THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Literature Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

阅文集团

CHINA LITERATURE LIMITED
阅 文 集 团

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

(1) MAJOR AND CONNECTED TRANSACTION
(2) CONSIDERATION ISSUE UNDER SPECIFIC MANDATE
(3) CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Exclusive Financial Adviser to the Company

Bank of America Merrill Lynch

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

SOMERLEY CAPITAL LIMITED

A notice convening the Extraordinary General Meeting of China Literature Limited to be held at Salon 1-4, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, October 19, 2018 at 9:30 a.m. is set out on pages EGM-1 of this circular. A form of proxy for use at the Extraordinary General Meeting is also enclosed. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (http://ir.yuewen.com). Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the Extraordinary General Meeting (or any adjournment thereof) if they so wish.

September 28, 2018

CONTENTS

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

"Acquisition"	the acquisition of 100% of the issued share capital in the Target pursuant to the Share Purchase Agreement
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of directors of the Company
"Business Day(s)"	the days on which commercial banks are open for business in Hong Kong, the Cayman Islands and PRC (excluding Saturdays, Sundays, public holidays and any weekday on which Typhoon Signal No. 8 or higher is hoisted or a black rain storm warning is given in Hong Kong at any time during 9:00 a.m. to 5:00 p.m.)
"CCT"	continuing connected transaction as defined in the Listing Rules
"Company"	China Literature Limited (閱文集團), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013, whose shares are listed on the main board of the Stock Exchange with stock code 772
"Completion"	the completion of the Acquisition
"Completion Date"	the date on which the Acquisition is completed, which shall be the fifth (5th) Business Day following the date on which the last of the conditions precedent (other than the conditions which by their terms are to be satisfied at Completion) is satisfied or waived in accordance with the Share Purchase Agreement (or such other date as may be agreed by the parties in writing)
"Companies Law"	the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the total consideration (including cash and Consideration Shares) payable by the Company to the Vendors
"Consideration Shares"	an aggregate of 153,936,541 new Shares to be issued by the Company to the Vendors to satisfy part of the Consideration for the Acquisition

"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, Shanghai Yueting, Shanghai Yuechao, Shanghai Hongwen and its registered shareholders, and Shanghai Yuewen and its registered shareholders, details of which are described in the section headed "Contractual Agreements" in the listing document of the Company dated October 26, 2017
"Control Agreements"	tentatively including the Exclusive Business Cooperation Agreement, Exclusive Option Agreements, Equity Pledge Agreements, Powers of Attorney, Confirmations from the Relevant Individual Shareholders and Spouse undertaking, or any other equivalent agreements made from time to time, which enable the Target to exclusively control and consolidate in its financial statements the results of the Operating Entity Group
"Controlled Account"	in respect of each Management Vendor, a separately designated account with a bank in the name of the escrow agent into which payment will be made by Company as set out in the section headed "Controlled Account"
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Deed of Non-Competition"	the deed of non-competition provided by the Founder, Ms. Qu and each key employee on August 13, 2018 in favour of the Company
"Distribution Framework Agreement"	the framework agreement entered into between Shanghai Yueting (for itself and on behalf of other members of the Group) and Tencent Computer (for itself and on behalf of other members of the Retained Tencent Group) on August 13, 2018, in relation to, among other things, cooperation on distribution of television series, web series and films on the platforms of the Retained Tencent Group
"Director(s)"	the director(s) of the Company
"Draft Foreign Investment Law"	the Draft Foreign Investment Law (中華人民共和國外國投資法(草案徵求意見稿)) published by the MOFCOM in January 2015
"Earn Out Consideration"	the relevant consideration payable by the Company to a Management Vendor under the Earn Out Mechanism
"Enlarged Group"	the Group and the Target Group (which, for the avoidance of doubt, includes but not limited to the Operating Entity Group upon the Control Agreement taking effect)

"Executive SPV"	X-Poem Limited, a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company to be held at Salon 1-4, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, October 19, 2018 at 9:30 a.m., or any adjournment thereof and notice of which is set out on pages EGM-1 of this circular
"Founder"	Mr. Huayi Cao, a citizen and resident of the PRC
"Founder SPV"	C-hero Limited, a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands
"Group"	the Company and its subsidiaries and consolidated affiliated entities from time to time
"Holders"	the parties to the Deed of Lock-up Undertaking, including Founder, Founder SPV, Ms. Qu, Qu SPV, Executive SPV, each of the shareholders of Executive SPV and its respective ultimate individual shareholder
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Independent Board Committee"	the independent committee of the Board, comprising Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin, being all the independent non-executive Directors, established for the purpose of, among other things, advising the Independent Shareholders in respect of the Share Purchase Agreement (including the Control Agreement) and the Distribution Framework Agreement, and the transactions contemplated thereunder (including the proposed annual caps for the three years ending December 31, 2020)

"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps for the three years ending December 31, 2020)
"Independent Shareholders"	the Shareholders other than Tencent and its associates (including THL A13, Qinghai Lake and Deal Plus)
"Instalment Amount"	the initial instalment amount in respect of the Earn Out Consideration payable by the Purchaser to each of the Management Vendors in each earn out year as set out in the Share Purchase Agreement, each initially being 20% of the Consideration
"Issue Price"	the price at which the Consideration Shares issued, being HK$80
"Last Trading Day"	August 13, 2018
"Latest Practicable Date"	September 24, 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Long Stop Date"	means the long stop date for satisfaction of the conditions (other than the conditions which by their terms are to be satisfied at Completion), being December 17, 2018, or such other date as may be agreed among the parties in writing
"Linzhi Tencent"	Linzhi Tencent Technology Company Ltd. (林芝騰訊科技有限公司), an indirect subsidiary of Tencent established in the PRC on October 26, 2015, the equity interest of which is ultimately held by PRC nationals
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Listing Committee"	the Listing Committee of the Stock Exchange
"Lock-up Undertaking"	the deed of lock-up provided by each of the Management Vendors and each of the Management Members on August 13, 2018 in favour of the Company

"Management Member(s)"	the Founder, Ms. Qu and the individual shareholders of the Executive SPV
"Management Vendor(s)"	the Founder SPV, Qu SPV and Executive SPV
"Ministry of Commerce" or "MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Ms. Qu"	Yaqian Qu, a citizen and resident of the PRC
"Net Profit"	for any fiscal year of the Target, the consolidated profit after tax (excluding the Non-GAAP Items), which is audited in accordance with the International Financial Reporting Standards; "Non-GAAP Items" mean all of the following: (a) government subsidies; (b) investment income from joint venture and associates; (c) gain or loss from disposal of long-term assets; (d) fair value gain or loss from the re-measurement and disposal of long-term equity investments; (e) non-monetary assets exchange gains; (f) income from financial instruments held for investment purposes; and (g) associated tax effects arising from the above Non-GAAP Items (if applicable)
"Operating Entity"	New Classics Media Corporation(新麗傳媒股份有限公司), a company established in the PRC on February 7, 2007, having its registered address at C1-018-A, Hengdian Film and Television Industry Experimental Zone, Zhejiang
"Operating Entity Group"	the Operating Entity and its subsidiaries
"PRC"	the People's Republic of China, but for the purposes of this circular only, excluding Hong Kong, Macau Special Administrative Region and Taiwan
"PRC Legal Adviser"	Han Kun Law Offices
"Purchaser"	the Company
"Qu SPV"	Ding Dong-D Limited, a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands
"Registered Shareholder(s)"	Linzhi Tencent, Shiji Kaixuan, Founder, Ms. Qu, Xishi Investment

"Relevant Shares"	(a) during the Lock-up Period, in respect of the Holders, (i) the number of shares of the Company which has been or to be issued to the Holder under the Share Purchase Agreement upon Completion and in respect of the 1st Earn Out Year and (ii) any other shares of the Company attributable to or derived from the shares referred to in (a)(i) as a result of bonus issue, scrip dividend, consolidation or subdivision by the Company; or (b) during the Post Lock-up Period, in respect of the Holders, (i) all the shares of the Company which have been or to be issued to the Holder under the Share Purchase Agreement at any point in time after Completion which, for the avoidance of doubt, includes the shares referred to in (a) above; and (ii) any other shares of the Company attributable to or derived from the shares referred to in (b)(i) as a result of bonus issue, scrip dividend, consolidation or subdivision by the Company
"Relevant Individual Shareholder(s)"	the Registered Shareholders who are individuals
"Retained Tencent Group"	Tencent Group (excluding the Company, its subsidiaries and its consolidated affiliated entities)
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
"Share(s)"	ordinary share(s) of nominal value of US$0.0001 each in the capital of the Company
"Shanghai Hongwen"	Shanghai Hongwen Networking Technology Co., Ltd. (上海宏文網絡科技有限公司), a company established in the PRC on October 22, 2008, and one of the PRC operating entities of the Company
"Shanghai Yuechao"	Shanghai Yuechao Network Technology Co., Ltd. (上海閱潮網絡科技有限公司), a company established in the PRC on February 26, 2013, and a directly wholly-owned subsidiary of the Company
"Shanghai Yueting"	Yueting Information Technology (Shanghai) Co., Ltd. (閱霆信息技術(上海)有限公司, previously known as Shengting Information Technology (Shanghai) Co., Ltd.), a company established in the PRC on May 27, 2008, and the directly wholly-owned subsidiary of the company
"Shareholder(s)"	the holder(s) of the Share(s)

