
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Ruyi Holdings 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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儒意控股
RUYI HOLDINGS

China Ruyi Holdings Limited

中國儒意控股有限公司

(a company incorporated in Bermuda with limited liability)

(Stock Code: 136)

**(1) CONNECTED TRANSACTION INVOLVING PROPOSED ISSUE
OF NEW SHARES TO SUBSTANTIAL SHAREHOLDER
UNDER SPECIFIC MANDATE;
(2) NOTICE OF SGM; AND
(3) CLOSURE OF REGISTER OF MEMBERS**

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 6 to 24 of this circular. A notice convening the special general meeting of the Company (the “SGM”) to be held at 11:00 a.m. on Friday, 23 September 2022 at 15/F, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong is set out on pages SGM-1 to SGM-4 of this circular. A form of proxy for use by the Shareholders at the SGM (and at any adjournment thereof) is also enclosed herein.

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 returning it to the office of the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, 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 and in such event, the authority of the proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE SGM

The health of our shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing Coronavirus Disease 2019 (COVID-19) pandemic, the Company will implement the following precautionary measures at the SGM to protect attending shareholders, staff and stakeholders from the risk of infection, including:

- (i) Compulsory body temperature checks will be conducted for every Shareholder, proxy or other attendee at each entrance of the meeting venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the meeting venue or be required to leave the meeting venue.
- (ii) Each attendee must wear a surgical face mask at all times inside the meeting venue and to maintain appropriate social distancing.
- (iii) No refreshment will be served, and there will be no corporate gift.
- (iv) All participants at the SGM meeting venue must scan the “LeaveHomeSafe” venue QR code and comply with the requirements of the Vaccine Pass Direction prior to entry to the venue.
- (v) Attendees may need to confirm that (i) he/she has not travelled outside of Hong Kong within 14 days immediately before the SGM (“**Recent Travel History**”); (ii) he/she is not subject to any HKSAR Government prescribed quarantine requirement; (iii) to his/her knowledge, he/she has not, within 14 days immediately before the SGM, had close contact with any person under quarantine or with Recent Travel History; and (iv) he/she has no flu-like symptoms. Any person who fails to provide the required confirmation, or if he/she has shown flu-like symptoms, may be requested to leave or denied entry into the SGM venue.
- (vi) Only a limited number of seats will be available, with no standing arrangement, in the SGM venue. Seating at the SGM meeting venue will be arranged so as to allow for appropriate social distancing and spacing between seats and comply with the relevant laws and regulations.
- (vii) Any other additional precautionary measures in accordance with the prevailing requirements or guidelines of the Hong Kong government and/or regulatory authorities, or as considered appropriate in light of the development of the Coronavirus Disease 2019 (COVID-19) pandemic.

PRECAUTIONARY MEASURES FOR THE SGM

To the extent permitted under the applicable laws, the Company reserves the right to deny any person 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 COVID-19, the Company may be required to change the SGM arrangements at short notice. Shareholders should check the websites of the Company (<http://www.ryholdings.com>) and the Stock Exchange (www.hkexnews.hk) for further announcements and updates on the SGM arrangements.

The Company reminds attendees that they should carefully consider their own health/personal circumstances before they decide to attend the SGM in person. The Company would like to remind all Shareholders that physical attendance at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM instead of attending the SGM in person. Completion and return of the proxy forms will not preclude the Shareholders from attending and voting in person at the meeting or any adjournment thereof should they subsequently so wish, and in such case, the proxy forms previously submitted shall be deemed to be revoked.

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DEFINITIONS

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

“2022 Annual General Meeting”	the annual general meeting of the Company held on 13 June 2022
“Announcement”	the announcement of the Company dated 14 July 2022 in relation to, among others, the Share Subscription Agreements
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturdays, Sundays and public holidays and a day on which typhoon signal no. 8 or a black rainstorm warning is hoisted at any time in Hong Kong) on which banks are generally open for business in Hong Kong and the PRC
“China Handi”	China Handi Group Limited (中國漢地集團有限公司), a company established in the Cayman Islands with limited liability, which was jointly owned by two individual beneficial owners as at the Latest Practicable Date
“China Handi Closing Date”	has the meaning ascribed thereto under the paragraph headed “Closing” in this circular
“China Handi Deposit”	has the meaning ascribed thereto under the paragraph headed “Deposit” in this circular
“China Handi Share Subscription Agreement”	the share subscription agreement dated 14 July 2022 entered into between the Company as the issuer and China Handi as the subscriber in relation to the subscription of 325,000,000 Subscription Shares at the Subscription Price, as supplemented and modified from time to time
“China Handi Last Trading Day”	13 July 2022, being the last trading day prior to the signing of the China Handi Share Subscription Agreement, which took place during trading hours
“Closing”	the completion of the Share Subscriptions
“Closing Date(s)”	collectively, the Water Lily Closing Date, the Sunshine Life Closing Date and the China Handi Closing Date, each a “Closing Date”

DEFINITIONS

“Company”	China Ruyi Holdings Limited (中國儒意控股有限公司), 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)
“Conditions Precedent”	the conditions precedent set out under the paragraphs headed “Conditions Precedent under each of the Share Subscription Agreements” in this circular
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Connected Transaction”	the Share Subscription by Water Lily pursuant to the Water Lily Share Subscription Agreement
“COVID-19”	the Coronavirus Disease 2019
“Director(s)”	the director(s) of the Company
“First Share Subscription Agreements”	collectively, the First Water Lily Share Subscription Agreement and the Mr. Liu Share Subscription Agreement
“First Water Lily Share Subscription Agreement”	the share subscription agreement dated 25 January 2022 entered into between the Company as the issuer and Water Lily as the subscriber in relation to the subscription of 64,000,000 subscription shares at HK\$2.50 per subscription share
“General Mandate”	the general mandate granted by the Shareholders at the 2022 Annual General Meeting, pursuant to which the Directors were authorised to allot, issue and deal with new Shares not exceeding 20% of the aggregate number of the issued Shares then existing, that is a total of 1,870,929,509 Shares
“Group”	collectively, the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent Board committee, comprising all the independent non-executive Directors, which has been formed to advise the Independent Shareholders in respect of the Connected Transaction

DEFINITIONS

“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 Water Lily Share Subscription Agreement, and the transactions contemplated thereunder (including the Subscription Price)
“Independent Shareholders”	Shareholders other than those required under the Listing Rules to abstain from voting on the resolutions to be proposed at the SGM
“Latest Practicable Date”	2 September 2022, 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
“Longstop Date”	30 November 2022, or such later date as the Company and the relevant Subscribers may agree
“Material Adverse Effect”	any material adverse effect on the business, assets and liabilities, condition (financial or otherwise), business operations, results of operations, or general affairs of the Company or the Group taken as a whole
“More Favourable Terms”	has the meaning ascribed thereto under the paragraph headed “More Favourable Terms as to Water Lily Share Subscription Agreement” in this circular
“Mr. Liu”	Mr. Liu Xueheng (劉學恒)
“Mr. Liu Share Subscription Agreement”	the share subscription agreement dated 25 January 2022 entered into between the Company as the issuer and Mr. Liu as the subscriber in relation to the subscription of 56,000,000 subscription shares at HK\$2.50 per subscription share
“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

DEFINITIONS

“Previous Share Issuance”	the subscription and issue of the subscription shares pursuant to each of the First Share Subscription Agreements
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held for the purposes of approving, among others, the Water Lily Share Subscription Agreement (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily)
“Share Subscription Agreements”	collectively, the Water Lily Share Subscription Agreement, the Sunshine Life Share Subscription Agreement and the China Handi Share Subscription Agreement, and each a “Share Subscription Agreement”
“Share Subscription(s)”	the subscription and issue of the Subscription Shares pursuant to each of the Share Subscription Agreements
“Share(s)”	the ordinary share(s) in the share capital of the Company
“Shareholder(s)”	holder(s) of share(s)
“Specific Mandate”	the specific mandate to be granted by the Independent Shareholders to the Directors at the SGM for the allotment and issue of the Subscription Shares to Water Lily
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	collectively, Water Lily, Sunshine Life and China Handi, and each a “Subscriber”
“Subscription Price”	HK\$2.40 per Subscription Share
“Subscription Shares”	an aggregate of 975,000,000 new Shares to be issued and allotted by the Company to the Subscribers pursuant to the terms and conditions of the Share Subscription Agreements
“Sunshine Insurance”	Sunshine Insurance Group Company Limited (陽光保險集團股份有限公司), a joint stock company established on 27 June 2007 in the PRC with limited liability, which was owned by a diverse range of investors as at the Latest Practicable Date

DEFINITIONS

“Sunshine Life”	Sunshine Life Insurance Corporation Limited (陽光人壽保險股份有限公司), a joint stock company established on 17 December 2007 in the PRC with limited liability which was owned as to approximately 99.9999% by Sunshine Insurance as at the Latest Practicable Date
“Sunshine Life Closing Date”	has the meaning ascribed thereto under the paragraph headed “Closing” in this circular
“Sunshine Life Deposit”	has the meaning ascribed thereto under the paragraph headed “Deposit” in this circular
“Sunshine Life Share Subscription Agreement”	the share subscription agreement dated 13 July 2022 entered into between the Company as the issuer and Sunshine Life as the subscriber in relation to the subscription of 487,500,000 Subscription Shares at the Subscription Price
“Sunshine Life Last Trading Day”	12 July 2022, being the last trading day prior to the signing of the Sunshine Life Share Subscription Agreement, which took place after trading hours
“Tencent Group”	Tencent Holdings Limited (stock code: 700), its subsidiaries and controlled entities
“Water Lily”	Water Lily Investment Limited
“Water Lily Closing Date”	has the meaning ascribed thereto under the paragraph headed “Closing” in this circular
“Water Lily Share Subscription Agreement”	the share subscription agreement dated 13 July 2022 entered into between the Company as the issuer and Water Lily as the subscriber in relation to the subscription of 162,500,000 Subscription Shares at the Subscription Price
“Water Lily Last Trading Day”	12 July 2022, being the last trading day prior to the signing of the Water Lily Share Subscription Agreement, which took place after trading hours
“%”	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.*



儒意控股
RUYI HOLDINGS

China Ruyi Holdings Limited

中國儒意控股有限公司

(a company incorporated in Bermuda with limited liability)

(Stock Code: 136)

Executive Directors:

Mr. Ke Liming (*Chairman*)

Ms. Chen Xi

Mr. Wan Chao

Mr. Zhang Qiang

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

7 September 2022

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION INVOLVING PROPOSED ISSUE
OF NEW SHARES TO SUBSTANTIAL SHAREHOLDER
UNDER SPECIFIC MANDATE;
(2) NOTICE OF SGM; AND
(3) CLOSURE OF REGISTER OF MEMBERS**

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 Water Lily Share Subscription Agreement, and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily); (ii) a letter of recommendation from the Independent Board

LETTER FROM THE BOARD

Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) a notice convening the SGM; and (v) other information required under the Listing Rules.

On 13 July 2022, the Company entered into the Water Lily Share Subscription Agreement with Water Lily, pursuant to which the Company has agreed to allot and issue, and Water Lily has agreed to subscribe at HK\$2.40 per Subscription Share for 162,500,000 Subscription Shares on the terms of Water Lily Share Subscription Agreement.

On 14 July 2022, the Company entered into the Sunshine Life Share Subscription Agreement and the China Handi Share Subscription Agreement with Sunshine Life and China Handi, respectively, pursuant to which the Company has agreed to allot and issue, and Sunshine Life and China Handi have agreed to subscribe at HK\$2.40 per Subscription Share for 487,500,000 Subscription Shares and 325,000,000 Subscription Shares, respectively, on the terms of Sunshine Life Share Subscription Agreement and the China Handi Share Subscription Agreement.

