE BOARD

INTERNAL CONTROL POLICIES

In order to ensure that the Company complies with the pricing principles and the approval of the Annual Caps under the Cooperation Agreement, the Company has adopted a series of internal control policies in its daily operations. These internal control policies are implemented and monitored by the Company's internal audit and internal control department, independent non-executive Directors and external auditors:

- (a) the Company's internal audit and internal control department conducts semi-annual monitoring of connected transactions, the results of which together with the external auditor's report are then submitted to the audit committee and independent non-executive Directors for review. The Company's internal audit and internal control department supervises connected transactions (and the transaction amounts thereunder) on a monthly basis and takes corresponding measures when the monthly limit is close to being reached and to ensure that the Annual Cap under the Cooperation Agreement is not exceeded. If the actual transaction amount incurred reaches 80% of the respective applicable Annual Cap, immediate reporting will be made to the management of the Company. In doing so, the management and the relevant departments of the Company can be informed of the status of the continuing connected transactions in a timely manner such that the transactions can be conducted within the applicable Annual Caps. Further, the Company will disclose to the public the amount of the continuing connected transactions semi-annually by virtue of the interim and annual reports. Also, the Company's internal audit and internal control department ensures that these transactions are carried out in the following ways: (a) in accordance with the pricing principles of the Cooperation Agreement; (b) in the ordinary and usual course of business of the Group; (c) on normal or better commercial terms; and (d) in accordance with the Cooperation Agreement, and that the terms are fair and reasonable and are in the interests of the Company and its Shareholders as a whole;
- (b) the independent non-executive Directors have reviewed and will continue to review the continuing connected transactions and confirm in the annual report whether: these transactions are concluded on normal or better commercial terms; in accordance with the Cooperation Agreement, and that the terms are fair and reasonable and are in the interests of the Company and its Shareholders as a whole; and
- (c) the Company's external auditors will also conduct annual reviews of the pricing principles and Annual Caps of the Cooperation Agreement and confirm them in the Company's annual report.

The Board believes that the above internal control policies can ensure that the transactions contemplated under the Cooperation Agreement will be implemented on normal or better commercial terms and will not harm the interests of the Company and its Shareholders.

LETTER FROM THE BOARD

INFORMATION ON THE COMPANY, BEIJING XIAOMING AND TENCENT TECHNOLOGY

The Company

The Company is listed on the Stock Exchange (stock code: 136). The Company is an investment holding company. The Group principally engages in the internet community services and related businesses, Dramas and Movies development, production and public relations and video streaming platforms, and manufacturing and sales of accessories.

Beijing Xiaoming

Beijing Xiaoming is a company established under the laws of the PRC and a subsidiary of the Company. It principally engages in the procurement of copyright contents for online broadcasting.

Tencent Technology

Tencent Technology is a company established under the laws of the PRC and a wholly-owned subsidiary of Tencent Holdings. It principally engages in the development and sale of software and provision of information technology services in the PRC.

REASONS FOR AND BENEFITS OF ENTERING INTO THE COOPERATION AGREEMENT

The entering into of the Cooperation Agreement will enable the Group to fully leverage and integrate platform resources. In the future, the Group shall give a full play to the empowerment from the shareholders of the Company, leverage on the unique advantages and capabilities of the Company across the whole industry supply chain, ecosystem as well as the strength in data-related business, to further elevate and complete the upstream and downstream businesses as well as the online and offline channels, with a view of building a world-leading streaming media platform empowered by digital technologies. In addition, the Cooperation Agreement enables the Group to serve a larger variety of premium-quality Dramas and Movies to the Pumpkin Films subscribers, thereby enhancing the popularity of Pumpkin Films and the market influence of the Group in the film and television broadcasting industry. The Directors are of the view that the Cooperation Agreement and the transactions contemplated therein do not have any disadvantage to the Group.

Despite the amount of the proposed Annual Cap is substantial compared with the historical revenue of the Group, the Directors are of the view that there is no material reliance on Tencent Technology or Tencent Holdings on the following grounds:

- (a) The Group has actively diversified its business and looked for new business growth points. Apart from the media streaming business by Pumpkin Films, the Group engages in the internet community services and related businesses.

LETTER FROM THE BOARD

- (b) Currently, for the Group's media streaming business, the suppliers of Dramas and Movies to Pumpkin Films are primarily independent third parties. In the future, it is expected that the suppliers of Dramas and Movies to Pumpkin Films shall not be limited to Tencent Technology or Tencent Holdings. Shanghai Ruyi, which is controlled by the Group, has played a leading role producing more than 50 films and television works, reserved hundreds of film and television copyrights, and won a number of important awards such as Flying Apsaras Awards, Golden Eagle Awards, Magnolia Awards and Huading Awards for its production films. In order to reduce the risk exposure on undue reliance on any particular content supplier and provide a wider variety of premium-quality contents to the users of Pumpkin Films, the Group has procured the original content created by Shanghai Ruyi to be the primary resource for Pumpkin Films in the provision of broadcasting services. Further, the Group has been actively soliciting different Dramas and Movies content providers both in and outside the PRC. Currently, Pumpkin Films owns a large amount of high-standard purchased copyrighted content, and has established long-term cooperation with 143 renowned independent production companies around the world such as those in Hollywood. The Company thus expects that the video content on Pumpkin Films to be provided by Tencent Technology will only account for less than 10% of the overall video content supplied on Pumpkin Films at all times during the three financial years ending 31 December 2021, 2022 and 2023.
- (c) To the best of the knowledge, information and belief of the Directors, the transactions contemplated under the Cooperation Agreement are mutually beneficial to Tencent Technology and Beijing Xiaoming. From the perspective of Tencent Technology, it can receive a portion of the subscription income as mentioned under the sub-section headed "*THE COOPERATION AGREEMENT — Principal terms — Provision of Target Dramas and Movies broadcasting services*" in this circular. From the perspective of Beijing Xiaoming, the premium-quality Target Dramas and Movies can help to enhance the popularity of Pumpkin Films and the market influence of the Group in the film and television broadcasting industry as mentioned in this circular.
- (d) There is an established relationship between the Group and Tencent Holdings. Tencent Holdings has been a substantial shareholder of the Company since 2016. Tencent Holdings has played a supportive role in the Company's development of business. Given the long-standing relationship between Tencent Holdings and the Group, mutual trust has been built over the years. The management of the Company is therefore of the view that it is unlikely that there will be material adverse change in or even termination of the relationship between the parties.