"Share Purchase Agreement"	the share purchase agreement entered into among the Company, Tencent Mobility, Founder, Founder SPV, Ms. Qu, Qu SPV and Executive SPV on August 13, 2018, in relation to, among other things, the purchase of 100% equity interests of the Target by the Company from the Vendors
"Shiji Kaixuan"	Shenzhen Shiji Kaixuan Technology Limited (深圳市世紀凱旋科技有限公司), an indirect subsidiary of Tencent incorporated with limited liability in PRC in January 13, 2004, the equity interest of which is held by PRC nationals
"Specific Mandate"	The specific mandate proposed to be sought from the Independent Shareholders at the EGM for the allotment and issue of the Consideration Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target" or "New Classics Media"	Qiandao Lake Holdings Limited, a company incorporated with limited liability in the Cayman Islands
"Target Group"	the Target, its subsidiaries and any other entities controlled by the Target upon taking effective of the Control Agreement (for the avoidance of doubt, including but not limited to the Operating Entity Group)
"Target SPV Group"	the Target and its subsidiaries
"Target Shares"	such number of ordinary shares of US$0.00001 (in the case of Tencent Mobility, series A preferred shares of US$0.00001) in the issued capital of the Target, which in aggregate represent 100% of the total issued and outstanding share capital of the Target, free from any encumbrance, to be sold by each Vendor to the Company pursuant to the Share Purchase Agreement
"Tencent"	Tencent Holdings Limited, our controlling shareholder, an exempted company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700), being the controlling shareholder of the Company and holding approximately 52.66% of the total issued share capital of the Company as of the Latest Practicable Date
"Tencent Computer"	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established in the PRC on November 11, 1998 and a wholly-owned subsidiary of Tencent

"Tencent Group"	Tencent, its subsidiaries and its consolidated affiliated entities
"Tencent Mobility"	Tencent Mobility Limited, a company incorporated with limited liability in Hong Kong and a wholly-owned subsidiary of Tencent, whose registered office is at 29/F, Three Pacific Place, 1 Queen's Road East, Wan Chai, Hong Kong
"Transaction Documents"	The Share Purchase Agreement, the Control Agreements, the Deed of Non-Competition and the Lock-up Undertakings
"Vendor(s)"	Tencent Mobility, Founder SPV, Qu SPV and Executive SPV
"Warrantor(s)"	The Founder, Ms. Qu and the Vendors
"WFOE"	Xinli (Tianjin) Media Technology Limited (新麗(天津)傳媒科技有限公司), a company incorporated with limited liability in PRC and an indirect wholly owned subsidiary of the Target
"Xishi Investment"	Shanghai Xishi Investment Management Enterprise (Limited Partnership) (上海喜詩投資管理企業(有限合夥)), a limited partnership established in PRC on March 10, 2011, the limited partnership interest of which were held by the Founder and the individual shareholders of the Executive SPV who are PRC nationals
"%"	per cent

**Notes:*

For ease of reference, the names of the PRC established companies or entities have been included in this circular in both the Chinese and English languages, and in the event of any inconsistency, the Chinese version shall prevail.

CHINA LITERATURE LIMITED
阅 文 集 团

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 772)

Executive Directors:
Mr. Wu Wenhui
Mr. Liang Xiaodong

Non-Executive Directors:
Mr. James Gordon Mitchell
Mr. Lin Haifeng
Ms. Li Ming
Mr. Yang Xiang Dong

Independent Non-Executive Directors:
Ms. Yu Chor Woon Carol
Ms. Leung Sau Ting Miranda
Mr. Liu Junmin

Registered office:
The offices of Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman KY1-1104
Cayman Islands

Head office and principal place of business in China:
Block 6, No. 690 Bi Bo Road
Pudong XinQu
Shanghai
People's Republic of China

Principal place of business in Hong Kong:
31/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

September 28, 2018

To the Shareholders

Dear Sir or Madam

MAJOR AND CONNECTED TRANSACTION
CONSIDERATION ISSUE UNDER SPECIFIC MANDATE
CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

The purpose of this circular is to give you the notice of Extraordinary General Meeting and the following proposals to be put forward at the Extraordinary General Meeting: (a) approving the Share Purchase Agreement (including the Control Agreements) and (b) approving the Distribution

Framework Agreement and its proposed annual caps for the three years ending December 31, 2020, and to provide you with, among other things, (a) details of the Target Group and the Share Purchase Agreement (including the Control Agreements); (b) details of the Distribution Framework Agreement; (c) financial information of the Group, the Target SPV Group and the Operating Entity Group; (d) the unaudited pro forma financial information of the Enlarged Group upon Completion; (e) the valuation report on the Operating Entity Group prepared by the Independent Valuer; (f) the letter from the Independent Board Committee; and (g) the letter from the Independent Financial Adviser.

THE SHARE PURCHASE AGREEMENT

Reference is made to the announcement of the Company dated August 13, 2018, in relation to, among others, the Share Purchase Agreement.

On August 13, 2018 the Company and the Vendors entered into the Share Purchase Agreement, pursuant to which the Vendors have conditionally agreed to sell and the Company has conditionally agreed to acquire 100% of the issued share capital in the Target.

Parties

The Purchaser: the Company

The Vendors:

(i) Tencent Mobility;

(ii) Founder SPV;

(iii) Qu SPV; and

(iv) Executive SPV (together with Founder SPV and Qu SPV, the "**Management Vendor(s)**")

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendors (excluding Tencent Mobility) and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subject Matters

The Company has agreed to purchase all the issued shares of the Target held by Tencent Mobility, Founder SPV, Qu SPV and Executive SPV, representing 100% of the issued share capital in the Target.

As at the date of this circular, the shareholding structure of the Target is shown in the table below:

Vendors	Number and Type of Target Shares	% shareholding in the Target of the relevant class of shares
Tencent Mobility	23,065,815 series A preferred shares	100% of series A preferred shares
Founder SPV	56,032,020 ordinary shares	60.73% of ordinary shares
Qu SPV	25,184,940 ordinary shares	27.30% of ordinary shares
Executive SPV	11,046,299 ordinary shares	11.97% of ordinary shares

Upon Completion of the Acquisition, the Target will become a wholly owned subsidiary of the Company.

Consideration and Payment Terms

The aggregate Consideration for the Acquisition shall be an amount equal to RMB15.5 billion subject to the payment terms as set out below and the Earn Out Mechanism as set out in the section headed "The Share Purchase Agreement - Earn Out Mechanism" below. For the avoidance of doubt, there shall be no upward adjustment to the aggregate Consideration and hence, the Consideration shall not exceed RMB15.5 billion in all circumstances.

The payment terms for the Acquisition is set out in the below table.

Vendors	Approximate consideration per ordinary share of Target on an as-converted fully diluted basis (RMB)	Total Value of Consideration (RMB)	Mode of Settlement
Tencent Mobility	72.73	5,289,944,800	100% Consideration Shares at Completion
Management Vendors	110.66	10,210,055,200	50% cash and 50% Consideration Shares, subject to the deterred payment schedule from the Earn Out Mechanism
Breakdown:			
Founder SPV		6,200,626,591	
Qu SPV		2,787,020,862	
Executive SPV		1,222,407,747	
Total		15,500,000,000	

Note: Each series A preferred share shall be convertible, at the option of its holder, at any time into such number of ordinary shares on the basis of the ratio of approximately 1:3.15. Pursuant to the terms of the Share Purchase Agreement, the applicable exchange rate in converting the Consideration into Consideration Shares is based on an RMB: HK$ exchange rate of 1.1847 at an Issue Price of HK$80 per Consideration Share. Fractional shares have been rounded down to the nearest number.

The original acquisition cost of the 23,065,815 series A preferred shares of the Target held by Tencent Mobility (taking into account the acquisition cost of Tencent for the Operating Entity Group) is RMB4,900,348,000. The original acquisition cost of RMB4,900,348,000 of the Target paid by Tencent refers to the acquisition of the shares of the Operating Entity made by (i) Shiji Kaixuan in September 2011; and (ii) Linzhi Tencent in March and May 2018.

In respect to the Consideration payable to the Management Vendors, the breakdown and schedule between cash and Consideration Shares as a percentage of the total Consideration payable to each Management Vendor under the Share Purchase Agreement (the "**Instalment Amount**") is set out in the below table. The cash portion of the total Consideration will be funded by internal sources of the Company.

Management Vendor Consideration	**Payment at Completion**	**Earn Out Consideration for the Year Ending December 31, 2018** *(Note)*	**Earn Out Consideration for the Year Ending December 31, 2019** *(Note)*	**Earn Out Consideration for the Year Ending December 31, 2020** *(Note)*
Percentage of the total Consideration payable in cash to Management Vendors	15.0%	15.0%	10.0%	10.0%
Percentage of the total Consideration payable in Consideration Shares to Management Vendors	25.0%	5.0%	10.0%	10.0%

Note: for the settlement timing in connection with the Earn Out Mechanism, please refer to the below section headed "Earn Out Mechanism" of this circular.

The Consideration and payment terms for the Acquisition was determined after arm's length negotiations between the Company and the Vendors on normal commercial terms taking into account of, among other things, (i) the Earn Out Mechanism, Lock-up Undertaking and form of Consideration; (ii) the historical financial performance of the Target Group; (iii) the future business prospects of the Target Group and the industry in which the Target Group is engaging; (iv) the preliminary appraised value of 100% interest in the Operating Entity Group as at March 31, 2018 by Duff & Phelps, an independent valuer; and (v) other reasons and benefits of the Acquisition as stated under the section headed "Reasons and Benefits of the Transactions — The Acquisition" below. A copy of the final valuation report, including details of the assumptions, basis and methodology of the valuation, have been included in Appendix VI of this circular.

(i) The Earn Out Mechanism, Lock-up Undertaking and form of Consideration

The Consideration payable to the Management Vendors is subject to the Earn-out Mechanism. The Consideration payable to the Management Vendors will only be made in full if the Reference Net Profits are achieved. This provides a significant downside protection for the Company.

The Consideration Shares issued to the Management Vendors are also subject to the Lock-up Undertaking until 31 March 2020, and restrictions to dispose from 31 March 2020 to 31 March 2025. This arrangement aligns the interests of Management Vendors with the Company.

Furthermore, 100% of the Consideration payable to Tencent Mobility and 50% of the Consideration payable to Management Vendors will be paid in the form of Consideration Shares, issued at premium compared to the closing price of the Last Trading Day, and average closing price of five/ten/thirty trading days up to and including the Last Trading Day.

Together, the Earn Out Mechanism, Lock-up Undertaking and form of Consideration will align long-term interests of Tencent Mobility, the management team with the Company and incentivize the management team of the Target Group to create long-term value for the Enlarged Group.