PRINCIPAL TERMS OF THE SHARE SUBSCRIPTION AGREEMENTS

Water Lily Share Subscription Agreement

Date:	13 July 2022 (after trading hours)
Parties:	(i) the Company, as the issuer; and (ii) Water Lily, as Subscriber
Subscription Shares:	162,500,000 Subscription Shares
Subscription Price:	HK\$2.40 per Subscription Share

Water Lily is a connected person of the Company. It is an investment holding company incorporated in the British Virgin Islands with limited liability, and is a wholly-owned subsidiary of Tencent Holdings Limited (stock code: 700), which is a company principally engaged in value-added services, online advertising, fin-tech and business services.

LETTER FROM THE BOARD

Sunshine Life Share Subscription Agreement

Date:	14 July 2022 (after trading hours)
Parties:	(i) the Company, as the issuer; and (ii) Sunshine Life, as Subscriber
Subscription Shares:	487,500,000 Subscription Shares
Subscription Price:	HK\$2.40 per Subscription Share

Sunshine Life is a joint stock company established in the PRC with limited liability which carries out life and health insurance business. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of Sunshine Life or any of its ultimate beneficial owners is a connected person of the Company. Each of Sunshine Life and its ultimate beneficial owners are independent of and not connected with the Company, the directors, chief executives or substantial shareholders of the Company or its subsidiaries, or any of their respective associates as at the Latest Practicable Date.

China Handi Share Subscription Agreement

Date:	14 July 2022 (during trading hours) (as supplemented)
Parties:	(i) the Company, as the issuer; and (ii) China Handi, as Subscriber
Subscription Shares:	325,000,000 Subscription Shares
Subscription Price:	HK\$2.40 per Subscription Share

China Handi is a company established in the Cayman Islands with limited liability which is principally engaged in investment holdings. The ultimate beneficial owners of China Handi are Mr. Wu Hanling and Ms. Yu Rong. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of China Handi or any of its ultimate beneficial owners is a connected person of the Company. Each of China Handi and its ultimate beneficial owners are independent of and not connected with the Company, the directors, chief executives or substantial shareholders of the Company or its subsidiaries, or any of their respective associates as at the Latest Practicable Date.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Subscribers and, if applicable, its ultimate beneficial owner(s) are independent of each other.

LETTER FROM THE BOARD

Subscription Shares

Assuming there will be no change in the issued share capital of the Company from the date of the Share Subscription Agreements to each of the Closing Dates, whichever is the latest, save for the allotment and issue of the Subscription Shares:

- (a) the Subscription Shares represent approximately 10.42% of the existing issued share capital of the Company as at the date of the Announcement, of which:
 - (i) the Subscription Shares to be allotted and issued to Water Lily represent approximately 1.74% of the issued share capital of the Company as at the date of the Announcement;
 - (ii) the Subscription Shares to be allotted and issued to Sunshine Life represent approximately 5.21% of the issued share capital of the Company as at the date of the Announcement; and
 - (iii) the Subscription Shares to be allotted and issued to China Handi represent approximately 3.47% of the issued share capital of the Company as at the date of the Announcement.
- (b) the Subscription Shares represent approximately 9.44% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, of which:
 - (i) the Subscription Shares to be allotted and issued to Water Lily represent approximately 1.57% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares;
 - (ii) the Subscription Shares to be allotted and issued to Sunshine Life represent approximately 4.72% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares; and
 - (iii) the Subscription Shares to be allotted and issued to China Handi represent approximately 3.15% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Subscription Price

The Subscription Price of HK\$2.40 per Subscription Share represents:

- (a) a discount of approximately 2.04% to the closing price of HK\$2.45 per Share as quoted on the Stock Exchange on the date of the Water Lily Share Subscription Agreement;
- (b) a discount of approximately 2.04% to the closing price of HK\$2.45 per Share as quoted on the Stock Exchange on the last trading day before the date of the China Handi Share Subscription Agreement and Sunshine Life Share Subscription Agreement;

LETTER FROM THE BOARD

- (c) a discount of approximately 10.11% to the average closing price of approximately HK\$2.67 per Share as quoted on the Stock Exchange for the last five (5) trading days up to and including the Water Lily Last Trading Day;
- (d) a discount of approximately 7.76% to the average closing price of approximately HK\$2.60 per Share as quoted on the Stock Exchange for the last five (5) trading days up to and including the China Handi Last Trading Day and Sunshine Life Last Trading Day;
- (e) a discount of approximately 13.67% to the average closing price of approximately HK\$2.78 per Share as quoted on the Stock Exchange for the last ten (10) trading days up to and including the Water Lily Last Trading Day;
- (f) a discount of approximately 11.93% to the average closing price of approximately HK\$2.73 per Share as quoted on the Stock Exchange for the last ten (10) trading days up to and including the China Handi Last Trading Day and Sunshine Life Last Trading Day;
- (g) a premium of approximately 222.82% to the audited net asset value of approximately HK\$0.743 per Share as at 31 December 2021, calculated based on the audited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$ 6,865,522,260 (equivalent to RMB 5,613,251,000) and total number of issued shares of 9,234,647,545 as at 31 December 2021; and
- (h) a cumulative theoretical value dilution of approximately 0.11%, calculated by dividing the cumulative price discount with the total number of shares issued immediately before the First Water Lily Share Subscription Agreement and shares issued pursuant to the First Water Lily Share Subscription Agreement and the Water Lily Share Subscription Agreement, based on the average closing price of approximately HK\$2.30 per Share and approximately HK\$2.67 per Share respectively, as quoted on the Stock Exchange for the last five (5) trading days up to and including the date of the respective share subscription agreement.

The Subscription Price was determined after arm's length negotiation between the Company and each of the Subscribers after taking into account the prevailing market price of the Shares and the trading volume of the Shares. In respect of the Share Subscriptions by Sunshine Life and China Handi, the Directors are of the view that the terms of the Sunshine Life Share Subscription Agreement and the China Handi Share Subscription Agreement (including the Subscription Price) are fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole. In respect of the Share Subscription by Water Lily, the Directors (other than the independent non-executive Directors who will give their opinion after considering the advice from the Independent Financial Adviser), are of the view that the terms of the Water Lily Share Subscription Agreement (including the Subscription Price) are fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The Subscription Shares have an aggregate nominal value of HK\$19,500,000. The net proceeds from the Share Subscriptions, after deduction of relevant costs and expenses, is estimated to be approximately HK\$2,340,000,000. The net subscription price per Subscription Share, after deduction of relevant costs and expenses, is estimated to be approximately HK\$2.40 per Subscription Share.

The Subscription Price shall be payable by the Subscribers in cash.

Ranking

The Subscription Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with all other Shares in issue at the time of allotment and issue of the Subscription Shares.

Conditions Precedent under each of the Share Subscription Agreements

Completion of each of the Share Subscription Agreements is conditional upon the satisfaction (or, if applicable, waiver) of the following conditions precedent:

As to the Water Lily Share Subscription Agreement:

- (a) the passing of resolution(s) by the Independent Shareholders at the SGM approving the Water Lily Share Subscription Agreement and the transactions contemplated thereunder;
- (b) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the relevant Subscription Shares and such approval not having been withdrawn or revoked;
- (c) the current listing of the Shares on the Stock Exchange not having been cancelled or withdrawn;
- (d) each of the warranties included in the Water Lily Share Subscription Agreement given by the Company remaining true and accurate in all respects and not misleading in any respect as at Closing;
- (e) the Company not having breached the pre-completion undertakings given in the Water Lily Share Subscription Agreement entered into between the Company and Water Lily in any respect, and not having materially breached or failed to perform in any material respect its other obligations or undertakings under the Water Lily Share Subscription Agreement prior to Closing. The pre-completion undertakings are set out as the following:
 - (i) the Company shall not, except with the prior written consent of Water Lily, issue or agree to create or issue any Share, warrant or other securities convertible into Shares, or grant or agree to grant any share option or other right to acquire or convert into any Share, reduce or redeem or agree to reduce or redeem any of its

LETTER FROM THE BOARD

Shares, consolidate or sub-divide or cancel or vary the rights of any Shares or otherwise take any action which might result in Water Lily subscribing at Closing a percentage interest in the Company lower than that contemplated in the Water Lily Share Subscription Agreement, which is 1.55% of the total issued Shares as enlarged by the share issuances pursuant to the transactions contemplated under the Share Subscription Agreements (without taking into account the outstanding share options and warrants issued by the Company as at 13 July 2022);

- (ii) the Company shall not declare, pay or make any dividend or distribution, reduce or return any capital, buyback or repurchase any Shares, or undergo any capital reorganization or change in its capital structure;
 - (iii) the Company shall immediately notify Water Lily in writing if it becomes aware of any matter, fact or circumstance which constitutes or might constitute a breach of any warranty or any of the other pre-completion undertakings or prevents or might prevent any Condition Precedent set out in paragraphs (a) to (f) or (h) from being satisfied, and shall take such steps as may be reasonably requested by Water Lily to remedy and/or announce the same (if the same is required to be announced in accordance with applicable laws, rules and regulations, including but not limited to the Listing Rules and the SFO);
 - (iv) the Company and each member of the Group shall comply with all applicable laws, rules and regulations, including but not limited to the Listing Rules and the SFO;
 - (v) the Company shall maintain the listing of all the Shares on the Stock Exchange; and
 - (vi) after the grant of the Specific Mandate at the SGM, the Company shall as soon as practicable thereafter apply to the Stock Exchange for the granting of the approval for the listing of, and permission to deal in, the Subscription Shares to Water Lily;
- (f) all consents, approvals, permits, authorizations or clearances (as the case may be) that the Company reasonably considers necessary pursuant to applicable laws, regulations or rules (including but not limited to the Listing Rules) for its execution, implementation and completion of Water Lily Share Subscription Agreement having been obtained, and all such consents, approvals, permits, authorisations and clearances not having been revoked or withdrawn at any time before Closing;
- (g) all consents, approvals, permits, authorizations or clearances (as the case may be) that Water Lily reasonably considers necessary pursuant to applicable laws, regulations or rules (including but not limited to the Listing Rules) for its execution, implementation and completion of the Water Lily Share Subscription Agreement having been obtained, and all such consents, approvals, permits, authorisations and clearances not having been revoked or withdrawn at any time before Closing; and

LETTER FROM THE BOARD

- (h) from the date of the Water Lily Share Subscription Agreement entered into between the Company and Water Lily up to and as at the Water Lily Closing Date, there not having occurred any change (nor any development or event involving a prospective change), in the business, assets and liabilities, condition (financial or otherwise), business operations, results of operations or general affairs of the Company or the Group taken as a whole (whether or not arising in the ordinary course of business), which, in the reasonable opinion of Water Lily, has or would have a Material Adverse Effect.

At any time on or before 11:59 p.m., on the Water Lily Closing Date, Water Lily may waive any Condition Precedent set out in paragraphs (d) to (h) pursuant to the Water Lily Share Subscription Agreement. The Condition Precedent set out in paragraphs (a), (b) and (c) cannot be waived by any party. As at the Latest Practicable Date, none of the Conditions Precedent under the Water Lily Share Subscription Agreement has been fulfilled.

As to the Sunshine Life Share Subscription Agreement:

- (i) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the relevant Subscription Shares and such approval not having been withdrawn or revoked prior to Closing;
- (j) the current listing of the Shares on the Stock Exchange not having been cancelled or withdrawn;
- (k) each of the warranties included in the relevant Share Subscription Agreement given by the relevant Subscriber remaining true and accurate in all respects and not misleading in any respect as at Closing;
- (l) each of the warranties included in the relevant Share Subscription Agreement given by the Company remaining true and accurate in all respects and not misleading in any respect as at Closing;
- (m) the Company having fully complied with and fulfilled in all material respect its other obligations under the relevant Share Subscription Agreement prior to Closing;
- (n) the Company having obtained all necessary approvals (if required) from any third parties for relevant Share Subscription Agreement and the transactions contemplated thereunder, and such approvals have not been withdrawn or revoked prior to Closing; and
- (o) the relevant Subscriber having obtained all necessary approvals (if required) from any third parties for the relevant Share Subscription Agreement and the transactions contemplated thereunder, and such approvals have not been withdrawn or revoked prior to Closing.