The Directors (including the independent non-executive Directors) consider that the transactions contemplated under the Cooperation Agreement are entered into in the ordinary and usual course of business of the Company and its subsidiaries, on normal commercial terms after arm's length negotiations between the parties, and the terms of those transactions together with the Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

Tencent Holdings is the controlling shareholder of Tencent Technology, holding the entire equity interest of Tencent Technology. Since Tencent Holdings indirectly holds more than 10% of the Company's issued share capital, Tencent Technology is considered an associate of the connected person of the Company. Accordingly, the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps) constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio as defined in the Listing Rules in respect of the highest Annual Cap on the fees chargeable by Tencent Technology to Beijing Xiaoming for the three financial years ending as at 31 December 2023 exceeds 5%, the Cooperation Agreement and the transactions contemplated thereunder are subject to the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, as the term of the Cooperation Agreement exceeds three years, the Company has appointed the Independent Financial Adviser to explain why the Cooperation Agreement requires a longer period and to confirm that it is normal business practice for this type of agreement to be of such duration. When reviewing the reasons for the term of the Cooperation Agreement being more than three years, the Independent Financial Adviser has discussed with the Company's management and considered the various factors which has been set out in further details in the "Letter from the Independent Financial Advisor" in this circular.

SGM

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Cooperation Agreement and the transactions contemplated thereunder. A notice convening the SGM to be held at Island Ballroom C, Level 5, Island Shangri-La Hotel, Pacific Place Supreme Court Road, Central, Hong Kong on Monday, 28 June 2021 at 11:30 a.m. (or such time immediately following the conclusion (or adjournment) of the annual general meeting of the Company to be held on the same day and at the same place) is set out on pages SGM-1 to SGM-3 of this circular.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder, other than Water Lily Investment Limited and its respective associates, has a material interest in the Cooperation Agreement which is different from other Shareholders. Therefore, Water Lily Investment Limited and its associate(s) will abstain from voting at the SGM. Other than Water Lily Investment Limited, 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

LETTER FROM THE BOARD

any event not less than 48 hours before the time appointed for holding the SGM (i.e. no later than 11:30 a.m. on Saturday, 26 June 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

Your attention is drawn to (i) the letter of advice from the Independent Board Committee to the Independent Shareholders on the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps); and (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps).

The Board (including the members of the Independent Board Committee whose opinion is set forth in the “Letter from the Independent Board Committee” in this circular after considering the advice of the Independent Financial Adviser), is of the view that the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps) are fair and reasonable, and on normal commercial terms, in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole. The Board recommends that the Independent Shareholders to vote in favour of the ordinary resolution relating thereto at the SGM.

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 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps) for inclusion in this circular.



HENG TEN NETWORKS GROUP LIMITED

恒騰網絡集團有限公司

(a company incorporated in Bermuda with limited liability)

(Stock Code: 136)

2 June 2021

To the Independent Shareholders

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE COOPERATION WITH TENCENT TECHNOLOGY IN THE PROVISION OF BROADCASTING SERVICES

Dear Sir or Madam,

We refer to the circular issued by the Company to its Shareholders dated 2 June 2021 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to form an independent board committee to consider and advise you as to whether the terms of the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps) are fair and reasonable, and on normal commercial terms, in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole, and to recommend as to whether the Independent Shareholders should approve the entering into of the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps). Maxa Capital Limited has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 16 of the Circular and a letter of advice from Maxa Capital Limited, as set out on pages 19 to 34 of the Circular, both of which provide details of the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps).

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps), the advice and recommendation from Maxa Capital Limited and the relevant information contained in the letter from the Board, we are of the opinion that the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps) are fair and reasonable, and on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the resolution to be proposed at the SGM to approve the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps).

Yours faithfully,
For and on behalf of
the Independent Board Committee

**Mr. Chau Shing Yim,
David**

*Independent non-
executive Director*

Mr. Nie Zhixin

*Independent non-
executive Director*

Mr. Chen Haiquan

*Independent non-
executive Director*

**Professor Shi
Zhuomin**

*Independent non-
executive Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Maxa Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders setting out its advice in respect of the terms of the Cooperation Agreement and the transactions contemplated thereunder and the proposed annual caps, which has been prepared for the purpose of inclusion in this circular.



Unit 1908, Harbour Center
25 Harbour Road
Wan Chai
Hong Kong

2 June 2021

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE COOPERATION WITH TENCENT TECHNOLOGY IN THE PROVISION OF BROADCASTING SERVICES

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Cooperation Agreements, the transactions contemplated thereunder and the Annual Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 2 June 2021 (the “**Circular**”), of which this letter forms parts. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 20 April 2021 (the “**Announcement**”). As set out in the Announcement, on 19 April 2021, Beijing Xiaoming, a subsidiary of the Company (being also the operating entity of Pumpkin Films), entered into the Cooperation Agreement with Tencent Technology on in-depth cooperation between Pumpkin Films and Tencent Video, allowing subscribers of Pumpkin Films to gain access to an extensive number of Dramas and Movies under the exclusive copyright of Tencent Video.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