(ii) The Historical Financial Performance of the Target Group

The Board has reviewed the financials for the year ended 31 December 2015, 2016 and 2017 and the period ended 31 March 2017 and 2018. The Target Group has achieved significant growth in both revenue and profit from the year ended December 31, 2015 ("FY2015") to the year ended December 31, 2017 ("FY2017"). The revenue of the Target Group achieved a compound annual growth rate ("CAGR") of 52% from FY2015 to FY2017 and the net profit of the Target Group achieved a CAGR of 97% from FY2015 to FY2017. The growth was primarily driven by an increasing number of television series, web series and films that were successfully premiered and broadcasted.

(iii) The Future Business Prospectus of the Target Group and the Industry which the Target Group is Engaging

From FY2015 to FY2017, China's television series and web series industry continues to grow steadily, supported by the increasing penetration of online video streaming. According to Frost & Sullivan report, the television series, web series and films market size in China is expected to grow at CAGR of 9.5%, 25.1% and 20.2% respectively for the period from 2016 to 2020. Premium television series and web series have become key resources for television stations and online video platforms to drive traffic and viewership, which in turn brought increased income to producers of television series and web series and significantly contributed to the rising monetization potential of online literary titles. Meanwhile, the China film market remains robust, fueled by growing popularity of domestic productions. The Target Group's outstanding track record in producing premium television series, web series and films puts the Target Group in a favorable position to capture the upside of the fast-growing industry.

On the other hand, content adaptation companies, including television series and web series production companies, film studios are increasingly reliant on literary works as source materials. In 2016, in China, 36% of the top 50 domestic films released in terms of box office, 28% of the top 50 domestic television series aired in terms of viewership and 52% of the top 50 domestic web series aired in terms of viewership released in terms of Internet viewership were adapted from literary works. With the rise of online literature, entertainment media are increasingly turning to original online literature for source materials, primarily due to the existing viewer base and societal influence of such online literary titles prior to adaptation.

(iv) Appraised Value from Independent Valuer

The Consideration of RMB15.5 billion is below the mid-point of the appraised value of 100% equity interest of the Operating Entity Group of between RMB13.9 billion to RMB18.4 billion, as at March 31, 2018 by Duff & Phelps.

Considering the above four points and the "Reasons and Benefits of the Transactions — The Acquisition" section below, the Board considers that the Consideration is fair and reasonable and in the best interest of the Company and Shareholders as a whole.

The Consideration Shares

Pursuant to the Share Purchase Agreement, the Consideration Shares to be issued will be subject to the payment terms as set out below and the Earn Out Mechanism at the time of allotment.

The Consideration Shares for the Acquisition will be issued at a price of HK$80 per Consideration Share. The Issue Price was determined after arm's length negotiations among the parties taking into account, among other things, the prevailing market performance of the Shares. The Directors consider that the Issue Price is fair and reasonable under the present market conditions.

The Issue Price represents:

(i) a premium of approximately 19.40% over the same price to the closing price of the Shares of HK$67.00 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 19.49% over the average closing price of the Shares of approximately HK$66.95 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;

(iii) a premium of approximately 21.08% over the average closing price of the Shares of approximately HK$66.07 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 13.68% over the average closing price of the Shares of approximately HK$70.37 per Share as quoted on the Stock Exchange for the thirty consecutive trading days up to and including the Last Trading Day; and

(v) a premium of approximately 60.48% over the closing price of the Shares of approximately HK$49.85 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

Based on the maximum Consideration payable by the Company that is to be settled by Consideration Shares (including the maximum Earn Out Consideration), 153,936,541 new Shares will be allotted and issued as the Consideration Shares.

The maximum Consideration Shares if issued, represent:

(i) Approximately 16.98% of the entire issued share capital of the Company as of the Latest Practicable Date; and

(ii) Approximately 14.52% of the entire issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Consideration Shares will be allotted and issued pursuant to a specific mandate to be sought by the Company at a general meeting of the Company. The Consideration Shares, when allotted and issued, subject to the Lock-up Undertaking, will rank pari passu in all respects among themselves and with the Shares in issue. An application will be made by the Company to the Stock Exchange for the approval for the listing of, and permission to deal in, the Consideration Shares.

Earn Out Mechanism

Overview

As downside protection for the Company, the Consideration payable to each of the Management Vendors is subject to a downward-only adjustment mechanism (the "**Earn Out Mechanism**") if the Net Profits fall below a certain benchmarked level as set out below.

	For the Year Ending December 31, 2018	For the Year Ending December 31, 2019	For the Year Ending December 31, 2020	Total Reference Net Profit
Reference Net Profit benchmark	RMB500,000,000	RMB700,000,000	RMB900,000,000	RMB2,100,000,000

The Reference Net Profits was arrived at after arm's length negotiation between the Company and the Management Vendors with reference to the business prospects and business development of the Target Group.

How the Net Profit is determined

The Company shall, as soon as practicable after the end of an earn out year, provide a draft financial statement to one of the Big-4 international accounting firms for audit. Within three (3) months after the end of an earn out year, based on the audited financial statement, the Company shall prepare a net profit statement which shall set forth the Net Profit of the Target Group for that relevant earn out year which shall be final, binding and conclusive on the Company and the Management Vendors.

When reference Net Profit benchmark is met

If the actual Net Profit for an earn out year is not less than the reference Net Profit benchmark for that earn out year, the Earn Out Consideration payable by the Company to the relevant Management Vendor for that earn out year shall follow the Instalment Amount schedule for that earn out year as set out above.

When reference Net Profit benchmark is not met

If the actual Net Profit for an earn out year is less than the reference Net Profit benchmark for that earn out year, the Earn Out Consideration payable by the Company to the relevant Management Vendor for that earn out year shall be the Instalment Amount for the same earn out year as reduced by such a deduction amount as determined in accordance with the formula below:

$$\text{Deduction amount} = \frac{\text{Reference Net Profit benchmark for the year — actual Net Profit for the year}}{\text{Total reference Net Profit benchmark (RMB2,100 million)}} \times \text{Total Consideration payable to the relevant Management Vendor (as if there is no adjustment under the Share Purchase Agreement)}$$

* If the actual Net Profit in any relevant earn out year is a negative figure, for the purpose of the formula as set out above, the amount of Net Profit of the Target Group for that relevant earn out year shall be regarded as zero.

The deduction amount shall be applied towards the deduction of Earn Out Consideration for that earn out year in the manner following the order of priority below:

(a) first, the portion of Earn Out Consideration being settled by issue of Consideration Shares in accordance with the payment terms as disclosed in this circular; and

(b) thereafter, the portion of Earn Out Consideration being settled by cash in accordance with the payment terms as disclosed in this circular.

For the avoidance of doubt, if the Instalment Amount is less than the deduction amount (if any) for an earn out year, the amount of Earn Out Consideration payable by the Company to that Management Vendor in that earn out year shall be zero, and such shortfall will be subject to a roll-over mechanism as set out in the sub-paragraph headed "Roll-over Mechanism" below.

Roll-over Mechanism

If the Instalment Amount is less than the deduction amount (if any) for an earn out year as determined above, such shortfall shall be carried forward to and shall be applied to deduct the Instalment Amount of the subsequent earn out year(s) (for the avoidance of doubt, such deduction will be in addition to any further deduction amount incurred in the relevant earn out year(s)), until the total Instalment Amount(s) for the remaining earn out year(s) is/are reduced to zero.

Overall Final Adjustment

Following the determination of the Net Profit for the 3rd earn out year, being the financial year ending on December 31, 2020, in the event that the actual Net Profit for each earn out year is no less than 90%, 75% and 100% of the reference Net Profit benchmark for the 1st earn out year, 2nd earn out year and 3rd earn out year respectively, the net profit shortfall (if any) in an earn out year ending on December 31, 2018 and/or 2019 (being the 1st and/or 2nd earn out year) shall be set off (in the order of firstly the Net Profit shortfall (if any) of 1st earn out year, and then that of 2nd earn out year) by any net profit surplus incurred in any subsequent (but not preceding) earn out year(s).

Following the adjustment above, the Company shall pay to the relevant Management Vendor an amount equal to the deduction amount(s) already deducted from the Instalment Amount which arise(s) from the net profit shortfall so set off above.

Return of Consideration

If, following the roll-over mechanism above and overall final adjustment above, there remains any outstanding deduction amount which have not yet been applied for deduction (the "**Remaining Deduction Amount**"), the relevant Management Vendor shall pay to the Company the Remaining Deduction Amount in the manner as set out in the sub-paragraph headed "Management Vendor's Obligation" below.

Mode of Settlement of the Earn Out Consideration

Following the determination of the actual Net Profit for any earn out year, if the Instalment Amount, as adjusted by the Earn Out Mechanism, is positive, the Company shall pay to the relevant Management Vendor:

(a) the Earn Out Consideration, if any, in respect of that earn out year as determined and set out above; and

(b) in the case of the 3rd earn out year, if required under the overall final adjustment above, any deduction amounts already deducted from the Instalment Amount (if any) as determined above.

Company's Obligation to Pay Earn Out Consideration

Within fifteen (15) Business Days following the determination of the Net Profit, the Company shall pay to the relevant Management Vendor the Earn Out Consideration in respect of that earn out year as determined and set out above, in the following manner:

(a) in the case of the 1st and 2nd earn out years, the Company shall pay the relevant portion of the total Consideration in cash in immediately available funds to an account designated in writing by the relevant Management Vendor (provided, that if the relevant Management Vendor fails to designate such an account at least three (3) Business Days before the date the payment is otherwise due, such payment need not be made until the third business day after the relevant Management Vendor provides such written designation);

(b) in the case of the 3rd earn out year, in the manner as set out in the section headed "Controlled Account" below;

(c) in the relevant earn out year, the Company shall pay the relevant portion of the total Consideration by allotting and issuing such number of Consideration Shares as shall at the Issue Price have an aggregate value that is nearest to but not more than the Hong Kong dollars equivalent of the relevant portion of the total Consideration (as adjusted in accordance with the terms set out above), credited as fully paid up;

(d) in the 3rd earn out year, if required under the section headed "Overall Final Adjustment" above, the Company shall pay to the relevant Management Vendor any deduction amount already deducted from the Instalment Amount (if any) in the manner set out above as if no deduction has ever been made.