The Condition Precedent set out in paragraphs (i) and (j) cannot be waived by any party. As at the Latest Practicable Date, none of the Conditions Precedent under the Sunshine Life Share Subscription Agreement has been fulfilled.

LETTER FROM THE BOARD

As to the China Handi Share Subscription Agreement:

(p) each of the Conditions Precedent set out in paragraphs (i) to (o) above;

The Condition Precedent set out in paragraphs (i) and (j) cannot be waived by any party. As at the Latest Practicable Date, none of the Conditions Precedent under the China Handi Share Subscription Agreement has been fulfilled.

Deposit

As to the Sunshine Life Share Subscription Agreement:

Prior to 29 July 2022, Sunshine Life shall pay HK\$155 million as deposit (the “**Sunshine Life Deposit**”) to the Company, provided that there is no occurrence of any matter or event which would constitute a breach (or non-fulfilment) of any of the aforesaid Conditions Precedent (i), (j), (l), (m) and (n) after the date of the Sunshine Life Share Subscription Agreement and prior to 29 July 2022.

If Sunshine Life fails to complete its subscription of the relevant Subscription Shares in accordance with the Sunshine Life Share Subscription Agreement due to its own fault, the Sunshine Life Deposit shall be forfeited by the Company.

Prior to 29 July 2022, Sunshine Life has fully paid the Sunshine Life Deposit to the Company.

As to the China Handi Share Subscription Agreement:

China Handi shall pay HK\$156 million as deposit (the “**China Handi Deposit**”) to the Company, provided that there is no occurrence of any matter or event which would constitute a breach (or non-fulfilment) of any of the aforesaid Conditions Precedent (i), (j), (l), (m) and (n) after the date of the China Handi Share Subscription Agreement. The Company and China Handi expect to enter into a side letter to extend the deposit payment date to a date not later than 30 September 2022. As at the Latest Practicable Date, China Handi has not paid the China Handi Deposit to the Company.

If China Handi fails to complete its subscription of the relevant Subscription Shares in accordance with the China Handi Share Subscription Agreement due to its own fault, the China Handi Deposit shall be forfeited by the Company.

Termination

As to the Water Lily Share Subscription Agreement:

If any Condition Precedent set out in paragraphs (a), (b) and (c) as to Water Lily Share Subscription Agreement has not been satisfied by 11:59 p.m., on the Longstop Date, the Water Lily Share Subscription Agreement shall be automatically terminated with immediate effect. If any Condition Precedent set out in paragraphs (d) to (h) has not been waived by Water Lily pursuant to

LETTER FROM THE BOARD

the terms of the Water Lily Share Subscription Agreement or has not been satisfied by 11:59 p.m., on the Water Lily Closing Date, the Water Lily Share Subscription Agreement shall be automatically terminated with immediate effect.

As to the Sunshine Life Share Subscription Agreement and the China Handi Share Subscription Agreement:

If any Condition Precedent set out in paragraphs (i) and (o) has not been satisfied or waived (as applicable) by the Longstop Date, the relevant Share Subscription Agreement shall be automatically terminated with immediate effect, save for claims arising from any antecedent breach of any obligation under the relevant Share Subscription Agreement.

Closing

As to the Water Lily Share Subscription Agreement:

Subject to the Conditions Precedent set out in paragraphs (a) to (h) being satisfied or waived (as applicable) and the relevant terms under the Water Lily Share Subscription Agreement, Closing under the Water Lily Share Subscription Agreement shall occur on the date that is ten (10) Business Days after the date (not being later than the Longstop Date) on which the last of the Conditions Precedent (other than those conditions which are expressed to be satisfied on or as at the Water Lily Closing Date, but subject to the satisfaction or waiver of such conditions) is satisfied or waived (if applicable) via exchange of documents and signatures, or at such other date, time and venue as the parties may agree in writing (the “**Water Lily Closing Date**”).

As to the Sunshine Life Share Subscription Agreement and the China Handi Share Subscription Agreement:

Subject to the Conditions Precedent set out in paragraphs (i) to (o) being satisfied or waived (as applicable) and the relevant terms under the relevant Share Subscription Agreements, Closing under the relevant Share Subscription Agreements shall occur on 12 October 2022 or such other date, as the parties may agree in writing (the “**Sunshine Life Closing Date**” or the “**China Handi Closing Date**”, as applicable).

For the avoidance of doubt, completion of each of the Share Subscription Agreements are not inter-conditional to each other.

More Favourable Terms as to Water Lily Share Subscription Agreement

In respect of the Water Lily Share Subscription Agreement, the Company undertook to Water Lily that, in the event the Company at any time proposes to grant or has granted to any Subscribers other than Water Lily, whether under any other Share Subscription Agreements or otherwise, any terms, rights, powers, privileges or preferences relating to or in connection with the Share Subscriptions by any other Subscribers which are in any way more favourable than those granted to Water Lily under the Water Lily Share Subscription Agreement (the “**More Favourable Terms**”),

LETTER FROM THE BOARD

Water Lily shall be entitled to such More Favourable Terms and the Company shall immediately notify Water Lily of such More Favourable Terms and take all necessary actions to procure that such More Favourable Terms are offered and granted to Water Lily as soon as practicable.

Neither Sunshine Life nor China Handi is entitled to any terms which are of equivalent effect to the More Favourable Terms.

The Directors consider that the offer of the More Favourable Terms to Water Lily exclusively is fair and reasonable, as the Group strives to maintain and strengthen its collaborative relationship with Tencent Group and further taps into Tencent Group's extensive experience and resources in the realms of online streaming and game products operation.

Specific Mandate

In respect of the Share Subscription by Water Lily, the relevant Subscription Shares will be allotted and issued under the Specific Mandate to be sought from the Independent Shareholders at the SGM.

General Mandate

In respect of the Share Subscription by Sunshine Life and China Handi, the relevant Subscription Shares will be issued under the General Mandate. As at the Latest Practicable Date, no Share has been issued by the Company under the General Mandate. As such, the maximum number of the new Shares which may be issued by the Company under the General Mandate is 1,870,929,509 Shares, being 20% of the total number of 9,354,647,545 issued Shares as at the date of the 2022 Annual General Meeting. Therefore, the General Mandate is sufficient for the allotment and issue of Subscription Shares to Sunshine Life and China Handi.

Listing Application

An application has been made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares on the Stock Exchange. The Stock Exchange has granted conditional listing approval for the relevant Subscription Shares to Sunshine Life and China Handi, subject to the fulfillment of all other conditions of the Sunshine Life Share Subscription Agreement and China Handi Share Subscription Agreement.

LETTER FROM THE BOARD

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY FOLLOWING THE COMPLETION OF THE SHARE SUBSCRIPTIONS

The table below sets out a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the Closing (assuming there being no other changes to the issued share capital of the Company between the Latest Practicable Date and each of the Closing Dates, whichever is later, save for the allotment and issue of the Subscription Shares):

Name of Shareholder	(i) As at the Latest Practicable Date		(ii) Immediately after the Closing (assuming there is no change in the number of the issued Shares between the Latest Practicable Date and each of the Closing Dates, whichever is the latest, save for the allotment and issue of the Subscription Shares)	
	No. of Shares	Approximate per cent. (%)	No. of Shares	Approximate per cent. (%)
<i>Directors (Other than Mr. Ke Liming)</i>				
<i>(Note 1)</i>				
Mr. Wan Chao <i>(Note 2)</i>	2,032,000	0.02%	2,032,000	0.02%
<i>Substantial Shareholders</i>				
Mr. KE Liming <i>(Note 3)</i>	1,893,101,943	20.24%	1,893,101,943	18.33%
Water Lily <i>(Note 4)</i>	<u>1,883,234,565</u>	<u>20.13%</u>	<u>2,045,734,565</u>	<u>19.80%</u>
Sub-total of non-public Shareholders	<u>3,778,368,508</u>	<u>40.39%</u>	<u>3,940,868,508</u>	<u>38.15%</u>
<i>Other Public Shareholders</i>				
Sunshine Life	—	—	487,500,000	4.72%
China Handi	—	—	325,000,000	3.15%
Other Public Shareholders	<u>5,576,279,037</u>	<u>59.61%</u>	<u>5,576,279,037</u>	<u>53.98%</u>
Sub-total of public Shareholders	<u>5,576,279,037</u>	<u>59.61%</u>	<u>6,388,779,037</u>	<u>61.85%</u>
Total number of issued shares	<u>9,354,647,545</u>	<u>100.00%</u>	<u>10,329,647,545</u>	<u>100.00%</u>

Notes:

- As at the Latest Practicable Date, each of Ms. Chen Xi and Mr. Zhang Qiang was interested in 48,000,000 and 10,000,000 Shares (within the mean of Part XV of the SFO), respectively, being the underlying shares of the share options granted to Ms. Chen Xi and Mr. Zhang Qiang pursuant to the share option scheme of the Company. For the purpose of this circular, the above table does not include any underlying shares to be granted under any share options granted to the Directors.

LETTER FROM THE BOARD

2. As at the Latest Practicable Date, Mr. Wan Chao was interested in 2,032,000 Shares, of which 1,592,000 Shares were directly held by Mr. Wan Chao himself and 4,400,000 Shares were deemed interests held through his spouse.
3. As at the Latest Practicable Date, 1,893,101,943 Shares were indirectly held by Mr. Ke Liming, an executive Director and the Chairman of the Board. Mr. Ke Liming was also deemed to be interested in 1,834,279,307 Shares within the meaning of Part XV of the SFO, being the underlying shares of the warrants granted to Pumpkin Films Limited, a company wholly-owned by him.
4. As at the Latest Practicable Date, Water Lily was directly interested in 1,883,234,565 Shares. Water Lily is a wholly-owned subsidiary of Tencent Holdings Limited.
5. Certain figures included in the table above have been rounded to the nearest integer or to two decimal places. Any discrepancies between the total shown and the sum of the amounts listed are due to rounding.

REASONS FOR AND BENEFITS OF THE ISSUE OF SUBSCRIPTION SHARES

Under the proposed fundraising, the issuance of the Subscription Shares is expected to provide the Group with definite amount of capital whereby the shareholders base of the Company will also be enlarged and diversified, further strengthening the financial position and market reputation of the Group.

To support the long-term business development of the Company, Tencent Holdings Limited, through its indirect wholly-owned subsidiary, namely Water Lily, entered into the Water Lily Share Subscription Agreement with the Company. The entering into the Water Lily Share Subscription Agreement will allow the Company to further improve its capital structure while providing additional financial support for the Company's future business development and industrial investments.

Taking into account the recent market conditions, the Directors consider that raising funds by way of allotment and issue of the Subscription Shares would enable the Company to continue to obtain funds at a lower cost, as compared to a rights issue or an open offer. The Board has considered other alternative fundraising methods such as debt financing, rights issue or open offer. The Board has considered that debt financing may incur financial costs on the Group, while rights issue or open offer will involve the issue of listing documents with other application and administrative procedures which may require longer time and incur additional administrative costs as compared to the equity financing by way of allotment and issue of new Shares under the General Mandate and the Specific Mandate.

The Directors considers that the Share Subscriptions would provide significant amount of financial resources to the Group. As at 30 June 2022, the Group maintained cash and bank balance of approximately RMB450 million. The Board expects that, for the next twelve months, the Group will need a total of approximately RMB100 million for its general working capital purposes, and a total of approximately RMB2,000 million for its growth and expansion of the business. The Board's estimation of the expected funding needs is based on the following key factors and assumptions: (a) the Group's latest cash and bank balance and expected cash flow to be generated from its ordinary and usual course of business; (b) The Share Subscriptions will be completed and the Group will

LETTER FROM THE BOARD

obtain full amount proceeds pursuant to the terms of the Share Subscription Agreements to meet the planned capital expenditure and business development requirements during the period; (c) there will be no material changes in existing laws and regulations, or other government policies relating to the Group, the industry or the political or market environment in which the Group operate; and (d) the Group will continue its normal business operations, and there will be no force majeure, unforeseeable factors, extraordinary items or economic changes which would materially disrupt the Group's business or operations.