LISTING RULES IMPLCATION

As at the Latest Practicable Date, Tencent Holdings is the controlling shareholder of Tencent Technology, holding the entire equity interest of Tencent Technology. Since Tencent Holdings indirectly holds more than 10% of the Company's issued share capital, Tencent Technology is considered an associate of the connected person of the Company. Accordingly, the Cooperation Agreement and the transactions contemplated thereunder (including the Annual Caps) constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio as defined in the Listing Rules in respect of the highest Annual Cap on the fees chargeable by Tencent Technology to Beijing Xiaoming for the three financial years ending 31 December 2023 exceeds 5%, the Cooperation Agreement and the transactions contemplated thereunder are subject to the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene the SGM for the purpose of seeking approval from the Independent Shareholders on, among other things, the Cooperation Agreement, the transactions contemplated thereunder and the Annual Caps. Voting at the SGM will be conducted by poll and Water Lily Investment Limited and its associate(s) will abstain from voting at the SGM. Other than Water Lily Investment Limited, no Shareholders is required to abstain from voting at the SGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chau Shing Yim, David, Mr. Nie Zhixin, Mr. Chen Haiquan and Professor Shi Zhuomin, has been formed to advise the Independent Shareholders in respect of whether the terms of the Cooperation Agreement and the transactions contemplated thereunder and the Annual Caps are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote in respect of the relevant resolution to be proposed at the SGM to approve the Cooperation Agreement and the transactions contemplated thereunder and the Annual Caps. We, Maxa Capital Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. In addition, pursuant to Rule 14A.52 of the Listing Rules, as the duration of the Cooperation Agreement exceeds three years, the Company has appointed us to explain why the Cooperation Agreement requires a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company and any of their respective associates that could reasonably be regarded as relevant to our independence and accordingly, were qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Cooperation Agreement and the transactions contemplated thereunder. In the past two years, we were appointed by the Company as the independent financial adviser in December 2020 in respect of a major transaction. In addition, we have been appointed by China Evergrande Group, the controlling shareholder of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company, as independent financial adviser in January and April 2021 to opine on the dilution of effective interest of certain subsidiaries of China Evergrande Group. Apart from the normal advisory fee payable to us in connection with this appointment, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among other things: (i) the Cooperation Agreement; (ii) the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”) and for the year ended 31 December 2019 (the “**2019 Annual Report**”); (iii) the circular of the Company dated 31 December 2020 in relation to the acquisition of Virtual Cinema Entertainment Limited (the “**Acquisition Circular**”); (iv) the basis and assumption adopted in determining the Annual Caps; (v) the contracts entered into by the Company with independent third parties in relation to broadcasting rights of Dramas and Movies; and (vi) statistic report and research report which cover the online video market in China. We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Group (the “**Management**”). We have reviewed, *inter alia*, the statements, the information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Management. We have assumed that (i) all statements, information and representations provided by the Directors and the Management; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable and the Shareholders will be notified of any material changes to such information and representations before the SGM. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the representation and opinions expressed by the Company, its advisers and/or the Directors and the Management. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Management nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons.

1. Background information of the Group

The Company is an investment holding company. The Group principally engages in the internet community services and related business, Dramas and Movies development, production and public relations and video streaming platforms, and manufacturing and sales of accessories.

Set out below is a summary of the consolidated financial results of the Group for the two years ended 31 December 2019 and 2020 as extracted from the 2020 Annual Report:

	For the year ended	
	31 December	
	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Revenue	337,300	230,114
— Internet community and related business	278,269	185,470
— Manufacture and sales of accessories	59,031	44,644
Gross profit	202,390	110,222
Profit for the year	92,073	12,022

As illustrated in the above table, the Group's revenue amounted to approximately RMB230.1 million for the year ended 31 December 2020 ("FY2020"), representing a decrease of approximately 31.8% as compared to that for the year ended 31 December 2019 ("FY2019"). For FY2020, the Group conducted its internet community and related services business in the communities across China, and its revenue from this business segment decreased from approximately RMB278.3 million for FY2019 to approximately RMB185.5 million for FY2020, including revenue from internet home furnishing sector of approximately RMB104.6 million, internet materials

business sector of approximately RMB79.0 million and other sectors of approximately RMB1.9 million. The Group's revenue from the manufacture and sales of accessories segment also decreased from approximately RMB59.0 million for FY2019 to approximately RMB44.6 million for FY2020.

The Group recorded net profits of approximately RMB12.0 million for FY2020, which decreased by approximately 86.9% as compared to the net profits of approximately RMB92.1 million for FY2019. The decrease in the Group's net profits for FY2020 is mainly due to a decrease in profit in the internet community and related services business segment. It contributed to a segment profit of approximately RMB31.1 million for FY2020 as compared to a segment profit of approximately RMB84.9 million for FY2019.

As disclosed in the 2020 Annual Report, the Group, as an Internet technology company, promoted the steady development of the internet home furnishing and internet materials business with technology empowerment, and actively explored new business growth points. On 26 October 2020, the Company announced its acquisition of the entire issued share capital in Virtual Cinema Entertainment Limited which subsequently completed on 20 January 2021, following which the Group shall fully transform into an internet technology enterprise and progress on its streaming media business.

2. Background information of Virtual Cinema Entertainment Limited

On 26 October 2020, the Company announced the acquisition of Virtual Cinema Entertainment Limited (“VCEL”) for a total consideration of HK\$7.2 billion. The acquisition was subsequently completed on 20 January 2021. Reference is made to the Acquisition Circular, VCEL, through the variable interest entity arrangement, control and hold 100% interest in three variable interest entities in Shanghai Ruyi Movie Television Production Co., Ltd. (“**Shanghai Ruyi**”), Shenzhen Jingxiu Network Technology Co., Ltd. (“**Jingxiu**”) and Beijing Xiaoming Zhumeng Data Services Co., Ltd. (“**Beijing Xiaoming**”).

Shanghai Ruyi is a company established in the PRC with limited liability and principally engaged in the radio television programme and film production and operation. It is 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》).

Jingxiu is a company established in the PRC with limited liability and principally engaged in the business of contents development, production, broadcasting and service provision in the online streaming industry. Beijing Xiaoming is a company established in the PRC with limited liability and principally engaged in data processing, technology development, promotion, transfer consulting and service. Collectively, Shanghai Ruyi, Jingxiu and Beijing Xiaoming operate a membership based online streaming platform named “Pumpkin Film Streaming” which is principally engaged in

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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. Pumpkin Film Streaming 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. The cumulative number of Pumpkin Film Streaming's registered 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 and the number of paying subscribers increased from approximately 272,470 members as at 31 December 2017 to approximately 2,294,970 members as at 30 June 2020. As announced by the Company on 22 April 2021, the cumulative number of registered members and paying subscribers reached 42,450,714 and 11,536,861, respectively, as at 31 March 2021.