Management Vendor's Obligation

Within fifteen (15) Business Days following the determination of the actual Net Profit for the 3rd earn out year, the relevant Management Vendor, if required under the return of consideration mechanism above, shall pay to the Company the Remaining Deduction Amount in the manner following the order of priority below until the Remaining Deduction Amount has been fully settled by the relevant Management Vendor:

(a) by returning to the Company all the cash received by it under the Share Purchase Agreement in immediately available funds to an account designated in writing by the Company at least three (3) Business Days before the date the payment is otherwise due;

(b) by returning to the Company the Consideration Shares (the value of which would be based on the Issue Price regardless of the actual trading price at the relevant time) to the Company by either of the following ways as determined by the Company in its sole discretion and the costs of which shall be borne by the Company on one side and the Management Vendors on the other side in equal shares:

(A) subject to the compliance of the relevant applicable law, returning to the Company at the lowest consideration permitted under the applicable law free from encumbrances such number of Consideration Shares as shall have an aggregate value that is nearest to but not less than the unsettled Remaining Deduction Amount, calculated based on the Issue Price per Consideration Shares less any consideration payable by the Company as required under any applicable law, or

(B) delivering such number of Consideration Shares to a broker or agent to be designated by and on terms to be determined by the Company at its sole discretion for the purpose of selling such Consideration Shares on the Stock Exchange or otherwise, and the Management Vendors shall procure the broker or agent to direct the proceeds of such sale to an account designated in writing by the Company at least three (3) Business Days before the date the payment is otherwise due, where such number of Consideration Shares to be returned or delivered under this sub-paragraph shall have an aggregate value that is nearest to but not less than the unsettled Remaining Deduction Amount, calculated based on the Issue Price per Consideration Share and, for the avoidance of doubt, the amount of proceeds realised by the Company pursuant to this paragraph shall be irrelevant to the determination as to whether Management Vendors' obligation are duly discharged.

The maximum number of Consideration Shares which may be subject to the return of Consideration mechanism under paragraph (b) in the section headed "Management Vendor's Obligation" will be 37,799,537 Shares, representing approximately 4.17% of the existing issued share capital of the Company as of the Latest Practicable Date.

In determining which method as set out in sub-paragraphs (A) and/or (B) above the Company would opt for, the Company will take into account the following factors:

(a) *the trading performance and trading volume of the Shares at the relevant time*: in light of the trading performance and trading volume of the Shares at the relevant time, the Company will evaluate the method that would be in the best interests of the Company and its Shareholders at the relevant time and minimize the impact on the trading the Shares;

(b) *the regulatory hurdle under the relevant laws and regulations*: in respect of the method as set out in sub-paragraph (A) above, the Company will consider the steps required and the practicability in obtaining the approval of the Securities and Futures Commission and the approval by disinterested shareholders under Rule 2 of the Code on Share Buy-backs; and

(c) *the cost involved in each method as set out in sub-paragraphs (A) and/or (B) above:* the Company will also compare the amount of cost involved in either method, such as the legal fees, brokerage fees and vetting fees (where applicable).

In the event that the Company opts for the method set out in sub-paragraph (A) above, the Company will comply with the requirements under the relevant rules and regulations to which it is subject, in particular Chapter 10 of the Listing Rules and the Code on Share Buy-backs, including but not limited to the shareholders' approval requirements as provided for thereunder. The Consideration Shares so bought back by the Company will be cancelled upon completion of the off-market share buy-back.

In the event the Company opts for the method set out in sub-paragraph (B) above,

(a) it will require the Management Vendors to set out in the terms of agreements with the broker or the agent that the broker or the agent will use its best endeavour to sell all the Consideration Shares within 90 calendar days after they are delivered to the broker or the agent thereunder; and

(b) the selling price of the Consideration Shares will be set taking into account (i) the market conditions and sentiment at the relevant time, (ii) the trading performance of the Shares at the relevant time, and (iii) the requirements on the broker to sell all the Consideration Shares within 90 calendar days after the delivery of the Consideration Shares.

In respect of the method set out in sub-paragraph (B) above, the Company confirms that:

(a) the voting rights and the rights to dividend of those Consideration Shares delivered to but not yet disposed by the broker or agent remain vested in the hands of the Management Vendors, subject to (so far as dividend is concerned) any set-off right by the Company in respect of any amount owed by the Management Vendors to the Company as permitted under the constitutional documents of the Company;

(b) the Company will have no right to influence the decisions of the Management Vendors on how to exercise the voting rights of those Consideration Shares;

(c) to the best of the Directors' knowledge, the Management Vendors will have the right to exercise the voting rights of those Consideration Shares at their own discretions;

(d) the broker or the agent appointed thereunder will be a party independent of the Company or its connected persons (as defined under the Listing Rules);

(e) the Company will comply with all the relevant laws and regulations to which it is subject during the process thereunder, including but not limited to the Securities and Futures Ordinance governing insider dealing and Model Code as set out in Appendix 10 of the Listing Rules.

When it comes to the Company's knowledge that the broker or the agent will not be able to sell all the Consideration Shares so returned within 90 calendar days as stipulated above, the Company will immediately make an announcement on the detailed proposal on how to deal with the remaining unsold Consideration Shares.

The Board finds the mechanism for the return of the Consideration Shares as described under paragraph (b) in this section headed "Management Vendor's Obligation" fair and reasonable for the following reasons:

(a) the issue of Consideration Shares (whether at Completion or after each earn out year (as appropriate under the Share Purchase Agreement)) to settle part of the Consideration is intended to incentivize the management of the Target Group (namely, the Founder, Ms. Qu and other Management Vendors);

(b) the return of Consideration Shares in the event that the Target Group's actual performance deviates significantly from the Reference Net Profit benchmarks serves as downside protection for the Company. For example, in an extreme scenario whereby the actual Net Profit is negative in all earn out years, the cash paid and the Consideration Shares issued to the Management Vendors at Completion will have to be returned to the Company under the Earn Out Mechanism, following the priority and in a manner as set out in this section;

(c) while the Share Purchase Agreement provides flexibility for the Company on the mechanism to effect the return of Consideration Shares, and if method (B) is selected, the price level to which the Consideration Shares are to be sold, for the purpose of transparency and governance, the Company has set out above the factors which it will take into account in deciding which method it will opt for and the price setting criteria under method (B); and

(d) in respect of method (B), the Company has no present opinion on the market conditions, the future trading performance of the Shares nor the likelihood or the volume of Consideration Shares are to be sold at the end of the earn out period. As such, the Company believes it would adversely prejudice the interests of the Company and the Shareholders to enter into any fixed price setting mechanism in respect to method (B) at the present. The Company will, based on the factors as disclosed above, set a price (with reference to the facts and circumstances at the relevant time) which will be in the interests of Shareholders as a whole.

Notwithstanding any other clauses in the Share Purchase Agreement, the Remaining Deduction Amount of each Management Vendor shall be subject to a cap equal to the Consideration received by such Management Vendor.

The Earn Out Mechanism is a tool to incentivize the management of the Operating Entity (namely, the Founder, Ms. Qu and other Management Vendors) and offers potential upside to the management of the Operating Entity if the performance targets as set out in the Earn Out Mechanism. Thus, the Consideration payable to the Management Vendors is subject to the Earn Out Mechanism with potential upside included.

In contrast, as Retained Tencent Group is not involved in the day-to-day management and operations of the Operating Entity, Tencent Group is thus not subject to the Earn Out Mechanism and the Consideration payable to Tencent Group does not include the potential upside offered by the Earn Out Mechanism. As such, the Board considers that it is fair and reasonable that the Consideration payable to Retained Tencent Group is not subject to the Earn Out Mechanism.

Controlled Account

In order to further align the long-term interests of the Company and Management Vendors, the Management Vendors have further agreed with the Company to place the Instalment Amount relating for the year ending December 31, 2020 (being the 3rd earn out year) into escrow on the following basis:

(a) if the aggregate Instalment Amount as adjusted by the Earn Out Mechanism payable in cash to the Management Vendors exceeds RMB500,000,000, the Company will place RMB500,000,000 into a Controlled Account and pay the balance of the Instalment Amount to each of the Management Vendors in accordance with the Earn-Out Mechanism;

(b) if the aggregate Instalment Amount as adjusted by the Earn Out Mechanism payable in cash to the Management Vendors is below RMB500,0000,000 (but more than zero), the Company will place that Instalment Amount (as adjusted by the Earn-Out Mechanism) into the Controlled Account;

Each of the Management Vendors agrees, acknowledges and undertakes that until 31 March 2023, it shall have no right to, or shall have no right to request or procure the Company, the escrow agent or any other party to, withdraw, transfer or otherwise deal with the amount deposited with the Controlled Account; and

if:

(a) the Founder (in respect of Founder SPV's amount deposited with the Controlled Account),

(b) Ms. Qu (in respect of Qu SPV's amount deposited with the Controlled Account); and/or

(c) any one of ultimate individual shareholders of the Executive SPV (in respect of the Executive SPV's amount deposited with the Controlled Account)

ceases or terminates all his/her employment relationship(s) with the Company and its subsidiaries, at any point in time before 31 March 2023 by reason of resignation, dismissal or otherwise (other than those events specifically defined in the Share Purchase Agreement), or if any of the cooperation agreement(s) entered into between him/her on one side and the Company and/or its subsidiaries on the other side is/are terminated or materially breached (other than as a result of expiry of the term of such cooperation agreement(s)), he/she shall be deemed as giving up all its rights, title and interests in its/their respective amount deposited with the Controlled Account (and including any interests incurred over such portion of the amount deposited with the Controlled Account given up), and its/their respective amounts of Management Vendor's consideration shall be adjusted accordingly.

Further Adjustment

The relevant Management Vendor's consideration shall be reduced by the amount of consideration payable by the Purchaser to the relevant Management Vendor in respect of the transfer of equity interest held by that Management Vendor in the Operating Entity or any other entity within the Operating Entity Group as required by the Purchaser under the terms of the Share Purchase Agreement and Control Agreements. The further adjustment clause offers the Company a mechanism to have the Registered Shareholders return any consideration received from the Group in connection with any transfer of equity interest in the Operating Entity Group, where the Consideration received by the Registered Shareholder will be deducted by the consideration received in the above transfers, if any. As of the Latest Practicable Date, the Company has no intention to restructure the holding structure of the equity interest of the Operating Entity Group (except the transfer of 49% of Xinli Agency and Xinshengliliang) and no adjustments is expected to be made under the further adjustment clause.