Based on the above, the Group's funding needs for the next twelve months can be satisfied by the net proceeds from the Share Subscriptions, which is expected to be utilized as detailed below in the section headed "Use of Proceeds" in this circular. The Directors will continue to assess its cash and working capital positions taking into account the Group's business development and may, if needed, seek additional financing to satisfy the Group's growth and expansion plan as opportunities arise.

USE OF PROCEEDS

The gross proceeds of the Share Subscriptions, in aggregate, will be approximately HK\$2,340,000,000 (as to approximately HK\$1,950,000,000 from the Share Subscriptions under the General Mandate and as to approximately HK\$390,000,000 from the Share Subscription under the Specific Mandate). The aggregate net proceeds of the Share Subscriptions, after the deduction of related fees and expenses, will be approximately HK\$2,340,000,000.

The Company intends to apply the net proceeds from the Share Subscriptions in the following manner:

Proposed use of proceeds	Allocated amount of net proceeds <i>(Approximate HK\$ million)</i>
General working capital purposes <i>(Note 1)</i>	57
The growth and expansion of the business of the Group in the foreseeable future <i>(Note 2)</i> , including:	2,283
content production	1,770
purchase of drama script and copyright	57
purchase of copyright of films and TV programs	342
development of online gaming business	<u>114</u>
Total	<u><u>2,340</u></u>

LETTER FROM THE BOARD

Note 1: It is expected that net proceeds allocated to general working capital purposes will be fully utilised within next 12 to 18 months.

Note 2: As at the Latest Practicable Date, the Group has been planning to develop or in the course of developing 13 films and TV programs. It is expected that a total amount of approximately HK\$1,800 million will be required to carry out the aforementioned content development plan. The Group will continue to explore appropriate content production plans and copyright investment opportunities in the foreseeable future. It is expected that net proceeds allocated to the growth and expansion of the business of the Group will be fully utilised within next 12 to 18 months.

As at the Latest Practicable Date, the Company has no intention or plan, or has entered into any agreement, arrangement, negotiation or undertaking (whether formal or informal; implied or expressed) in relation to acquisition of new businesses.

EQUITY FUND RAISING OF THE COMPANY DURING THE PAST TWELVE MONTHS

On 25 January 2022, the Company entered into (a) the First Water Lily Share Subscription Agreement and (b) the Mr. Liu Share Subscription Agreement (namely, the First Share Subscription Agreements). The aggregate net proceeds of the subscription and issue of the subscription shares pursuant to each of the First Share Subscription Agreements, after the deduction of related fees and expenses, was approximately HK\$300,000,000, which were intended to be utilized (a) for the Group's general working capital purposes and (b) for the growth and expansion of the business of the Group, as described in the sub-section headed "Use of Proceeds" in the announcement of the Company dated 25 January 2022.

As at the Latest Practicable Date, the Group had fully utilized the net proceeds raised from the Previous Share Issuance, further details of which are set out as follows:

Proposed use of proceeds as disclosed in the announcement of the Company dated 25 January 2022	Allocated amount of net proceeds (HK\$ million)	Utilized amount as at the Latest Practicable Date (HK\$ million)	Unutilized amount as at the Latest Practicable Date (HK\$ million)
The Group's general working capital purposes	45	45	—
The growth and expansion of the business of the Group	255	255	—
Total	300	300	—

Saved as disclosed above, the Company had not conducted any other equity fundraising activity in the past twelve months immediately preceding the Latest Practicable Date.

LETTER FROM THE BOARD

INFORMATION OF THE COMPANY

The Company is listed on the Stock Exchange (stock code: 136). The Company is an investment holding company. The Group is principally engaged in content production and online streaming business, internet community services and related businesses, and manufacture and sales of accessories.

IMPLICATIONS UNDER THE LISTING RULES

Water Lily Share Subscription Agreement

As at the Latest Practicable Date, Water Lily held 1,883,234,565 Shares which represented approximately 20.13% of the issued share capital of the Company. Accordingly, Water Lily is a substantial shareholder and a connected person of the Company and the Water Lily Share Subscription Agreement (and the Share Subscription by Water Lily contemplated thereunder) constitute a connected transaction for the Company which is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Subscription Shares to be issued and allotted to Water Lily will be allotted and issued under the Specific Mandate to be obtained at the SGM, the Share Subscription by Water Lily is subject to the Independent Shareholders' approval.

Sunshine Life Share Subscription Agreement and China Handi Share Subscription Agreement

As the relevant Subscription Shares to be issued and allotted to Sunshine Life and China Handi will be allotted and issued under the General Mandate, no additional Shareholders' approval is required.

FORMATION OF THE INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Chau Shing Yim, David, Mr. Nie Zhixin, Mr. Chen Haiquan and Professor Shi Zhuomin, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the Share Subscription by Water Lily. An Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

SGM

The SGM will be convened for the purpose of considering and, if thought fit, approving, among other things, the Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for

LETTER FROM THE BOARD

the allotment and issue of the Subscription Shares to Water Lily). A notice convening the SGM to be held at 15/F, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong on Friday, 23 September 2022 at 11:00 a.m. is set out on pages SGM-1 to SGM-4 of this circular.

According to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at the SGM will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands and an announcement on the results of the poll will be made after the SGM pursuant to Rule 13.39(5) of the Listing Rules.

Water Lily and its associate(s) will abstain from voting on the relevant ordinary resolution(s) at the SGM. Save as disclosed and to the best of the knowledge, information and belief of the Directors, no other Shareholder has a material interest in the Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily), and is required to abstain from voting on the resolutions to approve the aforesaid matters at the SGM.

To the best of the knowledge and belief of the Directors, none of the Directors has any interest in the resolution(s) of the Board to consider and approve the Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily) or is otherwise required to abstain from voting on the relevant resolution(s) of the Board.

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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as practicable and in any event not less than 48 hours before the time appointed for holding the SGM (i.e. no later than 11:00 a.m. on Wednesday, 21 September 2022) 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 Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily); and (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Water Lily Share Subscription Agreement and the transactions contemplated

LETTER FROM THE BOARD

thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily).

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 Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily) are fair and reasonable, and on normal commercial terms, although not in the ordinary and usual course of business of the Group, 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(s) relating thereto at the SGM.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Tuesday, 20 September 2022 to Friday, 23 September 2022 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Monday, 19 September 2022.

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.

LETTER FROM THE BOARD

Completion of the issue of the Subscription Shares are conditional upon the fulfilment of the conditions precedent set out under the paragraphs headed “Conditions Precedent under each of the Share Subscription Agreements” in this circular, which may or may not be fulfilled. Accordingly, the aforementioned completions may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

Yours faithfully,
By order of the Board
China Ruyi Holdings Limited
Ke Liming
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 Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily) for inclusion in this circular.



儒意控股
RUYI HOLDINGS

China Ruyi Holdings Limited

中國儒意控股有限公司

(a company incorporated in Bermuda with limited liability)

(Stock Code: 136)

7 September 2022

To the Independent Shareholders

**CONNECTED TRANSACTION INVOLVING PROPOSED ISSUE OF
NEW SHARES TO SUBSTANTIAL SHAREHOLDER
UNDER SPECIFIC MANDATE**

Dear Sir or Madam,

We refer to the circular issued by the Company to its Shareholders dated 7 September 2022 (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 Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily) are fair and reasonable, and on normal commercial terms, although not in the ordinary and usual course of business of the Group, are 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 Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Water Lily). 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 6 to 24 of the Circular and a letter of advice from Maxa Capital Limited, as set out on pages 27 to 48 of the Circular, both of which provide details of the Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily).

Having considered the terms of the Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily), 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 Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily) are fair and reasonable, and on normal commercial terms, although not in the ordinary and usual course of business of the Group, are 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 Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily).

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 Water Lily Share Subscription Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



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

7 September 2022

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sir or Madam,

CONNECTED TRANSACTION INVOLVING PROPOSED ISSUE OF NEW SHARES TO SUBSTANTIAL SHAREHOLDER UNDER SPECIFIC MANDATE

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 terms of the Water Lily Share Subscription Agreement and the transactions contemplated thereunder, 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 7 September 2022 (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 otherwise requires.

On 13 July 2022, the Company entered into the Water Lily Share Subscription Agreement with Water Lily, pursuant to which the Company has agreed to allot and issue, and Water Lily has agreed to subscribe at HK\$2.40 per Subscription Share for 162,500,000 Subscription Shares on the terms of the Water Lily Share Subscription Agreement. On 14 July 2022, the Company entered into the Sunshine Life Share Subscription Agreement and the China Handi Share Subscription Agreement with Sunshine Life and China Handi, respectively, pursuant to which the Company has agreed to allot and issue, and Sunshine Life and China Handi have agreed to subscribe at HK\$2.40 per Subscription Share for 487,500,000 Subscription Shares and 325,000,000 Subscription Shares, respectively, on the terms of the Sunshine Life Share Subscription Agreement and the China Handi Share Subscription Agreement. In respect of the Share Subscription by Water Lily, the relevant Subscription Shares will be allotted and issued under the Specific Mandate to be sought from the Independent Shareholders at the SGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Subscription Shares to be allotted and issued to Water Lily represent approximately 1.74% of the issued share capital of the Company as at the Latest Practicable Date and approximately 1.57% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

LISTING RULES IMPLICATION

As at the Latest Practicable Date, Water Lily held 1,883,234,565 Shares which represented approximately 20.13% of the issued share capital of the Company. Accordingly, Water Lily is a substantial shareholder and a connected person of the Company and the Water Lily Share Subscription Agreement (and the Share Subscription by Water Lily contemplated thereunder) constitutes a connected transaction for the Company under the Listing Rules which is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Water Lily is a Shareholder and is indirectly wholly-owned by Tencent Holdings Limited (“**Tencent Holdings**”). To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder, other than Water Lily and its associate(s), has a material interest in the Water Lily Share Subscription Agreement and the transactions contemplated thereunder (including without limitation, (a) the allotment and issue of the Subscription Shares to Water Lily and (b) the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to Water Lily), and is required to abstain from voting on the resolutions to approve the aforesaid matters at the SGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Chau Shing Yim, David, Mr. Nie Zhixin, Mr. Chen Haiquan and Professor Shi Zhuomin, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the Share Subscription by Water Lily. We, Maxa Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company, its subsidiaries and any other parties that could reasonably be regarded as relevant to our independence in accordance with Rule 13.84 of the Listing Rules and accordingly, were qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Water Lily Share Subscription Agreement and the transactions contemplated thereunder. In the past two years, we were appointed by the Company as the independent financial adviser in (i) February 2022 in respect of a share subscription transaction; (ii) January 2022 and April 2021, respectively, in respect of certain continuing connected transactions; and (iii) December 2020 in respect of a major transaction. In addition, we have been appointed by China Evergrande Group, which was the then controlling shareholder of the Company, as independent financial adviser in January 2021 and April 2021, respectively, to opine on the dilution of effective interest

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of certain subsidiaries of China Evergrande Group. Saved as disclosed above and 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 Share Subscription Agreements; (ii) the annual report of the Company for the year ended 31 December 2019 (the “**2019 AR**”); (iii) the annual report of the Company for the year ended 31 December 2020 (the “**2020 AR**”); and (iv) the annual report of the Company for the year ended 31 December 2021 (the “**2021 AR**”). 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, 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 Date 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 representations and opinions expressed by the Company, its advisers and/or the Directors. 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.

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

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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 arriving at our opinion in respect of the Water Lily Share Subscription Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

The Company is an investment holding company. The Group is principally engaged in content production and online streaming business, internet community services and related business and manufacture and sales of accessories.

Set out below is a summary of the consolidated financial information of the Group for the three years ended 31 December 2019 (“FY2019”), 31 December 2020 (“FY2020”) and 31 December 2021 (“FY2021”) as extracted from the 2019 AR, 2020 AR and 2021 AR:

	For the year ended 31 December		
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
Revenue	337,300	230,114	2,318,132
— Internet community and related businesses	278,269	185,470	52,031
— Manufacture and sales of accessories	59,031	44,644	51,029
— Content production and online streaming	—	—	2,215,072
Gross profit	202,390	110,222	1,032,268
Profit for the year	92,073	12,022	1,173,652

As illustrated in the table above, the Group’s revenue amounted to approximately RMB230.1 million for FY2020, representing a decrease of approximately 31.8% as compared to that for FY2019. For FY2020, the Group conducted its internet community and related services businesses 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.