Set out below is the combined financial information of VCEL and its subsidiaries (together, the “**VCEL Group**”) for the two years ended 31 December 2018 and 2019 and the six months ended 30 June 2020 as extracted from the Acquisition Circular:

	For the year ended 31 December		For the six months ended 30 June
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
Revenue	233,456	276,167	70,926
— Share of box office income	8,662	21,815	—
— Licensing of television programmes rights	205,421	180,077	—
— Online streaming platform revenue	19,373	74,275	70,926
Gross (loss)/profit	(18,904)	53,938	11,858
 (Loss)/profit for the year/period	 (40,337)	 26,589	 6,288

VCEL Group's revenue increased from approximately RMB233.5 million for the year ended 31 December 2018 (“**FY2018**”) to approximately RMB276.2 million for FY2019, which is primarily due to the increase in revenue generated from Pumpkin Film Streaming as a result of the increase in number of paying subscribers. Due to the impact of COVID-19 pandemic to the film and television series business, VCEL Group did not generate any revenue from the film and television programmes production.

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VCEL Group turnaround from loss of approximately RMB40.3 million for FY2018 to profit of approximately RMB26.6 million for FY2019, which is primarily due to the increase in profit contributed by the film and television programmes production and the decrease in loss from the online streaming platform business as a result of the continuous growth in the number of paying subscribers of Pumpkin Film Streaming.

3. Background information of Tencent Technology

Tencent Technology is a company established under the laws of the PRC and a wholly-owned subsidiary of Tencent Holdings. It principally engages in the development and sale of software and provision of information technology services in the PRC.

4. Reasons and benefits for entering into the Cooperation Agreement

As stated in the Letter from the Board, the entering into of the Cooperation Agreement will enable the Group to fully leverage and integrate platform resources. In the future, the Group shall give a full play to the empowerment from the shareholders of the Company, leverage on the unique advantages and capabilities of the Company across the whole industry supply chain, ecosystem as well as the strength in data-related business, to further elevate and complete the upstream and downstream businesses as well as the online and offline channels, with a view of building a world-leading streaming media platform empowered by digital technologies. In addition, the Cooperation Agreement enables the Group to serve a larger variety of premium-quality Dramas and Movies to the Pumpkin Films subscribers, thereby enhancing the popularity of Pumpkin Films and the market influence of the Group in the film and television broadcasting industry.

As mentioned in the section headed “6. The Annual Caps” below, the number of online video users has grown rapidly in recent years and reached approximately 926.8 million at the end of 2020. The online video streaming is a massive and fast-growing industry and it is expected that the size of the online video streaming market will reach approximately RMB174.4 billion by 2022. We consider that high-quality and popular video content plays a pivotal role in sustaining a fast-growing subscribers base and seizing the market share. Tencent Video is one of the top-tier online video streaming platform in the PRC and owns a wide array of premium-quality and exclusive video content. The Cooperation Agreement would enable the Group to broaden and enrich the video content offering on Pumpkin Films platform by gaining access to the content library of Tencent Video, which in turn will enhance the competitiveness of Pumpkin Films.

In view of the above, we concur with the Director’s view that entering into of the Cooperation Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. The Cooperation Agreement

The principal terms of the Cooperation Agreement are set out below:

Date

19 April 2021

Parties

- (1) Tencent Technology, a subsidiary of Tencent Holdings and an associate of a connected person of the Company; and
- (2) Beijing Xiaoming, a subsidiary of the Company

Effective Term

The Cooperation Agreement shall be effective for a term of five years ending on 9 December 2025.

Provision of Target Dramas and Movies broadcasting services

Tencent Technology will provide Target Dramas and Movies for Beijing Xiaoming to broadcast to the subscribers of Pumpkin Films through the Pumpkin Films platform. Beijing Xiaoming's right to use the authorized content shall be limited to the PRC (excluding Hong Kong, Macau and Taiwan). Beijing Xiaoming has the non-exclusive and non-transferrable right of information network dissemination of the copyrighted content authorized by Tencent Technology within the term of authorization as specified under the Cooperation Agreement.

Accordingly, Tencent Technology shall have the right to receive a portion of the subscription income of Pumpkin Films from Beijing Xiaoming, which is calculated as follows:

$$\begin{array}{rcccl} \text{Portion of} & & \text{Total confirmed} & & \text{(Total runtime of videos supplied} \\ \text{subscription income} & = & \text{subscription income} & \times & \text{by Tencent Technology/} \\ & & \text{of Beijing Xiaoming} & & \text{Total runtime across} \\ & & \text{of the relevant month} & & \text{the platform of Beijing Xiaoming)} \end{array}$$

We understand from the Management that Pumpkin Films has entered into arrangements/agreements, which are similar to the nature of the Cooperation Agreement, with independent third parties in relation to the broadcasting and/or distribution right of the licensed Dramas and Movies on Pumpkin Films platform. Nonetheless, due to difference in nature, popularity and ranking of the Dramas and Movies, the Management advised that there is no standardized formula or calculation basis for determining fees chargeable by the licensors. The license fee arrangements will vary depending on the quality and commercial potential of the licensed content and be negotiated by both parties on a case-by-case basis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In order to assess the fairness and reasonableness of the license fee arrangement under the Cooperation Agreement, we have obtained five sample contracts, selected by the Group on random basis, entered into by the Group with independent third parties in relation to the broadcasting right of licensed Dramas and Movies between 2017 and 2021 (the “**Sample Contracts**”). Given that the nature of the Sample Contracts is similar to the Cooperation Agreement and the Sample Contracts were entered into with independent third parties within the last few years prior to the date of the Cooperation Agreement, we consider that the above sample size is fair and representative for the purpose of analyzing the license fee arrangement under the Cooperation Agreement. Based on our review of the Sample Contracts, we note that the fee arrangements usually involve (i) a fixed payment from the licensee to the licensor; or (ii) greater of a minimum guarantee fee or variable fee chargeable by the licensor which is determined with reference to the number of subscribers or revenue generated from the subscribers. Therefore, the Group is usually required to pay a fixed or minimum amount of license fee to the licensor regardless of the actual viewership or runtime of the licensed Dramas and Movies on Pumpkin Films platform. The Group will also have to pay additional license fee depending on the actual number of subscribers or revenue generated from Pumpkins Film platform.