Conditions Precedent

Completion of the Acquisition is conditional upon the fulfillment or, if applicable, waiver of the following conditions:

(a) *Independent Shareholders' Approval*: the approval of the independent Shareholders of the Company having been obtained at an extraordinary general meeting of the Company by way of a poll for the entering into of the Share Purchase Agreement and the performance of all transactions contemplated under the Share Purchase Agreement, including the allotment and issue of the Consideration Shares, in accordance and in compliance with the Listing Rules;

(b) *Listing Approval*: the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Consideration Shares issued as consideration on the Stock Exchange;

(c) *Vendors' Warranties and Pre-Closing Obligations*: (i) the fundamental Vendors' warranties remaining true and accurate in all respects and not misleading in any respect as of the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date; and (ii) each of the Management Vendors having complied with the material undertakings under the Share Purchase Agreement or having remedied any breaches of such material undertakings as at the Completion Date;

(d) *Company's Warranties*: the fundamental warranties given by the Company remaining true and accurate in all respects and not misleading in any respect as of the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date;

(e) *Execution of the Control Agreements*: the due execution of the Control Agreements by the parties thereto;

(f) *Deed of Non-Competition*: the due execution of the Deed of Non-Competition by the parties thereto;

(g) *Lock-up Undertaking*: the due execution of the Lock-up Undertaking by the parties thereto;

(h) *Material Adverse Change of the Target Group*: no material adverse change of the Target Group having occurred between the date of the Share Purchase Agreement and the Completion Date (or, if such effect is capable of remedy, it has been remedied by the day preceding the Completion Date);

(i) *Material Adverse Change of the Company:* no material adverse change of the Company having occurred between the date of the Share Purchase Agreement and the Completion Date (or, if such effect is capable of remedy, it has been remedied by the day preceding the Completion Date);

(j) *Execution of Employment Contracts:* the due execution by each key employee of the employment contracts in the form as agreed among the parties to the Share Purchase Agreement;

(k) *Status of the Television Drama:* the television series titled《如懿傳》having premiered within the PRC through television station(s) and/or online video on-demand platform in accordance with the applicable laws in the PRC;

(l) *Memorandum and Articles of Association of the Target Company:* the adoption of a new memorandum and articles of association by the Target Company in a form as determined by the Purchaser in its sole and reasonable discretion, where such form of memorandum and articles of association shall be provided by the Purchaser to the Vendors at least three (3) Business Days before the Completion Date; and

(m) *CCT Waiver:* the Stock Exchange having granted the waiver of the requirement under the Listing Rules that (i) an annual cap must be set for each of the transactions under the relevant Control Agreements and that (ii) the Control Agreements must not exceed three years.

Set out below are the circumstances under which the above conditions precedent may be waived or satisfied:

(a) The Company, may at any time, waive in whole or in part and conditionally or unconditionally, any of the conditions as disclosed in paragraph (c), (f), (g), (h), (j) and (l) by notice in writing to the Warrantors. In the event that the Company elects to waive the requirements of executing any documents of the conditions as disclosed in paragraph (f), (g) or (j) ("**Exempted Document**"), it should be deemed that the obligations of the Management Vendors to provide the Exempted Documents in accordance with the Share Purchase Agreement would correspondingly be waived and exempted.

(b) The Founder SPV (acting as a representative of and for and on behalf of the Warrantors) may, at any time, waive in whole or in part the conditions as disclosed in paragraph (d) and (i) by written notice to the Company.

(c) The Company, the Founder SPV (acting as a representative of and for and on behalf of the Warrantors except Tencent Mobility) and Tencent Mobility may, at any time, jointly waive in whole or in part and conditionally or unconditionally the condition as disclosed in paragraph (k).

(d) The Founder SPV (acting as a representative of and for and on behalf of the Warrantors) shall give notice in writing to the Company of the satisfaction of each of the conditions as disclosed in paragraph (f), (g), (j) and (l) within two (2) Business Days after the satisfaction of such conditions. The Company shall give notice in writing to the Warrantors of the satisfaction of each of the conditions as disclosed in paragraph (a), (b) and (m) within two (2) Business Days after the satisfaction of such condition.

(e) The conditions as disclosed in paragraph (c), (d), (h) and (i) shall be treated as fulfilled for so long as no circumstances have arisen to trigger them.

(f) If any one of the conditions as disclosed in paragraph (m) is not fulfilled in accordance with the Share Purchase Agreement on or before 5 p.m. on the Long Stop Date, or any one of the conditions as disclosed in paragraph (c), (e), (h) and (l) is not fulfilled in accordance with the Share Purchase Agreement on or before the Completion Date, the Company may, in its or their sole discretion, terminate the Share Purchase Agreement and neither parties shall have any claims against each other save for any antecedent breaches.

(g) If any one of the conditions as disclosed in paragraph (d) and (i) is not fulfilled or waived in accordance with this Agreement on or before the Completion Date, the Founder SPV (acting as a representative of and for and on behalf of the Warrantors) may, terminate the Share Purchase Agreement by written notice in writing to the Company and neither parties shall have any claims against each other save for any antecedent breaches.

(h) If any of the conditions as disclosed in paragraph (a), (b), (f), (g), (j) and (k) is not fulfilled or waived in accordance with the Share Purchase Agreement on or before the Long Stop Date, the Share Purchase Agreement shall lapse and be of no further effect automatically (other than the surviving provisions) and neither parties shall have any claims against each other save for any antecedent breaches.

As of the date of this circular, other than the condition as set out in paragraphs (e), (k) and (m) above, no other conditions have been fulfilled or waived under the Share Purchase Agreement.

Long Stop date

(a) Each of the Warrantors shall use its/his/her reasonable efforts to ensure and procure the satisfaction of the conditions as disclosed in paragraph (c), (h) and (l) above as soon as possible after August 13, 2018 but in any event no later than the Completion Date, and shall use it/he/she reasonable efforts to ensure and procure the satisfaction of the conditions as disclosed in paragraph (f), (g), (j) and (k) above on or before the Long Stop Date.

(b) The Company shall use its reasonable efforts to ensure and procure the satisfaction of the conditions as disclosed in paragraph (d) and (i) above as soon as possible after August 13, 2018 but in any event no later than the Completion Date.

(c) The Company and each of the Vendors shall use its reasonable efforts to ensure and procure the satisfaction of the conditions as disclosed in paragraph (a), (b) and (m) above, and the Management Vendors shall use their reasonable efforts to ensure and procure the satisfaction of the condition as disclosed in paragraph (k) above as soon as possible after the August 13, 2018 but in any event no later than the Long Stop Date.

Miscellaneous

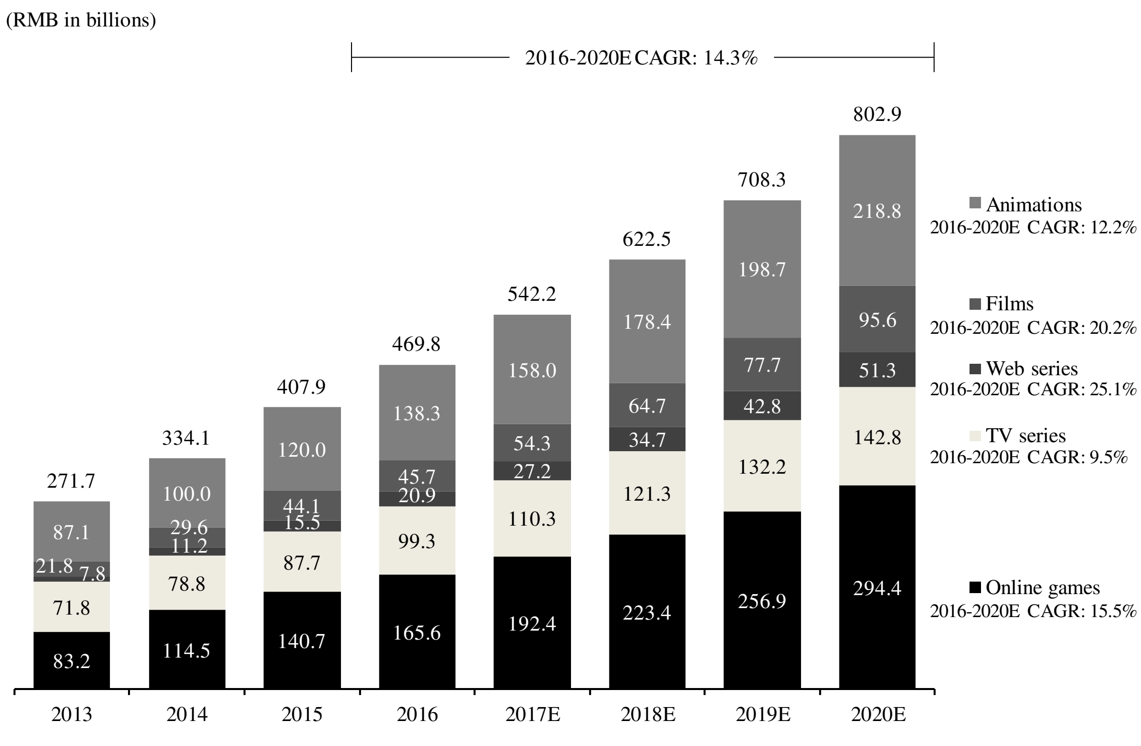
The Share Purchase Agreement also contains other provisions on indemnities, representations, warranties and undertakings which are usual and customary for a transaction of this nature and scale.

Information on the Industry of the Operating Entity Group

Accelerated Development of China's Entertainment Industry

With the increasing demand of content consumption from Chinese audiences, China's television series, web series, films, online games, animations and other entertainment industries have experienced rapid growth in recent years. The following charts set forth the historical and forecasted market size and growth of the various entertainment industries between 2013 and 2020.

Entertainment industry market size (2013-2020E)



Source: Frost & Sullivan report

Notes:

(1) The animation market size includes the revenues from sales of animation works by producers or publishers of animation works as well as sub-licensing revenue and advertising revenue obtained from animation platforms.

(2) The film market size includes the box office revenues generated by cinemas across China.