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The Group recorded net profit of approximately RMB12.0 million for FY2020, which decreased by approximately 86.9% as compared to the net profit of approximately RMB92.1 million for FY2019. The decrease in the Group's net profit for FY2020 was mainly due to the decrease in profit from 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 illustrated from the table above, the total revenue of the Group was approximately RMB2,318.1 million for FY2021, representing an increase of approximately 907.4% as compared to approximately RMB230.1 million for FY2020. Such significant increase in the revenue was primarily attributable to the revenue derived from the content production and online streaming segment from nil for FY2020 to approximately RMB2,215.1 million for FY2021. 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 “VCEL Acquisition”). The acquisition was subsequently completed on 20 January 2021. VCEL, through the variable interest entity arrangement, controls and holds 100% interest in three variable interest entities, namely Shanghai Ruyi Movie Television Production Co., Ltd. (“Ruyi Films”), Shenzhen Jingxiu Network Technology Co., Ltd. (“Shenzhen Jingxiu”) and Beijing Xiaoming Zhumeng Data Services Co., Ltd. (“Beijing Xiaoming”). Ruyi Films is a professional film and television production arm of the Group with industry-leading capabilities in research and development, production, as well as promotion and distribution. During FY2021, Ruyi Films released multiple films, namely “A Little Red Flower” (《送你一朵小紅花》), “Hi, Mom” (《你好，李煥英》), “The Reunions” (《吉祥如意》), “Shock Wave 2” (《拆彈專家2》), “Xiaguang” (《霞光》) and “Poetry of the Song Dynasty” (《大宋宮詞》). In particular, “A Little Red Flower” (《送你一朵小紅花》), which was released on 31 December 2020, recorded a cumulative box office of over RMB1.43 billion, and became the top-grossing film on New Year's Day in 2021 in China. “Hi, Mom” (《你好，李煥英》), which was released on 12 February 2021, recorded a box office of over RMB5.41 billion, and ranked second in the box office of Chinese movies in 2021. The film also broke the record of exceeding the box office of RMB5 billion at the fastest pace in Chinese film history. Shenzhen Jingxiu and Beijing Xiaoming collectively operate a membership based online streaming platform named “Pumpkin Films” which is principally engaged in the business of operating online video platforms, including but not limited to uploading, converting, storing and playing back video content on the Internet, over-the-top channels, film and television series production and related intellectual properties franchising. As at 31 December 2021, the cumulative number of registered members and paying subscribers of Pumpkin Films reached approximately 70.8 million and 28.7 million, respectively.

The Group recorded net profit of approximately RMB1,173.7 million for FY2021 as compared to net profit of approximately RMB12.0 million for FY2020. Such significant increase for FY2021 was mainly due to the combined effects of (i) the profit derived from the content production and online streaming business segment of approximately RMB696.9 million; and (ii) the net loss derived from the internet community and related businesses of approximately RMB74.8 million.

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On 26 May 2022, the Group officially launched its first mobile game, The War of Three Kingdoms (《亂世逐鹿》). The War of Three Kingdoms is an epic war strategy card game, developed by Beijing Topjoy Technology Co., Ltd. (北京攸樂科技有限公司) is exclusively distributed by the Group. It is also the very first game officially launched by the Group after entering into in-depth cooperation with Tencent Holdings in the game business field. The War of Three Kingdoms has reached a total number of approximately 1.34 million registered players and over RMB100 million of total recharge amount following its official launch as at 19 July 2022. On 26 July 2022, the Group launched its second mobile game, Chuanqi Tianxia (《傳奇天下》). Chuanqi Tianxia, developed using the Unreal Engine 4, is the first massive multiplayer online role-playing mobile game officially licensed under the Chuanqi series.

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
Non-current assets	44,780	38,890	6,626,991
Current assets	<u>1,493,025</u>	<u>1,234,351</u>	<u>3,992,901</u>
Total assets	<u>1,537,805</u>	<u>1,273,241</u>	<u>10,619,892</u>
Non-current liabilities	6,654	11,811	3,275,492
Current liabilities	<u>389,600</u>	<u>78,262</u>	<u>1,724,984</u>
Total liabilities	<u>396,254</u>	<u>90,073</u>	<u>5,000,476</u>
Net current assets	1,103,425	1,156,089	2,267,917
Net assets	1,141,551	1,183,168	5,619,416

The Group had total assets of approximately RMB1,273.2 million as at 31 December 2020, which mainly comprised of (i) cash and cash equivalents of approximately RMB1,031.1 million; and (ii) trade and other receivables of approximately RMB155.0 million. The Group had total assets of approximately RMB10,619.9 million as at 31 December 2021, which mainly comprised of (i) goodwill of approximately RMB4,214.6 million; (ii) film and television programmes rights of approximately RMB2,581.9 million; (iii) intangible assets of approximately RMB684.8 million; and (iv) cash and cash equivalents of approximately RMB1,139.5 million. The goodwill and the intangible assets as at 31 December 2021 were mainly resulted from the combination of the content production and online streaming business upon completion of the VCEL Acquisition.

The Group had total liabilities of approximately RMB90.1 million as at 31 December 2020, which mainly comprised of (i) accruals and other payables of approximately RMB60.1 million; and (ii) lease liabilities of approximately RMB16.7 million. The Group had total liabilities of approximately RMB5,000.5 million as at 31 December 2021, which mainly comprised of (i)

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contingent consideration payable of approximately RMB2,060.6 million; (ii) deferred tax liabilities of approximately RMB502.0 million; (iii) borrowings of approximately RMB1,523.0 million; and (iv) film and television programmes investment funds from investors of approximately RMB559.1 million. The contingent consideration payable represents the share consideration and warrants consideration to be issued in relation to the VCEL Acquisition.

The decrease in the total assets by approximately RMB264.6 million to approximately RMB1,273.2 million as at 31 December 2020 as compared to 31 December 2019 was mainly attributable to the decrease in cash and cash equivalents by approximately RMB282.2 million; and was partially offset by the increase in trade and other receivables by approximately RMB44.3 million. The decrease in the total liabilities by approximately RMB306.2 million to approximately RMB90.1 million as at 31 December 2020 as compared to 31 December 2019 was mainly due to (i) the decrease in other payables by approximately RMB224.1 million; and (ii) the decrease in borrowings by approximately RMB53.6 million.

The increase in the total assets by approximately RMB9,346.7 million to approximately RMB10,619.9 million as at 31 December 2021 as compared to 31 December 2020 was mainly attributable to (i) the increase in goodwill by approximately RMB4,214.6 million; (ii) the increase in film and television programmes rights by approximately RMB2,581.9 million; (iii) the increase in trade and other receivables by approximately RMB1,145.5 million; and (iv) the increase in intangible assets by approximately RMB682.6 million, as a result of the VCEL Acquisition. The increase in the total liabilities by approximately RMB4,910.4 million to approximately RMB5,000.5 million as at 31 December 2021 as compared to 31 December 2020 was mainly due to (i) the increase in contingent consideration payable of approximately RMB2,060.6 million in relation to the VCEL Acquisition; and (ii) the increase in borrowings of approximately RMB1,523.0 million.

The Group's current ratios were approximately 3.8 times, 15.8 times and 2.4 times as at each of 31 December 2019, 2020 and 2021, respectively. The significant decrease in the Group's current ratio as at 31 December 2021 as compared to 31 December 2020 was mainly attributable to the significant increase in current liabilities as a result of (i) the current portion of the contingent consideration payable of approximately RMB686.9 million recognised in relation to the VCEL Acquisition; and (ii) film and television programmes investment funds from investors of approximately RMB559.1 million. The Group's gearing ratios, which are calculated on the basis of the Group's total interest-bearing borrowings and lease liabilities over the total equity, as at 31 December 2019, 2020 and 2021 were approximately 6.5%, 1.4% and 3.4%, respectively.

2. Background information of Tencent Holdings and Water Lily

Water Lily is an investment holding company incorporated in the British Virgin Islands with limited liability, and is a wholly-owned subsidiary of Tencent Holdings, which is a company principally engaged in value-added services, online advertising, fin-tech and business services.

3. Reasons for and benefits of the Share Subscription by Water Lily

3.1 Background and reasons for the Share Subscription by Water Lily

As disclosed in the Letter from the Board, the aggregate net proceeds of the Share Subscriptions, after deduction of related fees and expenses, will be approximately HK\$2,340.0 million (as to approximately HK\$390.0 million from the Share Subscription by Water Lily, approximately HK\$1,170.0 million from the Share Subscription by Sunshine Life and approximately HK\$780.0 million from the Share Subscription by China Handi). The Company intends to apply (a) approximately HK\$57.0 million, being approximately 2.4% of the net proceeds, for the Group's general working capital purposes; and (b) approximately HK\$2,283.0 million, being approximately 97.6% of the net proceeds, for the growth and expansion of the business of the Group in the foreseeable future, including content production, purchase of drama script and copyright, purchase of copyright of films and TV programs, and development of online gaming business.

Although the Group's content production and online streaming business segment recorded segment profit of approximately RMB696.9 million for FY2021, the Group had net cash used in operations of approximately RMB1,467.5 million for FY2021. We understand from the Management that the net cash used in operations for FY2021 was primarily attributable to the continued increase of investment in production of film and television series as well as acquisition of copyrights in order to sustain the growth of Pumpkin Films.

Since the completion of the VCEL Acquisition in January 2021, Pumpkin Films have seen a stable and rapid growth in new members. The cumulative number of registered members and paying subscribers increased from approximately 36.1 million and 5.9 million as of the end of January 2021 to approximately 70.8 million and 28.9 million, respectively, as of the end of December 2021. As disclosed in the 2021 AR, the Management believes that China's streaming media industry will further expand. There will be great potential for its future development. As the awareness of users on paying for quality dramas and films has been increasing and becoming a habit, streaming media platform has become an important platform for public to enjoy dramas and films. Thus, the Group will continue the vigorous development of its streaming media business. In additions, on 10 January 2022, Shenzhen Jingxiu entered into a cooperation agreement with Shenzhen Tencent Computer Systems Company Limited ("**Tencent Computer**"), a controlled structured entity of Tencent Holdings, pursuant to which Tencent Computer shall provide, among other things, technical services and channel promotion services for the Group's game products in Mainland China (the "**Game Cooperation Agreement**"). As advised by the Management, the Game Cooperation Agreement enables the Group to broaden the scope of its entertainment business, and concurrently enhance the monetization of the proprietary intellectual properties of the Group through the linkage between films and games. As discussed in the section headed "1. Background information of the Group" above, the Group has launched two mobile games, namely The War of Three Kingdoms and Chuanqi Tianxia, after entering into the Game Cooperation Agreement with Tencent Computer. As advised by the Management, the Group

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will continue to strive to secure more quality game projects in the future, and such projects are expected to launch in the next two years. The Management will continue to adhere to its quality-focused development strategy, launch more quality game projects, and provide premier services to fully satisfy users with higher-quality and more diversified entertainment experiences, such that the Group can further enhance users' stickiness and attract more new users, with hopes to further elevate in the Group's revenue. In light of the above, we consider that it is reasonable for the Group to deploy more financial resources in order to accommodate the potential growth of the content production and online streaming business segment and the online gaming business.