We note that the Cooperation Agreement does not contain any guarantee or minimum fee element, which we consider to be more favourable to the Group as Beijing Xiaoming is not required to incur any upfront or minimum cost for broadcasting the Target Dramas and Movies on Pumpkin Films platform. The Cooperation Agreement, which adopts a revenue-sharing mechanism, is not an uncommon business practice as we note that some of the Sample Contracts also contains similar arrangement. Pursuant to the Cooperation Agreement, Beijing Xiaoming will share its subscription fee generated from Pumpkin Films platform with Tencent Technology based on the total runtime of the videos supplied by Tencent Technology as divided by the total runtime across the platform of Beijing Xiaoming. We enquire with the Management regarding the business rationale for using the runtime of the Dramas and Movies in determining the amount of revenue shared by Tencent Technology. The Management considers that the runtime of the Dramas and Movies is a relatively subjective measure of the popularity or level of acceptance of a particular movie or TV series on the video streaming platform. Since high-quality and popular content is one of the key factors in attracting and retaining the subscribers, which in turn generates revenue for Pumpkin Films platform, we consider that using the runtime of the Dramas and Movies in determining the amount of the revenue shared by Tencent Technology is justifiable.

In view of the above, we consider the terms of the Cooperation Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. The Annual Caps

The Annual Caps under the Cooperation Agreement for the three years ending 31 December 2021, 2022 and 2023 are RMB41.0 million, RMB99.5 million and RMB169.5 million, respectively. Given that the Cooperation Agreement is a new arrangement with Tencent Technology to enable Pumpkin Films platform to gain access to a larger variety of premium-quality Dramas and Movies, there is no historical amounts incurred prior to the date of the Cooperation Agreement.

As set out in the Letter from the Board, the Annual Caps are determined with reference to the following major factors, (i) the annual business plan for the broadcasting of Dramas and Movies on the Pumpkin Films platform of the Group; (ii) the market demand for and development trend of streaming media content; (iii) the development and production cycle, budget control, production crew and quality of Dramas and Movies; and (iv) the market influence of different types of Dramas and Movies.

In order to assess the reasonableness of the Annual Caps, we have obtained and reviewed the underlying calculations of the Annual Caps for the three years ending 31 December 2021, 2022 and 2023, and discussed with the Management on the bases and assumptions adopted in the calculations. We note from the Cooperation Agreement that a revenue-sharing mechanism is adopted where the amount of fee payable to Tencent Technology would depend on the income generated from the paying subscribers of Pumpkin Films platform. Therefore, the Annual Caps is calculated with reference to, among others, the estimated number of paying subscribers of Pumpkin Films platform in the next few years.

In projecting the future growth of the paying subscribers, the Management has considered the historical trend of the paying subscribers of Pumpkin Films as well as the growth potential of the online video streaming market in the PRC. As mentioned in the section headed “2. Background information of Virtual Cinema Entertainment Limited” above, we note that the cumulative number of Pumpkin Films’ paying subscribers increased rapidly by approximately 57.6 times from approximately 272,470 subscribers as at 31 December 2017 to approximately 15,692,830 subscribers as at 30 April 2021. According to a report entitled “The 47th China Statistical Report on Internet Development”¹ released by China Internet Network Information Center, a business unit under the Office of the Central Cyberspace Affairs Commission, the number of online video users in China reached approximately 926.8 million as at 31 December 2020, increased by approximately 60.1% as compared to approximately 578.9 million as at 31 December 2017. In addition, according to a research report² which focuses on the on-going development and macroeconomic trends in relation to internet traffic in the PRC published in 2020 by a research firm based in the PRC, the market size of the online video streaming market in China increased from approximately RMB40.4 billion in 2015 to approximately RMB102.3 billion in 2019, representing a compound annual growth rate (“CAGR”) of approximately 26.1%. It is expected that the market size of the online

¹ <http://www.cnnic.cn/hlwfzyj/hlwxzbg/hlwtjbg/202102/P020210203334633480104.pdf>

² <http://report.iresearch.cn/report/202007/3611.shtml>

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video streaming market in China will reach approximately RMB174.4 billion by 2022, representing a compound annual growth rate of approximately 19.4% as compared to 2019. Taking into account (i) the rapid growth in the number of members in Pumpkin Films platform in the past few years; (ii) over 900 million of online video users in China at present; (iii) continuous growth in the size of the online video streaming market in China, we consider that there is vast room for Pumpkin Films to increase its number of members in the next few years. Based on the historical growth trend of the paying subscribers, Pumpkin Films has a proven track record in attracting new paying subscribers with CAGR over 100% between 2017 to 2020. With the Management's business plan to increase its investment in premium-quality Dramas and Movies in the next few years which will attract more paying subscribers, the Management considers that Pumpkin Films will be able to achieve similar growth rate in terms of number of paying subscribers between 2021 to 2023.

We understand from the Management that high-quality and exclusive content is one of the major factors in attracting and retaining users of online video streaming platform. Leveraging on the financial resources of the Group, the Management expects to increase its investment in video content (such as acquiring popular video content, development of original content) for Pumpkin Films in the next few years in order to sustain a high subscribers growth rate. We also note from the Acquisition Circular that VCEL 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. Some of these film and drama projects are currently under production and scheduled for release in Pumpkin Films platform in the next few years. As advised by the Management, the successful track record and strong film and television production capabilities of Shanghai Ruyi shall continue to provide strong content support for Pumpkin Films which contributes to the growth in both members and subscription income of Pumpkin Films. For instance, the film "Hi, Mom" (《你好，李焕英》), which Shanghai Ruyi acted as the main producer and the largest guaranteed distributor, has recorded a cumulative box office of over RMB5 billion. Another film released by Shanghai Ruyi, "A Little Red Flower" (《送你一朵小红花》), had recorded a cumulative box office of over RMB1.43 billion and became the top-grossing film on New Year's Day in China. The Management expects that, by continuously enriching Pumpkin Films platform with high-quality and original content, the Group can increase user penetration and boost the paying subscriber base of Pumpkin Films in the next few years.

According to the Cooperation Agreement, the amount of subscription income by Tencent Technology will depend on the proportion of the total runtime of the Target Dramas and Movies over the total runtime across the platform of Beijing Xiaoming. The Management advised that, due to the unpredictability in the Internet user's viewing habits and behavior as well as the popularity or ratings of the Dramas and Movies offered on Pumpkin Film platform, it would be difficult to reasonably estimate the runtime of the Target Dramas and Movies for the next few years. Therefore, when determining the Annual Caps, the Management has decided to adopt a straight-forward approach by referencing to the total length (in number of hours) of the Target Dramas and Movies and the total length (in number of hours) of video content which is expected to be offered on Pumpkin Film platform for three years ending 31 December 2021, 2022 and 2023. We consider that the above approach is justifiable given the constant changes in the Internet user's behavior and the uncertainty in the levels of acceptance or popularity of the Drama and Movies offered on Pumpkin

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Films platform. Based on the annual business plan of Pumpkin Films, with the increase in investment of the Drama and Movies produced by Shanghai Ruyi and acquisition of video content from independent third parties, the total length of video content available on Pumpkin Films will increase in the next few years. Therefore, the proportion of the total length of the Target Dramas and Movies to the total length of video content on Pumpkin Films is expected to decrease in 2022 and 2023.