(3) The web series market size includes the revenues from sales of web series released on PC and mobile platforms, including sub-licensing revenue, advertising revenue and income from paid users.

(4) The television series market size includes the revenues from television series that mainly rely on television platform as the main distribution channel, including sub-licensing revenue and advertising revenue.

(5) The online game market size includes the revenues from sales of games on PC and mobile devices, and other income including advertising revenue and revenue from in-game value-added service.

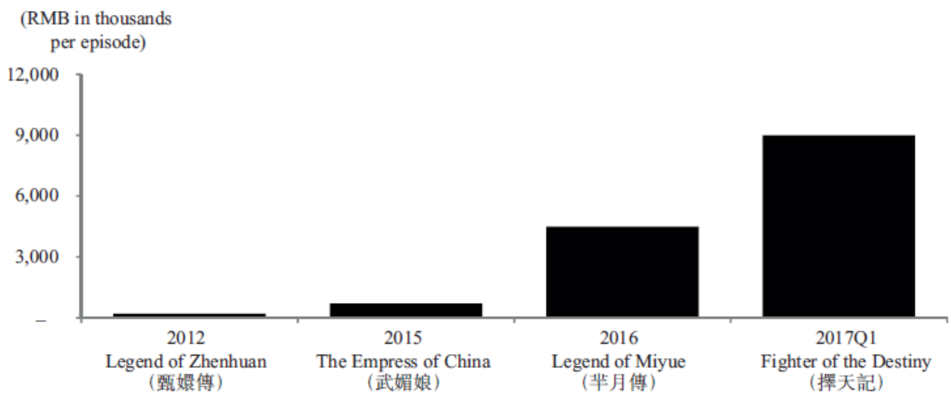
Increased Consumer Demand for High Quality Premium Content

The prevalence of mobile Internet has also generally propelled large Internet platforms to seek additional content offerings in order to capture a greater portion of the fragmented user time of Chinese Internet users. Among the various entertainment industries, online video platforms have become premier destinations for audio-visual entertainment to Chinese consumers. The rise of online video platforms as the channel for daily entertainment product consumption have brought increased incomes to television and web series producers and significantly contributed to the rising monetization potential of online literary titles, which have become the leading source of original materials for television and web series adaptation in China.

Chinese consumers are increasingly focusing on the quality of goods they purchase, and are channeling more of their spending power towards high quality content consumption. According to Frost & Sullivan, 44.2% of respondents indicated that product quality, rather than star cast, promotion or other factors, is the most important factor when consuming entertainment products.

Premium television series, web series and films have become invaluable resources that online video platforms compete for, because they are essential to online video platforms in terms of attracting new users, enhancing user stickiness and improving conversion ratio for paying users. As a result, the content licensing fees for web broadcasting of adapted television series have been increasing significantly, as illustrated by the following diagram.

Licensing fee per episode for web broadcasting of selected adapted television series (2012-2017Q1)



Prevalence of Literary Works Adaptation as Major Source for Content Producers

Content production companies, such as film studios, television and web series production companies, online game production companies and animation production companies, are increasingly reliant on literary works as source materials. In 2016, in China, 36% of the top 50 domestic films released in terms of box office, 28% of the top 50 domestic television series aired in terms of viewership, 52% of the top 50 domestic web series aired in terms of viewership, 20% of the top 50 domestic online games published in terms of download volume and 16% of the top 50 domestic animation works released in terms of Internet viewership were adapted from literary works.

With the rise of online literature, other entertainment industries are increasingly turning to original online literary works for source materials, primarily due to the existing viewer base and societal influence of such online literary titles prior to adaptation. Furthermore, the serial nature of online literary titles creates a natural affinity for adaptation into engaging and episodic television and web series or animation products.

Popular online literary works, endorsed by millions of readers, are becoming the content of choice for various entertainment industries. Using online games as an illustration, according to Frost & Sullivan, more than 64% of online literature users have played online games adapted from online literary titles, and 50% of the respondents indicated that they were willing to pay for online games adapted from online literary titles that they had read.

Having considered the aforesaid factors, including the television series, web series and films currently in the Operating Entity's pipeline, synergy arising from the Acquisition, Earn-out Mechanism embedded and the factors stated in the paragraph headed "Consideration and Payment Terms" above, the Directors consider that the terms of the Transaction, including the aggregate consideration, are fair and reasonable and the Transaction is in the interests of the Company and the Shareholders as a whole.

Information on the Operating Entity Group

The Operating Entity Group is principally engaged in production and distribution of television series, web series and films. The Operating Entity Group has produced a number of highly successful television series and films across different genres and with various partners regularly with a team of highly talented and acclaimed roster of scriptwriters, directors and producers.

Set out below is the summary financial information of the Operating Entity Group for the two years ended 31 December 2016 and 2017:

For the year ended December 31,	**Net profit before taxation**	**Net profit after taxation**
	(RMB'000)	*(RMB'000)*
2017	419,387	376,672
2016	215,664	161,083

As at December 31, 2017, the total asset value and net asset value of the Operating Entity Group were approximately RMB4,118,488,000 and RMB1,299,268,000, respectively. Please refer to Appendix III of this circular for further details on the financial information of the Operating Entity Group.

History and Development of the Operating Entity Group

The Operating Entity was established as a limited liability company by the Founder and Yang CAO (曹陽) in February 2007 and was converted into a company limited by shares in November 2011. The Operating Entity underwent several capital increases and share transfers and, as of March 2018, the Operating Entity were held by the following persons: the Founder (33.30%), Beijing Enlight Media Co., Ltd. (北京光線傳媒股份有限公司, "**Enlight Media**") (27.64%), Ms. Qu (15.26%), Xishi Investment (9.59%) and other 23 shareholders (14.20% in aggregate).

In March 2018, Linzhi Tencent acquired 27.64% of the share capital of the Operating Entity from Enlight Media at a consideration of RMB3,317,040,000. As of May 2018, Linzhi Tencent and the Founder acquired all the outstanding shares of the Operating Entity held by other shareholders except for those held by Ms. Qu, Xishi Investment, Shiji Kaixuan. Following the above acquisitions, the Operating Entity was wholly owned by the Registered Shareholders, namely Linzhi Tencent (40.00%), the Founder (33.96%), Ms. Qu (15.26%), Xishi Investment (6.69%) and Shiji Kaixuan (4.08%). On August 13, 2018, as contemplated under the Share Purchase Agreement, the Registered Shareholders and the WFOE entered into the Control Agreements, pursuant to which the Target can consolidate all the economic benefits generated by the Operating Entity Group. Please refer to the section headed "The Control Agreements" in this circular for further details of the Control Agreements.

The details of the Operating Entity's history are as follows:

#	Time	Details
1.	2007.02	Founder and Yang CAO established the Operating Entity. The registered capital of the Operating Entity upon its formation was RMB1,000,000.
2.	2010.04	Yang CAO transferred the equity interest of the Operating Entity held by him to Ziwen WANG(王子文) and Ms. Qu, respectively.
3.	2011.01	Ms. Qu invested RMB15,000,000 in the Operating Entity, among which RMB250,000 was contributed as the registered capital and RMB14,750,000 was contributed as capital reserve. After the above capital increase, the registered capital of the Operating Entity became RMB1,250,000.

#	Time	Details
4.	2011.03	Xishi Investment, a special purpose vehicle established by the Operating Entity's senior management personnel, employees, directors and scriptwriters, invested RMB90,000,000 in the Operating Entity, among which RMB138,888 was contributed as registered capital and RMB89,861,112 was contributed as capital reserve. After the above capital increase, the registered capital of the Operating Entity became RMB1,388,888.
5.	2011.04	A new shareholder, Hangzhou Dailekesi Venture Capital Partnership (Limited Partnership) (杭州戴樂克思創業投資合夥企業(有限合夥)), invested RMB50,000,000 in the Operating Entity, among which RMB29,538 was contributed as registered capital and RMB49,970,462 was contributed as capital reserve. Another new shareholder, Hangzhou Ronggao Equity Investment Co., Ltd. (杭州融高股權投資有限公司), invested RMB50,000,000 in the Operating Entity, among which RMB29,538 was contributed as registered capital and RMB49,970,462 was contributed as capital reserve. After the above capital increases, the registered capital of the Operating Entity became RMB1,447,964.
6.	2011.07	The Operating Entity converted capital reserve into registered capital in proportion to the shareholding percentage of the then shareholders and the registered capital of the Operating Entity was increased to RMB50,000,000.
7.	2011.09	The Founder, Ziwen WANG, and Ms. Qu transferred some of their respective equity interest of the Operating Entity to several actors, celebrities, as well as financial investment institutions and individuals, among which, Shiji Kaixuan acquired 4.08% of shares of the Operating Entity from the Founder and Ms. Qu at an aggregate consideration of RMB100,000,000.
8.	2011.11	The Operating Entity was converted into a company limited by shares and the registered capital of the Operating Entity was increased to RMB150,000,000.
9.	2012.06	The Operating Entity converted capital reserve into registered capital in proportion to the shareholding percentage of the then shareholders and the registered capital of the Operating Entity was increased to RMB165,000,000.
10.	2013.10	Ziwen WANG transferred the shares of the Operating Entity held by him to Enlight Meida.

#	Time	Details
11.	2014.12	The Founder acquired certain shares of the Operating Entity from individual shareholders including Mengyu ZHANG (張夢雨), Yong LIN (林勇) and Defa CHEN (陳德發).
12.	2017.05	One of the shareholders, Dashu FENG (馮大樹), transferred the shares of the Operating Entity held by him to his spouse Peipei ZHANG(張培培).
13.	2018.03	Linzhi Tencent acquired 27.64% of the shares of the Operating Entity from Enlight Media at a consideration of RMB3,317,040,000.
14.	2018.05	Linzhi Tencent and the Founder acquired all the outstanding shares of the Operating Entity held by other shareholders except for those held by Ms. Qu, Xishi Investment, Shiji Kaixuan, among which, Linzhi Tencent acquired 12.36% of shares of the Operating Entity from certain then existing shareholders at an aggregate consideration of RMB1,483,308,000.