As disclosed in the interim results announcement of the Company for the six months ended 30 June 2022, the Group had cash and cash equivalents of approximately RMB456.8 million as at 30 June 2022. Based on the pipeline of film and drama series projects provided by the Management, the Management intends to allocate the net proceeds of (i) approximately HK\$1,770 million for investment, production, distribution and marketing of film and drama series projects which are currently in or expected to commence production or distribution in the second half of 2022 or early 2023; (ii) approximately HK\$57 million for purchase of drama scripts and copyright; (iii) approximately HK\$342 million for purchase of broadcasting right of licensed films and drama series; and (iv) approximately HK\$114 million for development and operation of the online gaming business. As part of the our due diligence work, we have reviewed (i) breakdown of the film and drama series projects; (ii) the estimated production costs of the film and drama series currently in production or in the planning stage; (iii) samples contracts entered into between the Group and independent third parties in relation to the broadcasting right of licensed films and drama series; and (iv) the estimated costs for operation, marketing and promotion of the existing mobile games and the estimated business development costs for new mobile games. In view of the Group's cash position as at 30 June 2022 and the estimated cash outflow to be incurred for the Group's content production and online streaming business segment and development of online gaming business, we consider that the Share Subscriptions would further replenish the Group's working capital and provide financial support for the Group's business development.

We note that the Company has established a long-standing business relationship with Tencent Holdings, a Chinese multinational technology and entertainment conglomerate, which ranks 1st in the gaming industry in China and is one of the leaders in the video distribution industry in China. On 20 April 2021, Beijing Xiaoming entered into a cooperation agreement with Tencent Technology (Beijing) Company Limited, a wholly-owned subsidiary of Tencent Holdings, on in-depth cooperation between Pumpkin Films and Tencent Group, allowing subscribers of Pumpkin Films to gain access to an extensive number of dramas and movies under the exclusive copyright of Tencent Group. We believe the above business cooperation and the Game Cooperation Agreement demonstrate Tencent Holdings' support to facilitate the rapid development of the Group. We consider that the Share Subscription by Water Lily reflect Tencent Group's recognition on the business development of the Group as well as its confidence in the future development of the Group.

3.2 Alternative financing

We understand from the Management that the Company has considered other fund-raising alternatives available to the Group before resolving to the Share Subscriptions, such as debt financing and other means of equity financing such as rights issue or open offer. Regarding debt financing, the Management considers that it usually requires security of properties and other assets, which is not feasible to the Company, given that the Company does not possess any material tangible assets as collaterals for borrowing. We have reviewed the 2021 AR and note that the Group's total assets mainly comprised of (i) goodwill and intangible assets resulting from the VCEL Acquisition; (ii) film and television programmes rights; (iii) trade and other receivables, which are usually not accepted by financial institutions as collaterals for borrowing. Regarding rights issue or open offer, the Management considers that both rights issue or open offer will (i) on one hand, incur additional costs, including but not limited to, underwriting commission and other professional fees for the issue of listing documents and the drafting of documents including but not limited to (where applicable) underwriting agreement(s), sub-underwriting agreement(s), announcement(s), prospectus; and (ii) on the other hand, consume a relatively longer period to complete (which is estimated to take up to approximately four months), as more time is required for preparing a rights issue prospectus than a circular to the Shareholders and to comply with the regulatory requirements for the trading period/offer period under a rights issue after the rights issue prospectus is despatched. In addition, the Company estimates that conducting a rights issue or an open offer would incur additional costs.

Having considered the reasons and factors above, including (i) the proposed use of proceeds of the Share Subscriptions by the Group; (ii) the Share Subscriptions would strengthen the capital base and improve the liquidity position of the Group; (iii) both rights issue and open offer would involve listing documentary, possible underwriting, other application and administrative procedures, which, together with the time required to arrange for a shareholders' meeting if shareholders' approval is required, would be relatively more time-consuming and cost-inefficient; and (iv) the Share Subscription by Water Lily reflects the confidence of Tencent Holdings towards the long-term and sustainable growth of the Group, we concur with the Directors' view that the Share Subscriptions by Water Lily are in the interests of the Company and the Shareholders as a whole.

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4. SHARE SUBSCRIPTION BY WATER LILY

4.1 *Principal terms of the Water Lily Share Subscription Agreement*

The principal terms of the Water Lily Share Subscription Agreement are summarized as below:

Date:	13 July 2022
Parties:	(i) the Company, as issuer; and (ii) Water Lily, as Subscriber
Subscription Shares:	162,500,000 Subscription Shares
Subscription Price:	HK\$2.40 per Subscription Share

Subscription Shares

Assuming there will be no change in the issued share capital of the Company from the date of the Water Lily Share Subscription Agreement to the Water Lily Closing Date, whichever is the latest, save for the allotment and issue of the Subscription Shares:

- (a) the Subscription Shares represent approximately 10.42% of the existing issued share capital of the Company, of which the Subscription Shares to be allotted and issued to Water Lily represent approximately 1.74% of the issued share capital of the Company as at the Latest Practicable Date; and
- (b) the Subscription Shares represent approximately 9.44% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, of which the Subscription Shares to be allotted and issued to Water Lily represent approximately 1.57% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Ranking

The Subscription Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with all other Shares in issue at the time of allotment and issue of the Subscription Shares.

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Conditions Precedent

Completion of the Water Lily Share Subscription Agreement is conditional upon the satisfaction (or, if applicable, waiver) of the following conditions precedent:

- (a) the passing of resolution(s) by the Independent Shareholders at the SGM approving the Water Lily Share Subscription Agreement and the transactions contemplated thereunder;
- (b) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the relevant Subscription Shares and such approval not having been withdrawn or revoked;
- (c) the current listing of the Shares on the Stock Exchange not having been cancelled or withdrawn;
- (d) each of the warranties included in the Water Lily Share Subscription Agreement given by the Company remaining true and accurate in all respects and not misleading in any respect as at Closing;
- (e) the Company not having breached the pre-completion undertakings given in the Water Lily Share Subscription Agreement entered into between the Company and Water Lily in any respect, and not having materially breached or failed to perform in any material respect its other obligations or undertakings under the Water Lily Share Subscription Agreement prior to Closing. The pre-completion undertakings are set out as the following:
 - (i) the Company shall not, except with the prior written consent of Water Lily, issue or agree to create or issue any Share, warrant or other securities convertible into Shares, or grant or agree to grant any share option or other right to acquire or convert into any Share, reduce or redeem or agree to reduce or redeem any of its Shares, consolidate or sub-divide or cancel or vary the rights of any Shares or otherwise take any action which might result in Water Lily subscribing at Closing a percentage interest in the Company lower than that contemplated in the Water Lily Share Subscription Agreement, which is 1.55% of the total issued Shares as enlarged by the share issuances pursuant to the transactions contemplated under the Share Subscription Agreements (without taking into account the outstanding share options and warrants issued by the Company as at 13 July 2022);
 - (ii) the Company shall not declare, pay or make any dividend or distribution, reduce or return any capital, buyback or repurchase any Shares, or undergo any capital reorganization or change in its capital structure;

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- (iii) the Company shall immediately notify Water Lily in writing if it becomes aware of any matter, fact or circumstance which constitutes or might constitute a breach of any warranty or any of the other pre-completion undertakings or prevents or might prevent any Condition Precedent set out in paragraphs (a) to (f) or (h) from being satisfied, and shall take such steps as may be reasonably requested by Water Lily to remedy and/or announce the same (if the same is required to be announced in accordance with applicable laws, rules and regulations, including but not limited to the Listing Rules and the SFO);
 - (iv) the Company and each member of the Group shall comply with all applicable laws, rules and regulations, including but not limited to the Listing Rules and the SFO;
 - (v) the Company shall maintain the listing of all the Shares on the Stock Exchange; and
 - (vi) after the grant of the Specific Mandate at the SGM, the Company shall as soon as practicable thereafter apply to the Stock Exchange for the granting of the approval for the listing of, and permission to deal in, the Subscription Shares to Water Lily;
- (f) all consents, approvals, permits, authorizations or clearances (as the case may be) that the Company reasonably considers necessary pursuant to applicable laws, regulations or rules (including but not limited to the Listing Rules) for its execution, implementation and completion of the Water Lily Share Subscription Agreement having been obtained, and all such consents, approvals, permits, authorisations and clearances not having been revoked or withdrawn at any time before Closing;
- (g) all consents, approvals, permits, authorizations or clearances (as the case may be) that Water Lily reasonably considers necessary pursuant to applicable laws, regulations or rules (including but not limited to the Listing Rules) for its execution, implementation and completion of the Water Lily Share Subscription Agreement having been obtained, and all such consents, approvals, permits, authorisations and clearances not having been revoked or withdrawn at any time before Closing; and

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- (h) from the date of the Water Lily Share Subscription Agreement entered into between the Company and Water Lily up to and as at the Water Lily Closing Date, there not having occurred any change (nor any development or event involving a prospective change), in the business, assets and liabilities, condition (financial or otherwise), business operations, results of operations or general affairs of the Company or the Group taken as a whole (whether or not arising in the ordinary course of business), which, in the reasonable opinion of Water Lily, has or would have a Material Adverse Effect.

At any time on or before 11:59 p.m. on the Water Lily Closing Date, Water Lily may waive any Condition Precedent set out in paragraphs (d) to (h) pursuant to the Water Lily Share Subscription Agreement. The Condition Precedent set out in paragraphs (a), (b) and (c) cannot be waived by any party. As at the Latest Practicable Date, none of the Conditions Precedent under the Water Lily Share Subscription Agreement has been fulfilled.

Termination

If any Condition Precedent set out in paragraphs (a), (b) and (c) as to Water Lily Share Subscription Agreement has not been satisfied by 11:59 p.m. on the Longstop Date, the Water Lily Share Subscription Agreement shall be automatically terminated with immediate effect. If any Condition Precedent set out in paragraphs (d) to (h) has not been waived by Water Lily pursuant to the terms of the Water Lily Share Subscription Agreement or has not been satisfied by 11:59 p.m. on the by Water Lily Closing Date, the Water Lily Share Subscription Agreement shall be automatically terminated with immediate effect.

Closing

Subject to the Conditions Precedent set out in paragraphs (a) to (h) being satisfied or waived (as applicable) and the relevant terms under the Water Lily Share Subscription Agreement, Closing under the Water Lily Share Subscription Agreement shall occur on the date that is ten (10) Business Days after the date (not being later than the Longstop Date) on which the last of the Conditions Precedent (other than those conditions which are expressed to be satisfied on or as at the Water Lily Closing Date, but subject to the satisfaction or waiver of such conditions) is satisfied or waived (if applicable) via exchange of documents and signatures, or at such other date, time and venue as the parties may agree in writing.

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More Favourable Terms

In respect of the Water Lily Share Subscription Agreement, the Company undertook to Water Lily that, in the event the Company at any time proposes to grant or has granted to any Subscribers other than Water Lily, whether under any other Share Subscription Agreements or otherwise, any terms, rights, powers, privileges or preferences relating to or in connection with the Share Subscriptions by any other Subscribers which are in any way more favourable than those granted to Water Lily under the Water Lily Share Subscription Agreement (the “**More Favourable Terms**”), Water Lily shall be entitled to such More Favourable Terms and the Company shall immediately notify Water Lily of such More Favourable Terms and take all necessary actions to procure that such More Favourable Terms are offered and granted to Water Lily as soon as practicable.

Neither Sunshine Life nor China Handi is entitled to any terms which are of equivalent effect to the More Favourable Terms.

The Directors consider that the offer of the More Favourable Terms to Water Lily exclusively is fair and reasonable, as the Group strives to maintain and strengthen its collaborative relationship with Tencent Group and further taps into Tencent Group’s extensive experience and resources in the realms of online streaming and game products operation.

As advised by the Management, the More Favourable Terms are intended to ensure that Water Lily shall be entitled to the same terms, rights, power, privileges or preferences that are granted to other Subscribers. Therefore, we consider that the More Favourable Terms only serve as a protection to Water Lily such that it will receive equal treatment as other independent Subscribers and ensure that the terms of the Water Lily Share Subscription Agreement shall be no less favourable than the terms of other Share Subscription Agreements. Also, the Management advised that the grant of the More Favourable Terms is in recognition of the collaborative relationship between the Group and Tencent Group, as Tencent Group has provided continued support to the Group’s online streaming and game products operation. Although the other Subscribers, namely Sunshine Life and China Handi, are not entitled to the More Favourable Terms, we consider that it is an outcome of arm’s length negotiation between the other Subscribers and the Company and the absence of the More Favourable Terms in the other Share Subscription Agreements would not, in the context of the Share Subscriptions, have any material adverse effect to the interest of the Company and Shareholders as a whole. In view of the above, we consider the grant of the More Favourable Terms to Water Lily is justifiable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Specific Mandate

In respect of the Share Subscription by Water Lily, the relevant Subscription Shares will be allotted and issued under the Specific Mandate to be sought from the Independent Shareholders at the SGM.