While we note that the amount of proposed Annual Caps are substantial compared with the historical revenue of the Group, we concur with the Directors' view that there is no material reliance on Tencent Technology for the following reasons:

- (i) the Group has actively diversified its business and looked for new business growth points. Apart from media streaming business by Pumpkin Films, the Group will continue to engage in the internet community services and related business. We have reviewed the 2020 Annual Report and noted that, despite of the impact of COVID-19 pandemic, the Group's internet community and related businesses remained profitable for FY2020. The Group expects its internet home furnish and internet materials business to gradually serve over 1,300 communities and more than 12 million property owners, pursue the in-depth integration of information technology and business management, and achieve technological empowerment in aspects such as customer acquisition, marketing, operation and service;
- (ii) apart from subscription income generated from Pumpkin Films platform, the Group is expected to benefited from the share of box office income and licensing rights generated from Shanghai Ruyi. As mentioned above, Shanghai Ruyi has a successful track record and strong film and television production capabilities. With over 30 film and drama projects scheduled for production, and over 40 adapted or original scripts available for film or television development in reserve, the Management expects that the revenue and profits contribution from Shanghai Ruyi will increase in the next few years;
- (iii) based on the annual business plan of Pumpkin Films, with the increase in investment of the Drama and Movies produced by Shanghai Ruyi and acquisition of video content from independent third parties, the total length of video content available on Pumpkin Films will increase in the next few years. Therefore, the proportion of the total length of the Target Dramas and Movies to the total length of video content on Pumpkin Films is expected to decrease in 2022 and 2023; and
- (iv) in order to reduce the risk exposure on undue reliance on any particular content supplier and provide a wider variety of premium-quality contents to the users of Pumpkin Films, the Group has been actively soliciting different Dramas and Movies content providers both in and outside the PRC. Currently, Pumpkin Films owns a large amount of purchased copyrighted content and has established business cooperation with a large number of media/entertainment production house and video content licensor/distributor.

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The transaction amounts under the Cooperation Agreement would eventually depend on the current and future levels of acceptance of and popularity of the Dramas and Movies and the user traffic of the Pumpkin Films platform, which are beyond the control of the Group. Therefore, we consider it difficult for the Management to determine the Annual Caps with high degree of certainty. Also, the Cooperation Agreement is a new arrangement between the Group and Tencent Technology, and there is no historical transaction that can be referenced and indicative of the future transactions amount. Nonetheless, we consider that it is in the interests of the Group and the Shareholders to determine the Annuals Caps which can accommodate the potential growth of the Group's business. In addition, the Group has appropriate internal control policies (please refer to the section headed "8. Internal Control Policies" below for reference) in place to safeguard the interests of the Shareholders. In assessing the fairness and reasonableness of the Annual Caps, we have discussed with the Management the factors taken into account as stated earlier in this section. We consider it reasonable for the Company to use the above factors in determining the Annual Caps and that the year-on-year fluctuation on the Annual Caps to be fair and reasonable.

7. Duration of the Cooperation Agreement

As set out in the Letter from the Board, the duration of the Cooperation Agreement is effective for a term of five years. When reviewing the reasons for the term of the Cooperation Agreement being more than three years, we have understand from the Management that:

- (i) it is not uncommon for the Group to enter into an agreement for broadcasting rights of Dramas and Movies for more than three years. We have obtained and reviewed five sample contracts selected by the Group on random basis in relation to content authorization or broadcasting rights agreements entered into by the Group with independent third parties have a term of more than three years; and
- (ii) the Cooperation Agreement enable the Group to provide the subscribers of Pumpkin Films with a larger variety of premium-quality Dramas and Movies, which will serve to increase the popularity and competitiveness of Pumpkin Films. As such, entering into the Cooperation Agreement with a longer term can ensure the sustainability of the content broadcasted by Pumpkin Films, which in turn providing support for the future growth of the subscribers of Pumpkin Films.

In considering whether it is normal business practice for agreements of similar nature with the Cooperation Agreement to be of such duration, we have conducted a search on similar agreements, namely broadcasting rights of video or audio-visual content, entered into and published by the companies listed on the Stock Exchange, Shenzhen Stock Exchange and Shanghai Stock Exchange for a period of 24 months prior to the date of the Cooperation Agreement. On a best-effort basis, we have identified an exhaustive list of three comparable transactions which fall within the abovementioned selection criteria (the "**Comparable Transactions**"), which have duration longer than three years. Although it is a common practice for online video streaming platform to acquire video content by entering into broadcasting right or licensing agreements with media/entertainment production house or video content licensor/distributor, the listed companies normally would not voluntarily announce or disclose the salient terms of such agreements in the public domain. As

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such, there are practical difficulties for us to identify a meaningful sample size of comparable transactions. Nonetheless, we consider that the Comparable Transactions are fair and representative samples for the purpose of assessing the duration of the Cooperation Agreement as (i) the principal business and operation of the Comparable Transactions are located in the PRC; (ii) the agreements of the Comparable Transactions are entered with reputable and leading online video streaming platforms such as iQIYI, Bilibili and Mango TV; (iii) the 24-months period prior to the date of the Cooperation Agreement for the selection of the Comparable Transactions is a reasonable timeframe for us to appraise the recent business practice of similar arrangement. Details of the Comparable Transactions are set out below:

Company Name	Stock Code	Announcement/ Agreement Date	Nature	Duration
Huanxi Media Group Limited	01003.HK	30 August 2020	New media broadcasting right and sub-licensing right of film and TV content	5 years, with an option to terminate at the end of the 4th year
Mango Excellent Media Co., Ltd.	300413.SZ	9 December 2020	Broadcasting right of TV content	5 years
Strawbear Entertainment Group	02125.HK	18 December 2020	Broadcasting right and other copyrights of drama series	Approximately 2 years and automatically renew for a term of 3 years (<i>Note</i>)

Source: the Stock Exchange website/the Shenzhen Stock Exchange website

Note: As disclosed in the prospectus of Strawbear Entertainment Group dated 31 December 2020, the relevant drama series copyrights licensing framework agreement entered with iQIYI, Inc. commences from the listing date of Strawbear Entertainment Group, being 15 January 2021, and expires on 31 December 2022, and such term would automatically renew for a term of three years unless Strawbear Entertainment Group serves written notice to cease cooperation.