Business Model and Operation of the Operating Entity Group

The Operating Entity Group's main business model includes television series, web series and film production starting from script development to production. The Operating Entity Group also participates in the marketing and distribution of television series, web series and films. Revenue from television series and web series production mainly include licensing fees from television stations and online video platforms, advertising fee income and royalty revenue from audiovisual products. Revenue from film production mainly include box office income and revenue from film derivative products.

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

Revenue from license of television series and film rights is recognised when or as the control of the asset is transferred to the customer. Control of the asset is transferred to the customers, when an agreement has been signed with a customer and master tapes and materials have been delivered in accordance with the terms of the contracts. Revenue is recognised at a point in time when the customer obtains control of the asset.

Revenue from film distribution represents the Operating Entity Group's share of box office sales from films exhibited in movie theatres, after the payment of taxes and other charges by movie theatres and associates of movie theatres. Control of the asset is transferred to the customer, which is the associates of movie theatres, when (i) an agreement has been signed with a customer; (ii) master tapes and materials have been delivered in accordance with the terms of the contracts; and (iii) it is probable that the Operating Entity Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. However, film is an intellectual property exhibited in movie theatres over a period of time, therefore revenue from distribution is an usage-based royalty. The Operating Entity Group recognises revenue generated from an usage-based royalty only when (or as) the later of the following events occurs: (i) the usage occurs; and (ii) the performance obligation to which some or all of the usage-based royalty has been satisfied. For film distribution in movie theatres for which the control of the asset is transferred at a point in time to the customer, since the usage occurs later than the performance obligation satisfied, revenue is recognised over the period when the films are exhibited in movie theatres.

Advertising service income is recognised in the accounting period in which the related services are rendered.

Some of the television series, web series and films are produced by the Operating Entity Group and other co-investors. The Operating Entity Group participates as a lead producer for most of the television series and web series, and is responsible for and have control over the whole production process, while co-investors will fund the production cost at an agreed proportion and will share the profits based on an agreed proportion. In other occasions where the Operating Entity Group is not the lead producer but participates as one of the co-investors, the Operating Entity Group will also participate in the production of several television series, web series and films as co-investors.

The Operating Entity Group is also exploring artist management and agency since 2011. As of the Latest Practicable Date, the artist management and agency business of the Operating Entity Group is still at early stage. The revenue from artist management and agency business is immaterial to the Operating Entity Group as a whole.

Major Customers and Suppliers

The major customers of the Operating Entity Group are television stations, film distribution companies, theatre chains and online video platforms. The Operating Entity Group has maintained the long-term cooperation and relationship with leading television stations in China for licensing of television series. For film business, the major customers of the Operating Entity Group are mainly film distribution and promotion companies. Tables below set out the Top 5 customers of the Operating Entity Group for the year ended 31 December 2015, 2016 and 2017 and three months ended 31 March 2018 based on management accounts of the Operating Entity Group.

For three months ended 31 March 2018	**Revenue (RMB)**
北京奇藝世紀科技有限公司	25,110,478
華夏電影發行有限責任公司	11,380,854
國家新聞出版廣電總局電影衛星頻道節目製作中心	3,264,362
北京電視台	928,441
西安盈億影視文化有限公司	664,151
Total	41,348,286

For the year ended 31 December 2017	**Revenue (RMB)**
上海文化廣播影視集團有限公司	381,760,115
江蘇省廣播電視集團有限公司	280,188,679
北京奇藝世紀科技有限公司	276,966,324
華夏電影發行有限責任公司	195,901,849
天津貓眼文化傳媒有限公司	154,613,729
Total	1,289,430,696

For the year ended 31 December 2016	**Revenue (RMB)**
北京奇藝世紀科技有限公司	157,950,276
北京電視台	146,243,821
上海東方娛樂傳媒集團有限公司	139,791,515
湖南廣播電視台衛視頻道	98,295,849
合一網絡技術(北京)有限公司	81,132,390
Total	623,413,851

For the year ended 31 December 2015	**Revenue (RMB)**
五州電影發行有限公司	279,302,141
天津金狐文化傳播有限公司	82,959,065
江蘇省廣播電視集團有限公司	43,543,599
海潤影視製作有限公司	41,762,715
上海東方娛樂傳媒集團有限公司	38,670,268
Total	486,237,788

The major suppliers of the Operating Entity are mainly television and film studios that provided support during the production and post-production services of television series, web series and films. Tables below set out the Top 5 suppliers of the Operating Entity Group for the year ended 31 December 2015, 2016 and 2017 and three months ended 31 March 2018 based on management accounts of the Operating Entity Group.

For three months ended 31 March 2018	**Procurement (RMB)**
杭州白唐影視文化工作室	47,169,811
原生映畫有限公司	21,159,160
霍爾果斯大有不凡影視文化有限公司	13,278,107
新沂勁在自如影視文化工作室	9,402,626
視點映畫(北京)數字技術有限公司	7,963,792
Total	98,973,496

For the year ended 31 December 2017	Procurement (RMB)
原生映畫有限公司	117,855,000
東陽橫店紫藝方和影視文化工作室	86,763,763
引力影視投資有限公司	57,901,694
萬達影視傳媒有限公司	58,490,566
曲水天瑞文化傳媒有限公司	56,940,147
Total	377,951,170

For the year ended 31 December 2016	Procurement (RMB)
海寧君為天作影業有限公司	95,975,513
A Frankie Chen Film Studio Limited	94,653,559
天津欣喜相逢文化傳播有限公司	53,499,998
東陽橫店連俊傑影視文化工作室	50,716,981
東陽橫店友昆影視文化工作室	31,322,642
Total	326,168,693

For the year ended 31 December 2015	Procurement (RMB)
東陽樂秀影業有限公司	37,020,085
時代明鏡(北京)國際文化傳媒有限公司	12,393,952
海潤影視製作有限公司	15,353,774
姚曉峰(上海)影視文化工作室	13,358,491
IEP MONK PTY LIMITED	9,348,360
Total	87,474,662

Marketing Strategy and Distribution Model of the Operating Entity Group

The Operating Entity Group has dedicated to its quality focused strategy and the production of premium content. The Operating Entity Group has produced a number of highly successful television series and films across different genres. In the past 5 years, approximately 95% of the television series and web series produced by the Operating Entity Group are profitable. During the same period, approximately 70% of the films that the Operating Entity Group participated in the production are profitable. The Operating Entity Group also commits to the development of high quality screenplays by cooperating with screenwriters at early stage to ensure holistic development across both literary and visual formats.

The major customers of television series and web series are television stations and online video platforms. The licensing fees for television series and web series are determined through negotiation between the Operating Entity Group and television stations and online video platforms, while revenue from film production is directly based on the box office, which could be largely affected by the dynamic and changeful film market environment. As such, the revenue from television series and web series has higher certainty than that of films, and most of the time the Operating Entity Group would be able to license television series and web series to television stations and online video platforms at a price higher than production cost. In addition, the Operating Entity Group has a long track record of successful television series production and has established close relationship with major television stations and online video platforms. Therefore, television stations and online video platforms are willing to pay for the quality content produced by the Operating Entity Group, which is also a factor leading to higher certainty of positive margin for television and web series.

Viewership and Revenue Generated from the Productions of the Operating Entity Group

The Operating Entity Group has a track record in producing a number of premium television series which have gained demonstrable success and received numerous accolades. Between 2015 and 2017, the Operating Entity Group has obtained the requisite licenses and secured the airing of 10 television series and 1 web series in which it acted as the lead producer or co-producer. *The First Half of My Life* (我的前半生), in which the Operating Entity Group acted as the lead producer received the 24th Magnolia Best Screenplay award in 2017. *White Deer Plain* (白鹿原) in which the Operating Entity Group co-produced received the 24th Magnolia Best TV Drama award in 2017. *Yu Zui* (餘罪) in which the Operating Entity Group acted as the lead producer received the Most Popular Web Drama of Asia New Media Award in 2016.

Additionally, the Operating Entity Group possesses a robust track record participating in the production of high quality films in China. Between 2015 and 2017, the Operating Entity Group has participated in the production of 9 films. Among these films, the Operating Entity Group was the lead producer of 2017 fantasy movie *Wu Kong* (悟空傳), starring Eddie Peng (彭于晏), Ni Ni (倪妮) and Ou Hao (歐豪), which grossed RMB697 million in box office in 2017 according to data from Office of National Film Development Funds Management Committee (國家電影事業發展專項資金管理委員會辦公室) as of September 2, 2018. In addition, the Operating Entity Group participated in the production of *Never Say Die* (羞羞的鐵拳) which recorded over RMB2.2 billion in box office in 2017 according to data from Office of National Film Development Funds Management Committee as of September 2, 2018 and received the Most Valuable Film Award by 2017 ENAwards. In 2018, *Hello Mr. Billionaire* (西虹市首富), in which the Operating Entity Group acted as a co-producer, was released on July 27, and has since recorded over RMB2.5 billion in box office according to data from Office of National Film Development Funds Management Committee.

Information of Production Work on Hand

As at the Latest Practicable Date, there are currently three television series and web series produced by the Operating Entity Group, being *Ruyi's Royal Love in the Palace* (如懿傳), *The Revolution of Our Love* (愛情進化論), and *Battle through the Heavens* (鬥破蒼穹) airing or just finished first round of airing on television stations and online video platforms. The Operating Entity Group also has completed production or in the process of production of several other television series and web series, including *The Wolf* (狼殿下), *City of Desires* (欲望之城), *Joy of Life* (慶餘年) and *the Memories of Peking* (芝麻胡同). The terms of each television series and web series production contract differs from case to case. The Operating Entity Group is the lead producer of the abovementioned television series, while other co-investors provided funding for the production costs at an agreed proportion with predetermined profit sharing mechanism.

In terms of film production, with *Hello Mr. Billionaire* (西虹市首富) released in July this year, two other films that the Operating Entity Group has participated in the production, being *Hello, Mrs. Money* (李茶的姑媽) and *the Rookies* (素人特工), which are expected to be premiered later this year.