4.2 Evaluation of the Subscription Price

As set out in the Letter from the Board, the Subscription Price of HK\$2.40 per Subscription Share was determined after arm's length negotiation between the Company and each of the Subscribers after taking into account the prevailing market price of the Shares and the trading volume of the Shares.

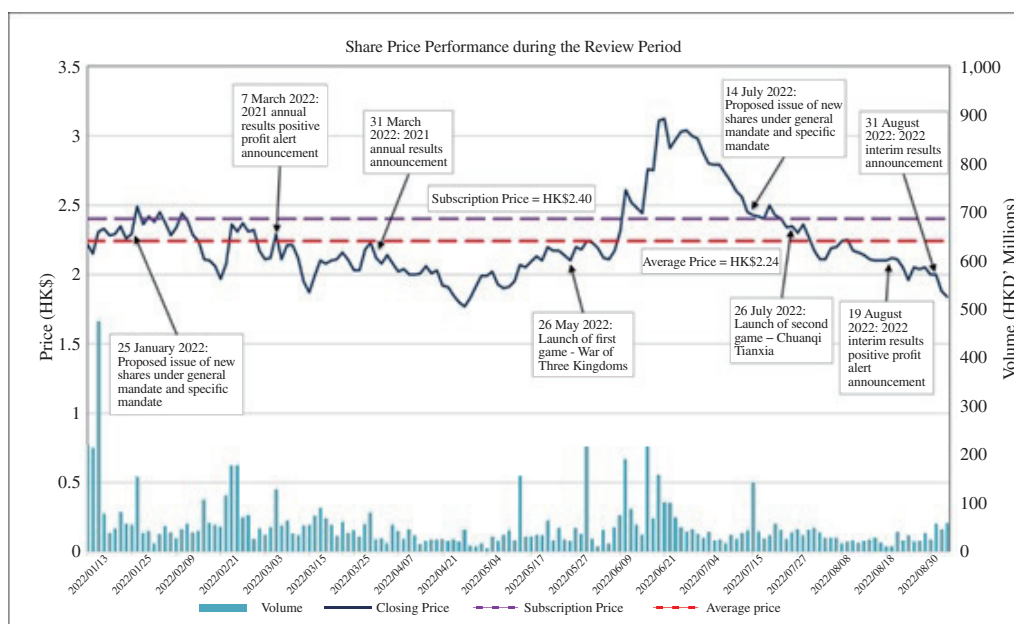
We note that the Subscription Price of HK\$2.40 per Subscription Share represents:

- (i) a discount of approximately 2.04% to the closing price of HK\$2.45 per Share as quoted on the Stock Exchange on the date of the Water Lily Share Subscription Agreement;
- (ii) a discount of approximately 10.11% to the average closing price of approximately HK\$2.67 per Share as quoted on the Stock Exchange for the last five (5) trading days up to and including the Water Lily Last Trading Day;
- (iii) a discount of approximately 13.67% to the average closing price of approximately HK\$2.78 per Share as quoted on the Stock Exchange for the last ten (10) trading days up to and including the Water Lily Last Trading Day; and
- (iv) a premium of approximately 222.8% to the audited net asset value of approximately HK\$0.74 per Share as at 31 December 2021 (calculated based on the audited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$6,865,522,260 (equivalent to approximately RMB5,613,251,000) as at 31 December 2021 and 9,234,647,545 Shares then in issue).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4.2.1 Review of the historical Share price performance

We have reviewed the daily closing prices of the Shares for the period from 13 January 2022 (being the 6-months period prior to the date of the Water Lily Share Subscription Agreement) and up to the Latest Practicable Date (the “**Review Period**”). We consider that the Review Period is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing Share prices prior to the Latest Practicable Date and such comparison is relevant for the assessment of the fairness and reasonableness of the Subscription Price. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:



Source: The Stock Exchange website

As illustrated in the chart above, during the Review Period, the closing Share price was traded at an average of approximately HK\$2.24. On 25 January 2022, the Company issued an announcement in relation to the First Water Lily Share Subscription and an independent third party to raise net proceeds of approximately HK\$300.0 million. Subsequent to the abovementioned announcement, we note that the Share prices fluctuated within the region of HK\$2.49 to HK\$1.97. On 7 March 2022, the Company issued a positive profit alert announcement for FY2021 as the Group expected to record a significant increase in the unaudited net profit, which was primarily due to the fair value gains from the warrants issued in respect of the VCEL Acquisition in early 2021 and the imputed interest income on other borrowings, and net profit contributed by a marked rise in the revenue from the content production and online streaming sector. On 31 March 2022, the Company announced its annual results for the year ended 31 December 2021 of which the Group recorded net profit of approximately RMB1,173.7 million for FY2021 as compared to the net profit of approximately RMB12.0 million for

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

FY2020. Subsequent to the abovementioned positive profit alert and 2021 annual results announcements, the Share prices demonstrated a general declining trend and reached its lowest point of HK\$1.77 on 27 April 2022. The Share prices then demonstrated a general increasing trend and on 26 May 2022, the Company announced the official launch of its first mobile game, The War of Three Kingdoms. Shortly after the launch of first mobile game announcement, the Share price surged to the highest point of HK\$3.12 on 21 June 2022. The Share price demonstrated a general declining trend since then and up to the date of the Water Lily Share Subscription Agreement. The Subscription Price represents premium of approximately 35.6% and 7.0% to the lowest and average Share prices, respectively, and a discount of approximately 23.1% to the highest Share price during the Review Period.

4.2.2 Comparable issues analysis

In assessing the fairness and reasonableness of the Subscription Price, we have identified a list of transactions in relation to the subscription of new shares (excluding new shares to be issued under any convertible or derivative instrument) (the “**Comparable Issues**”) conducted by companies listed on the Stock Exchange that announced during the Review Period. The selection of the Comparable Issues is based on the following criteria: (i) subscription of new shares under specific mandate carried out by the companies listed on the Main Board of the Stock Exchange with market capitalization more than HK\$1.0 billion as at the date of announcing the Comparable Issues; (ii) excluding issues under share award plan or for emolument or restructuring scheme or acquisition purposes; and (iii) excluding issues of A shares or domestic shares. To the best of our knowledge and as far as we are aware of, we identify an exhaustive list of seven transactions which meet the aforesaid criteria by searching the website of the Stock Exchange. Although the business, operation and prospects of the Group are not the same as the listed issuers of the Comparable Issues, we consider that the Comparable Issues can provide a fair and representative reference of the recent market practices (i.e., the Review Period) in relation to subscription of new shares under specific mandate conducted by companies listed on the Stock Exchange.

We compare the respective premium to/discount of the closing price of the shares of the Comparable Issues prior to/on the relevant last trading day (the “**Premium/Discount**”) and the last five consecutive trading days immediately prior to/on the relevant last trading day (the “**Five Days Premium/Discount**”) as represented by the subscription price of such Comparable Issues with the corresponding Premium/Discount and Five Days Premium/Discount represented by the Subscription Price. However, Shareholders should note that the businesses, operations and prospects of the Company are not the same as the issuers of the Comparable Issues.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table sets out the details of the Comparable Issues:

Date of announcement	Company name	Stock code	Connected transactions or not	Market Capitalisation as at the last trading day prior to/on the date of the respective subscription announcement (HK\$ million)	Premium/(Discount) over/of the subscription price to closing price per share on the last trading day prior to/on the date of the respective subscription announcement	Premium/(Discount) over/of the subscription price to closing price per share on the last five trading days prior to/on the date of the respective subscription announcement
1-Sep-22	BOE Varitronix Limited	710	Yes	12,065.43	(7.20)%	(11.83)%
31-May-22	TOT BIOPHARM International Company Limited	1875	Yes	1,937.97	0.00%	4.79%
13-Apr-22	Jinxin Fertility Group Limited	1951	Yes	14,610.82	11.30%	7.62%
25-Mar-22	JD Logistics, Inc.	2618	Yes	142,226.98	(9.96)%	(13.74)%
14-Mar-22	Beijing Enterprises Clean Energy Group Limited	1250	No	6,606.64	(7.69)%	(8.57)%
25-Jan-22	China Ruyi Holdings Limited	136	Yes	21,147.34	9.17%	8.70%
18-Jan-22	Zall Smart Commerce Group Ltd.	2098	Yes	5,184.44	13.64%	12.11%
			Mean		1.32%	(0.13)%
			Median		0.00%	4.79%
			Maximum		13.64%	12.11%
			Minimum		(9.96)%	(13.74)%
			Subscription Price		(2.04)%	(10.11)%

Source: The Stock Exchange website

As illustrated by the table above, we note that the Premium/Discount of the Comparable Issues ranged from a premium of approximately 13.64% to a discount of approximately 9.96%, with the mean premium of approximately 1.32% and median of 0%. In addition, the Five Days Premium/Discount of the Comparable Issues ranged from a premium of approximately 12.11% to a discount of approximately 13.74%, with the mean discount of approximately 0.13% and median premium of approximately 4.79%.

As shown by the market comparison above, the (a) discount to the Subscription Price of approximately 2.04% to the closing price per Share on the date of the Water Lily Share Subscription Agreement is within the range of the Premium/Discount of the Comparable Issues, and below the mean premium and median of the Comparable Issues; and (b) discount to the Subscription Price of approximately 10.11% to the average closing price per Share for the last five consecutive trading days up to and including the Water Lily Last Trading Day is within the range of the Five Days Premium/Discount of the Comparable Issues, and below the mean discount and median premium of the Comparable Issues. Although the discounts of the Subscription Price are (a) below the mean premium and median of the Premium/Discount; and (b) more than the mean discount and below the median premium of the Five Days Premium/Discount of the Comparable Issues, we consider that the discounts of the Subscription Price are justifiable given that (i) the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subscription Price is determined at a level that are above the average Share price during the Review Period; and (ii) the Subscription Price is at a premium of approximately 222.8% to the audited net asset value of the Group attributable to the Shareholders of approximately HK\$0.71 per Share.