Taking in account of the above, we are of the view that the duration of the Cooperation Agreement, which is longer than three years, is required and it is normal business practice for the Cooperation Agreement to be of such duration.

8. Internal Control Policies

In order to ensure that the Company complies with the pricing principles and the approval of the Annual Caps under the Cooperation Agreement, the Company has adopted a series of internal control policies in its daily operations. These internal control policies are implemented and monitored by the Company's internal audit and internal control department, independent non-executive Directors and external auditors:

- (i) the Company's internal audit and internal control department conducts semi-annually monitoring of connected transactions, the results of which together with the external auditor's report are then submitted to the audit committee and independent non-executive

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Directors for review. The Company's internal audit and internal control department supervises connected transactions and ensures that the Annual Cap under the Cooperation Agreement is not exceeded and that these transactions are carried out in the following ways: (a) in accordance with the pricing principles of the Cooperation Agreement; (b) in the ordinary and usual course of business of the Group; (c) on normal or better commercial terms; and (d) in accordance with the Cooperation Agreement, and that the terms are fair and reasonable and are in the interests of the Company and its Shareholders as a whole;

- (ii) the independent non-executive Directors have reviewed and will continue to review the continuing connected transactions and confirm in the annual report whether, these transactions are concluded on normal or better commercial terms; in accordance with the Cooperation Agreement, and that the terms are fair and reasonable and are in the interests of the Company and its Shareholders as a whole; and
- (iii) the Company's external auditors will also conduct annual reviews of the pricing principles and Annual Caps of the Cooperation Agreement and confirm them in the Company's annual report.

In light of the on-going reporting requirements to the transactions contemplated under the Cooperation Agreement, in particular, (i) the restriction on the transaction amount under the Cooperation Agreement by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company on the terms of the Cooperation Agreement and the Annual Caps, and given the Company's internal safeguards in place, we are of the view that appropriate measures will be in place to monitor the transactions contemplated under the Cooperation Agreement.

For the purpose of evaluating the effectiveness of internal control policies in monitoring the usage of the Annual Caps and ensure that the Annual Caps would not be exceeded, we have discussed with the Management and understood that the IT department of Beijing Xiaoming will be responsible for monitoring the actual runtime of the Target Dramas and Movies and total runtime of Dramas and Movies across Pumpkin Films platform on a monthly basis. The finance department of Beijing Xiaoming will then use the data provided by IT department to calculate the portion of monthly subscription income of Pumpkin Films to be shared by Tencent Technology. The senior management of Beijing Xiaoming will monitor the cumulative amount of subscription income shared by Tencent Technology on a monthly basis and report to the Company's internal audit and internal control departments should the amount of subscription income shared by Tencent Technology is closed to or expected to exceed the Annual Caps. Given that there are no historical transactions between Beijing Xiaoming and Tencent Technology prior to the date of the Cooperation Agreement, there is no historical transaction and internal approval document available in respect of the transactions contemplated under the Cooperation Agreement for our review. However we note that the Company has been in compliance with the annual caps requirement under the Listing Rules as we note from the 2019 Annual Report and 2020 Annual Report that the Company's auditors had issued unqualified letters containing the findings and conclusions in

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respect of the Company's continuing connected transactions and nothing has come to their attention that causes them to believe that the disclosed continuing connected transaction has exceeded the maximum aggregate annual caps in respect of the disclosed continuing connected transactions. In view of the above, we concur with the Directors' view that there are effective internal control policies in monitoring the usage of the Annual Caps and ensure that the Annual Caps would not be exceeded.

RECOMMENDATIONS

Having taken into consideration the factors and reasons as stated above, we are of the view that (i) the terms of the Cooperation Agreement and the transactions contemplated thereunder and the proposal annual caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Cooperation Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders as well as the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Cooperation Agreement, the transactions contemplated thereunder and the Annual Caps.

Yours faithfully,
For and on behalf of
Maxa Capital Limited
Sammy Leung
Managing Director

Mr. Sammy Leung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Maxa Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 9 years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This document, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document 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 document 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 exercise in full of the exercise rights attaching to the Warrants, were set forth as follows:

(i) As at the Latest Practicable Date:

Authorised: HK\$

100,000,000,000	Shares of HK\$0.02 each	2,000,000,000.0
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Issued and fully paid:

9,234,647,545	Shares of HK\$0.02 each	184,692,950.90
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(ii) Immediately following the exercise in full of the exercise rights attaching to the Warrants:

Authorised: HK\$

100,000,000,000	Shares of HK\$0.02 each	2,000,000,000.0
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Issued and fully paid:

9,234,647,545	Shares of HK\$0.02 each	184,692,950.90
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1,834,279,307	Warrant shares of HK\$0.96 per warrant share issued on 20 January 2021	36,685,586.14
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11,068,926,852	Total	221,378,537.04
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3. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and chief executives of the Company in 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 in which interests are held	Interest in the Shares	Approximate percentage of total issued shares as at the Latest Practicable Date
Wan Chao	Beneficial owner	2,032,000 (<i>Note 1</i>)	0.02%
Huang Xiangui	Beneficial owner	728,000 (<i>Note 2</i>)	0.00%

(ii) Interest in shares of an associated corporation of the Company — China Evergrande Group (*Note 3*)

Name of Director	Capacity in which interests are held	Number of ordinary shares held	Approximate percentage of total issued shares as at the Latest Practicable Date
Huang Xiangui	Beneficial owner	2,300,000 (<i>Note 4</i>)	0.02%
Chau Shing Yim	Beneficial owner	1,000,000 (<i>Note 5</i>)	0.01%
David Xu Wen	Beneficial owner	691,935 (<i>Note 6</i>)	0.00%

(iii) *Interest in shares of an associated corporation of the Company — Evergrande Property Services Group Limited (Note 7)*

Name of Director	Capacity/Nature of interest	Number of ordinary shares held	Approximate percentage of total issued shares as at the Latest Practicable Date
Xu Wen	Beneficial owner	1,000,000 (Note 8)	0.01%

(iv) *Interest in shares of an associated corporation of the Company — China Evergrande New Energy Vehicle Group Limited (Note 10)*

Name of Director	Capacity/Nature of interest	Number of ordinary shares held	Approximate percentage of total issued shares as at the Latest Practicable Date
Huang Xiangui	Beneficial owner	57,500 (Note 11)	0.00%

(v) *Interest in shares of an associated corporation of the Company — China Evergrande Group (Note 3)*

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 2,032,000 Shares, of which 1,592,000 Shares was directly held by Mr. Wan Chao and 440,000 Shares were deemed interests held through his spouse, Ms. Hu Zhengrong.
- (2) Mr. Huang Xiangui directly held 728,000 Shares.
- (3) China Evergrande Group is a holding company of the Company.
- (4) Mr. Huang Xiangui was interested in 2,300,000 shares of China Evergrande Group, all of which were represented by share options.
- (5) Mr. Chau Shing Yim, David directly held 1,000,000 shares of China Evergrande Group.
- (6) Mr. Xu Wen was interested in 691,935 shares of China Evergrande Group, all of which were represented by share options.

- (7) Evergrande Property Services Group Limited is a subsidiary of China Evergrande Group, the holding company of the Company.
- (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.
- (10) China Evergrande New Energy Vehicle Group Limited is a subsidiary of China Evergrande Group, the holding company of the Company.
- (11) Mr. Huang Xiangui directly held 57,500 shares of China Evergrande New Energy Vehicle Group Limited.

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	Interest in the Shares	Capacity	Approximate percentage of total issued shares as at the Latest Practicable Date
China Evergrande Group	4,206,800,199	Interest of a controlled corporation	45.55%
Solution Key Holdings Limited (<i>Note 1</i>)	4,206,800,199	Beneficial owner	45.55%
Mr. Ke Liming	2,988,610,250	Interest of a controlled corporation	32.36%
Pumpkin Films Limited (<i>Note 2</i>)	2,988,610,250	Beneficial owner	32.36%
Tencent Holdings Limited	1,560,857,236	Interest of a controlled corporation	16.90%
Water Lily Investment Limited (<i>Note 3</i>)	1,560,857,236	Beneficial owner	16.90%

Note:

- (1) Solution Key Holdings Limited is an indirect wholly-owned subsidiary of China Evergrande Group.
- (2) Pumpkin Films Limited is wholly-owned by Mr. Ke Liming.
- (3) 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

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 Group which does not expire or is not terminable by the Group within one year without payment of compensation, other than statutory compensation.

6. DIRECTOR'S INTEREST IN ASSETS

As at the Latest Practicable Date, 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 Group.

7. DIRECTORS' INTEREST IN CONTRACT

There was no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director was materially interested and which was significant to the business of the Group.

8. LITIGATION

As at the Latest Practicable Date, no member of the 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 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
Maxa Capital Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)

- (b) As at the Latest Practicable Date, Maxa Capital Limited 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) Maxa Capital Limited 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, Maxa Capital Limited did not have any interest, direct or indirect, in any assets which have been, since 31 December 2020, 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 Group, or proposed to be acquired or disposed of by or leased to any member of the 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 Group within two years immediately preceding the Latest Practicable Date and which are or may be material:

- (a) the conditional sale and purchase agreement in relation to the acquisition of one share of Virtual Cinema Entertainment Limited and all amounts (including all interests due and payable, if any) owing by Virtual Cinema Entertainment Limited (together with its subsidiaries and the variable interest entities) to Mr. Ke Liming (柯利明) and Pumpkin Films Limited and the relevant loan agreements by Power Wave Holdings Limited 力濤控股有限公司; and
- (b) the Cooperation Agreement.

11. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020 being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

12. 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.

13. 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 30 June 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 2019 and 31 December 2020;
- (c) the written consents of the experts as referred to under the paragraph headed "Qualification and consents of experts" in this appendix;
- (d) the letter from the Board, the text of which is set out on pages 5 to 16 of this circular;
- (e) the letter from the Independent Board Committee, the text of which is set out on pages 17 to 18 of this circular;
- (f) the letter from the Independent Financial Adviser, the text of which is set out on pages 19 to 34 of this circular;
- (g) the Cooperation Agreement; and
- (h) this circular.



HENG TEN 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 Island Ballroom C, Level 5, Island Shangri-La Hotel, Pacific Place Supreme Court Road, Central, Hong Kong on Monday, 28 June 2021 at 11:30 a.m. (or such time immediately following the conclusion (or adjournment) of the annual general meeting of the Company to be held on the same day and at the same place) for the purpose of considering and, if thought fit, passing the following ordinary resolution. 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 2 June 2021.

ORDINARY RESOLUTION

1. **“THAT**

- (a) the Cooperation Agreement (as defined in the circular of the Company dated 2 June 2021 of which this notice forms part (the “**Circular**”)) (a copy of which is tabled at the meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder, and the implementation thereof be and are hereby approved, confirmed and ratified;
- (b) the Annual Caps (as defined in the Circular) for the respective financial years ending on 31 December 2021, 31 December 2022 and 31 December 2023 be and are hereby approved; and

NOTICE OF SGM

- (c) any one Director (or one Director and the secretary of the Company or any two Directors or such other person (including a Director) or persons as the Board may appoint, in the case of execution of documents under seal) be and is/are hereby authorized for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with the implementation of and giving effect to the Cooperation Agreement and the transactions contemplated thereunder including the affixing of common seal thereon.”

Yours faithfully,

By order of the Board

HengTen Networks Group Limited

Xu Wen

Chairman

Hong Kong, 2 June 2021

Notes:

1. 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.
2. 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 notorially 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. 11:30 a.m. on Saturday, 26 June 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 resolution at the SGM as an alternative to attending the SGM in person.

3. 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.
4. 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.
5. For determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 23 June 2021 to Monday, 28 June 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, 22 June 2021.
6. References to time and dates in this notice are to Hong Kong time and dates.

NOTICE OF SGM

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, Mr. Huang Xiangui, Mr. Wan Chao and Mr. Chen Cong; 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.