In view of the above and further taking into account that (i) the Subscription Price is determined at a level that is close to the prevailing market price of the Share; and (ii) the Subscription Price is the same as the Share Subscriptions by Sunshine Life and by China Handi, who are independent third parties, we consider that the Subscription Price is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

5. Potential dilution effect on the existing public Shareholders

The Share Subscription by Water Lily would dilute shareholding of the existing Shareholders. The shareholding structure of the Company (i) as at the Last Practicable Date; and (ii) immediately after the Closing (assuming that there being no other changes to the issued share capital of the Company between the Latest Practicable Date and each of the Closing Dates, whichever is later, save for the allotment and issue of the Subscription Shares), are set out as follows:

Name of Shareholder	(i) As at Latest Practicable Date		(ii) Immediately after the Closing (assuming that there is no change to the issued Shares between the Latest Practicable Date and each of the Closing Dates, whichever is the latest, save for the allotment and issue of the Subscription Shares)	
	Number of Shares	Approximate percent. (%)	Number of Shares	Approximate percent. (%)
<i>Director (Other than Mr. Ke Liming)</i>				
<i>(Note 1)</i>				
Mr. Wan Chao <i>(Note 2)</i>	2,032,000	0.02	2,032,000	0.02
<i>Substantial Shareholders</i>				
Mr. KE Liming <i>(Note 3)</i>	1,893,101,943	20.24	1,893,101,943	18.33
Water Lily <i>(Note 4)</i>	1,883,234,565	20.13	2,045,734,565	19.80
Sub-total of non-public Shareholders	3,778,368,508	40.39	3,940,868,508	38.15
<i>Other Public Shareholders</i>				
Sunshine Life	—	—	487,500,000	4.72
China Handi	—	—	325,000,000	3.15
Other Public Shareholders	5,576,279,037	59.61	5,576,279,037	53.98
Sub-total of Public Shareholders	5,576,279,037	59.61	6,388,779,037	61.85
Total number of issued shares	9,354,647,545	100.00	10,329,647,545	100.00

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. As at the Latest Practicable Date, each of Ms. Chen Xi and Mr. Zhang Qiang was interested in 48,000,000 and 10,000,000 Shares (within the mean of Part XV of the SFO), respectively, being the underlying shares of the share options granted to Ms. Chen Xi and Mr. Zhang Qiang pursuant to the share option scheme of the Company. The above table does not include any underlying shares to be granted under any share options granted to the Directors.
2. As at the Latest Practicable Date, Mr. Wan Chao was interested in 2,032,000 Shares, of which 1,592,000 Shares were directly held by Mr. Wan Chao himself and 4,400,000 Shares were deemed interests held through his spouse.
3. As at the Latest Practicable Date, 1,893,101,943 Shares were indirectly held by Mr. Ke Liming, an executive Director and the Chairman of the Board. Mr. Ke Liming was also deemed to be interested in 1,834,279,307 Shares within the meaning of Part XV of the SFO, being the underlying shares of the warrants granted to Pumpkin Films Limited, a company wholly-owned by him.
4. As at the Latest Practicable Date, Water Lily was directly interested in 1,883,234,565 Shares. Water Lily is a wholly-owned subsidiary of Tencent Holdings Limited.
5. Certain figures included in the table above have been rounded to the nearest integer or to two decimal places. Any discrepancies between the total shown and the sum of the amounts listed are due to rounding.

As illustrated in the table above, Water Lily's shareholding in the Company will decrease from approximately 20.13% to 19.80% immediately after the Closing. The shareholding of the existing public Shareholders (excluding Sunshine Life and China Handi) as at the Latest Practicable Date was approximately 59.61% and will be diluted to approximately 53.98% immediately after the Closing. In this regard, in view of (i) the reasons for and benefits of the Share Subscription by Water Lily as mentioned in the section headed "3.1 Background and reasons for the Share Subscription by Water Lily" above; (ii) the analysis of financing alternative methods as mentioned in the section headed "3.2 Alternative Financing" above; and (iii) the terms of the Share Subscription by Water Lily being fair and reasonable, we consider that the dilution to the shareholding of the other public Shareholders resulting from the Share Subscription by Water Lily is acceptable.

6. Possible financial effects of the Share Subscription by Water Lily

Pursuant to the 2021 AR, the net assets of the Group amounted to approximately RMB5,619.4 million as at 31 December 2021. Immediately after the Closing, it is expected that (i) the aggregate gross proceeds from the Share Subscription by Water Lily will be recorded and the net assets of the Group will increase by approximately HK\$390.0 million; and (ii) the current ratio of the Group will increase from approximately 2.31 times to 2.51 times.

It should be noted that the above analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be after the Closing. Based on the analyses above, the net asset position and the financial ratios in relation to the liquidity of the Company would be improved as a result of the Share Subscription by Water Lily. As such, we are of the view that the Share Subscription by Water Lily is in the interest of the Company and Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration the principal factors and reasons discussed above, we are of the view that (i) the terms of the Water Lily Share Subscription Agreement and the transactions contemplated thereunder, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Share Subscription by Water Lily, although is not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed for approving the Water Lily Share Subscription Agreement and the transactions contemplated thereunder at the SGM.

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 Futures 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 10 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. 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:

Interest of Directors 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
Ke Liming	Interest of a controlled corporation	3,727,381,250 (Note 1)	39.85%
Chen Xi	Beneficial owner	48,000,000 (Note 2)	0.52%
Wan Chao	Beneficial owner	2,032,000 (Note 3)	0.02%
Zhang Qiang	Beneficial owner	10,000,000 (Note 4)	0.11%

Notes:

- (1) 1,893,101,943 Shares were indirectly held by Mr. Ke Liming through Pumpkin Film Limited, a company indirectly wholly-owned by Mr. Ke Liming. Mr. Ke Liming was also deemed to be interested in 1,834,279,307 Shares within the meaning of Part XV of the SFO, being the underlying shares of the warrants granted to Pumpkin Films Limited, a company wholly-owned by him.
- (2) Ms. Chen Xi was interested in 48,000,000 Shares, all of which were represented by share options of the Company.
- (3) Mr. Wan Chao was interested in 2,032,000 Shares, of which 1,592,000 Shares were directly held by Mr. Wan Chao and 440,000 Shares were deemed interests held through his spouse, Ms. Hu Zhengrong.
- (4) Mr. Zhang Qiang was interested in 10,000,000 Shares, all of which were represented by share options of the Company.

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	Capacity in which interests are held	Interest in the Shares	Approximate percentage of total issued shares as at the Latest Practicable Date
Ke Liming	Interest of a controlled corporation	3,727,381,250	39.85%
Virtual Cinema Holding Limited (Note 1)	Interest of a controlled corporation	3,727,381,250	39.85%
Pumpkin Films Limited (Note 1)	Beneficial owner	3,727,381,250	39.85%
Tencent Holdings Limited (Note 2)	Interest of a controlled corporation	2,045,734,565	21.87%
Water Lily (Note 2)	Beneficial owner	2,045,734,565	21.87%
Li Shao Yu	Interest of a controlled corporation	744,308,000	7.96%
Eagle Smart Capital Investment Group Limited (Note 3)	Beneficial owner	744,308,000	7.96%

Notes:

- (1) Virtual Cinema Holding Limited is deemed to be interested in 3,727,381,250 Shares through its wholly-owned subsidiary Pumpkin Films Limited. Virtual Cinema Holding Limited is directly wholly-owned by Mr. Ke Liming, a Director.
- (2) Tencent Holdings Limited was deemed to be interested in 2,045,734,565 Shares through its wholly-owned subsidiary Water Lily, the number of which included 162,500,000 Subscription Shares to be allotted and issued pursuant to the terms and conditions of the Water Lily Share Subscription Agreement.
- (3) Eagle Smart Capital Investment Group Limited is directly wholly-owned by Mr. Li Shao Yu.

Save as disclosed above in the table, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no person (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of

Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. 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.

4. DIRECTORS' 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.

5. DIRECTORS' 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 2021 (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.

6. 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.

7. 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.

8. 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 2021 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.

9. QUALIFICATION AND CONSENT OF EXPERT

- (a) The following is the qualification of the expert who has 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 2021, 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. 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, the Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, 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.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.ryholdings.com>) from the date of this circular up to and including the date of the SGM:

- (a) the written consent of Maxa Capital Limited as referred to in the section headed “QUALIFICATION AND CONSENT OF EXPERT” in this appendix; and
- (b) the Water Lily Share Subscription Agreement.



儒意控股
RUYI HOLDINGS

China Ruyi Holdings Limited

中國儒意控股有限公司

(a company incorporated in Bermuda with limited liability)

(Stock Code: 136)

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of China Ruyi Holdings Limited (the “Company”) shall be held at 11:00 a.m. on Friday, 23 September 2022 at 15/F, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong 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 7 September 2022.

ORDINARY RESOLUTION

1. PROPOSED ISSUE OF NEW SHARES UNDER THE SPECIFIC MANDATE TO WATER LILY

“THAT:

- (a) the Water Lily Share Subscription Agreement dated 13 July 2022 (a copy of which is tabled at the SGM and marked “A” and signed by the chairman of the SGM for identification purpose) entered into between the Company and Water Lily and the transactions contemplated thereunder, including but not limited to, the allotment and issue of 162,500,000 Subscription Shares to Water Lily, be and is hereby approved, confirmed and ratified;
- (b) any one Director be and is hereby authorised to, on behalf of the Company, do all such acts and things, to sign and execute such documents or agreements or deeds and take all such actions as he/she/they may in his/her/their absolute discretion consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Water Lily Share Subscription Agreement entered into between the Company and Water Lily and the transactions contemplated thereunder and agree to such variation, amendment or waiver as are, in the opinion of such Director, in the interest of the Company and the Shareholders as a whole; and
- (c) subject to and conditional upon the Listing Committee of Stock Exchange having granted the listing of, and permission to deal in the 162,500,000 Subscription Shares, the Directors be and are hereby granted the Specific Mandate which shall entitle the Directors to exercise all the powers of the Company to issue and allot, among others, 162,500,000 Subscription Shares to Water Lily, on and subject to the

NOTICE OF SGM

terms and conditions of the Water Lily Share Subscription Agreement entered into between the Company and Water Lily, provided that the Specific Mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution.”

Yours faithfully,
By order of the Board
China Ruyi Holdings Limited
Ke Liming
Chairman

Hong Kong, 7 September 2022

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 notarially certified copy thereof must be deposited with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and, in any event, not less than 48 hours (i.e. no later than 11:00 a.m. on Wednesday, 21 September 2022) 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 COVID-19 pandemic, the Company strongly recommends shareholders of the Company to exercise your voting rights by appointing the chairperson of the SGM as your proxy to vote on the relevant resolutions at the SGM as an alternative to attending the SGM in person.

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 Tuesday, 20 September 2022 to Friday, 23 September 2022 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Monday, 19 September 2022.
6. References to time and dates in this notice are to Hong Kong time and dates.

NOTICE OF SGM

PRECAUTIONARY MEASURES FOR THE SGM

The health of our shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing Coronavirus Disease 2019 (COVID-19) pandemic, the Company will implement the following precautionary measures at the SGM to protect attending shareholders, staff and stakeholders from the risk of infection, including:

- (i) Compulsory body temperature checks will be conducted for every Shareholder, proxy or other attendee at each entrance of the meeting venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the meeting venue or be required to leave the meeting venue.
- (ii) Each attendee must wear a surgical face mask at all times inside the meeting venue and to maintain appropriate social distancing.
- (iii) No refreshment will be served, and there will be no corporate gift.
- (iv) All participants at the SGM meeting venue must scan the “LeaveHomeSafe” venue QR code and comply with the requirements of the Vaccine Pass Direction prior to entry to the venue.
- (v) Attendees may need to confirm that (i) he/she has not travelled outside of Hong Kong within 14 days immediately before the SGM (“**Recent Travel History**”); (ii) he/she is not subject to any HKSAR Government prescribed quarantine requirement; (iii) to his/her knowledge, he/she has not, within 14 days immediately before the SGM, had close contact with any person under quarantine or with Recent Travel History; and (iv) he/she has no flu-like symptoms. Any person who fails to provide the required confirmation, or if he/she has shown flu-like symptoms, may be requested to leave or denied entry into the SGM venue.
- (vi) Only a limited number of seats will be available, with no standing arrangement, in the SGM venue. Seating at the SGM meeting venue will be arranged so as to allow for appropriate social distancing and spacing between seats and comply with the relevant laws and regulations.
- (vii) Any other additional precautionary measures in accordance with the prevailing requirements or guidelines of the Hong Kong government and/or regulatory authorities, or as considered appropriate in light of the development of the Coronavirus Disease 2019 (COVID-19) pandemic.

NOTICE OF SGM

To the extent permitted under the applicable laws, the Company reserves the right to deny any person 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 COVID-19, the Company may be required to change the SGM arrangements at short notice. Shareholders should check the websites of the Company (<http://www.ryholdings.com>) and the Stock Exchange (www.hkexnews.hk) for further announcements and updates on the SGM arrangements.

The Company reminds attendees that they should carefully consider their own health/personal circumstances before they decide to attend the SGM in person. The Company would like to remind all Shareholders that physical attendance at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM instead of attending the SGM in person. Completion and return of the proxy forms will not preclude the Shareholders from attending and voting in person at the meeting or any adjournment thereof should they subsequently so wish, and in such case, the proxy forms previously submitted shall be deemed to be revoked.

As at the date of this notice, the executive directors of the Company are Mr. KE Liming, Ms. CHEN Xi, Mr. WAN Chao and Mr. Zhang Qiang; 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.