In terms of literary contents adaptation, the Operating Entity Group also has a proven track record including *Ruyi's Royal Love in the Palace* (如懿傳), *The First Half of My Life* (我的前半生), *White Deer Plain* (白鹿原), *Yu Zui* (餘罪) and *Wu Kong* (悟空傳). In addition, a number of the Operating Entity Group's successful productions in various genres are well-covered by the Group's content library, which includes *Ruyi's Royal Love in the Palace* (如懿傳), a costume television series based on Liu Lian Zi's (流瀲紫) novel, *The First Half of My Life* (我的前半生), an urban romance television series based on Yi Shu's (亦舒) novel, and *Wu Kong* (悟空傳), a fantasy film based on Jin He Zai's (今何在) novel.

The Company and the Operating Entity Group have a demonstrable history of cooperation and strategic partnership. In October 2016, the Company and the Operating Entity Group formed a 50-50 joint venture to cooperate on scripts development of the Company's literary works. The registered capital of the joint venture amounted to RMB20 million, with the Company and the Operating Entity Group each contributing RMB10 million. The management team of the joint venture were jointly appointed by the Company and the Operating Entity Group.

The joint venture mainly engages in script development and scriptwriters cultivation for television series, web series and film production. The Company has so far licensed its literary title Wo Zhen Shi Da Ming Xing (我真是大明星) to the joint venture for script development, which currently is close to finalization of the script development process. The joint venture recorded total assets of RMB14.9 million and net assets of RMB15.1 million as of March 31, 2018. In addition, the joint venture recorded no revenue with net loss of RMB1.0 million for the 3 months ended March 31, 2018, mainly because the joint venture is still at the stage of script development with no revenue from sales of scripts recognized yet, and with most of its spending on general and administrative expenses.

The acquisition of the Operating Entity Group could expand the cooperation with Operating Entity Group beyond the script development and tap into the larger market of the production of television series, web series and films, and gain greater control over the whole IP adaptation process. The Acquisition also enables the Company to better leverage all resources that the Operating Entity Group possesses to unlock the full potential of the Company's high-quality original literary content offerings. In addition, the integration of the Company and the Operating Entity Group will help the Company to capture greater upsides of successful adaptations of its literary library.In addition, the Operating Entity Group possesses a promising and highly visible pipeline of television series, web series and films under production, covering costume, cosmopolitan, spy war, fantasy, comedy, and other major genres. The Operating Entity Group also possesses a sizeable content library which will be further supplemented by the vast and diverse literary content offered by the Group following this transaction.

Expertise and Senior Management Team of the Operating Entity Group

The Operating Entity Group has a talented and acclaimed roster of scriptwriters, directors and producers. Given that (i) the Operating Entity Group has been collaborating with well-known and experienced directors and producers to produce and develop television series, web series and films; (ii) the Operating Entity Group has entered into contracts with high calibre scriptwriters to create original scripts and conduct adaptation on scripts or intellectual properties which are purchased by the Operating Entity Group; (iii) the Operating Entity Group has established its brand image among the market practitioners in the Chinese market, resulting from its extensive network with various scriptwriters, directors, producers and other professionals in the industry, the Operating Entity Group is confident in steadily developing its business.

The Operating Entity Group has entered into contracts with over 25 scriptwriters, directors and producers, including scriptwriters such as Wu Xuelan (Liu Lian Zi), Li Xiao, Yu Miao, Chen Tong and Qin Wen, directors such as Liu Jin, Chen Yushan and Song Xiaofei, and producers such as Huang Lan and Tao Kun.

Selected Contracts Scriptwriters, Directors and Producers with Exclusive Contracts

Name	Works and Awards	Role
Wu Xuelan (吳雪嵐/(流瀲紫)	*The Legend of Zhen Huan* (甄嬛傳) *Ruyi's Royal Love in the Palace* (如懿傳) Best Scriptwriter, 2nd Asia Rainbow TV Awards	Scriptwriter
Qin Wen (秦雯)	*Hot Mom* (辣媽正傳) *The First Half of My Life* (我的前半生) Best Screenplay, 24th Magnolia Award	Scriptwriter
Li Xiao (李瀟)	*May-December Love* (大丈夫) *May-December Love 2* (小丈夫) *Riding the Wong Car* (搭錯車) Best Screenplay, 20th Shanghai Television Festival	Scriptwriter

Name	Works and Awards	Role
Yu Miao (于淼)	*May-December Love* (大丈夫) *May-December Love 2* (小丈夫) *Yu Zui* (餘罪) Best Screenplay, 20th Shanghai Television Festival	Scriptwriter
Liu Jin (劉進)	*A Servant of Two Masters* (壹僕二主) *The Brink* (懸崖) *White Deer Plan* (白鹿原) Best Director, 24th Magnolia Award	Director
Chen Yushan (陳玉珊)	*Fated to Love You* (命中註定我愛妳) *Our Times* (我的少女時代)	Director
Song Xiaofei (宋曉飛)	*The Grandmaster* (壹代宗師) *Beijing Love Story* (北京愛情故事) *Some Like It Hot* (情聖) Best Cinematography Nominee, 86th Academy Awards	Director
Huang Lan (黃瀾)	*May-December Love* (大丈夫) *Ruyi's Royal Love in the Palace* (如懿傳) *The First Half of My Life* (我的前半生)	Producer

The Operating Entity Group has renowned and experienced management team led by the Founder, Mr. Cao Huayi. The Founder is a well-known industry veteran with over 20 years of experience across script writing, IP adaptation, filming and production. In particular, the Founder is the producer of *Beijing Love Story* (北京愛情故事), *Five Star Hotel* (五星大飯店), *the Brink* (懸崖) and many other successful television series. Other senior management team members of the Operating Entity Group are also experienced in the content production industry with strong track record. Management team members of the Operating Entity Group will enter into management contracts as part of the transactions contemplated under the Share Purchase Agreement. Particular and the terms of such management contracts will be tailored to individual members on a case by case basis.

PRC Regulations and Licenses Required in relation to the Business of the Operating Entity Group

The PRC laws and regulations for the production and distribution of television programs and films and the licenses that are required to be obtained by the operating entities are set forth as follows:

(a) *Television Program Production and Distribution*

Television program production and distribution businesses are mainly regulated by the Administrative Regulations on Radio and Television (《廣播電視管理條例》) effective on August 11, 1997 and latest amended on March 1, 2017, the Administrative Regulations on the Production and Operation of Radio and Television Program (《廣播電視節目製作經營管理規定》) effective on August 20, 2004, the Administrative Regulations on Content of Television Plays (《電視劇內容管理規定》) effective on July 1, 2010 and latest amended on May 4, 2016.

Pursuant to those regulations, television programs can be produced by the entities with either a Film Production License or a License for the Production and Operation of Radio and Television Program. In addition to the Film Production License or License for the Production and Operation of Radio and Television Program, the television play producers must obtain either a Television Play Production License (Class A) or a Television Play Production License (Class B) for the shooting and production of television plays.

(b) *Film Production*

Pursuant to the Film Regulations (《電影管理條例》) effective on February 1, 2002 and the Film Enterprise Qualification Provisions (《電影企業經營資格准入暫行規定》) effective on November 10, 2004 and latest amended on August 28, 2015, production of films in China requires either a Film Production License or a Film Production License (Single Film).

(c) *Film Distribution*

Pursuant to the Film Regulations (《電影管理條例》) and the Film Enterprise Qualification Provisions (《電影企業經營資格准入暫行規定》), distribution of films nationwide requires a Film Distribution Operation License issued by the State Administration of Film.

As of the date hereof, the licenses obtained by the relevant members of the Operating Entity Group are set forth as follows:

License Name	License Series	Licensee	Issuing Authority	Expiry Date
Radio and television program production license (廣播電視節目製作經營許可證)	(Zhe) No. 00394	Operating Entity	Press, Publication, Radio, Film and Television Bureau of Zhejiang Province	April 30, 2019
Radio and television program production license (廣播電視節目製作經營許可證)	(Zhe) No. 00537	Xinli Television	Press, Publication, Radio, Film and Television Bureau of Zhejiang Province	April 30, 2019
Radio and television program production license (廣播電視節目製作經營許可證)	(Zhe) No. 00684	Xinli Films	Press, Publication, Radio, Film and Television Bureau of Zhejiang Province	April 30, 2019
Radio and television program production license (廣播電視節目製作經營許可證)	(Jin) No. 192	Xinli Era	China-Singapore Tianjin Eco-city Administrative Committee	April 1, 2019
Film Production License (攝製電影許可證)	Zheng She Zhi Zi No.125	Operating Entity	State Administration of Press, Publication, Radio, Film and Television	January 24, 2019
Film Distribution Operation License (電影發行經營許可證)	Zheng Fa Zi (2017) No. 028	Operating Entity	State Administration of Press, Publication, Radio, Film and Television	March 20, 2019
Television Play Production License (Class A) (電視劇製作許可證(甲種))	Jia No. 282	Xinli Television	State Administration of Press, Publication, Radio, Film and Television	April 1, 2019
Radio and television program production license (廣播電視節目製作經營許可證)	(Jin) No. 281	Xinli Tianhuo	China-Singapore Tianjin Eco-city Administrative Committee	April 1, 2019

License Name	License Series	Licensee	Issuing Authority	Expiry Date
Radio and television program production license (廣播電視節目製作經營許可證)	(Jin) No. 295	Xinli Film Distribution	China-Singapore Tianjin Eco-city Administrative Committee	April 1, 2019
Radio and television program production license (廣播電視節目製作經營許可證)	(Xin) No. 00217	Kuanghuanzhe Film	Press, Publication, Broadcasting, Film and Television Bureau of Xinjiang Uyghur Autonomous Region	April 1, 2019

According to the Film Industry Promotion Law (《電影產業促進法》), the film production license (《攝製電影許可證》) for production of film has been cancelled so that there is no need for the Operating Entity Group to renew its film production license after expiry of such license.

As to the radio and television program production license (《廣播電視節目製作經營許可證》), television play production license (class A) (《電視劇製作許可證(甲種)》) and film distribution operation license (《電影發行經營許可證》) held by the respective member of the Operating Entity Group, since (i) such licenses are subject to annual review by the competent PRC governmental authorities and the Operating Entity Group has passed the annual reviews for the past years; and (ii) the Operating Entity Group has been satisfying all the statutory requirements for maintaining such licenses, there will be no any legal impediments for the Operating Entity Group to renew such licenses as confirmed by the management of the Operating Entity Group.

Risks in relation to the Acquisition

(a) *The television and film industry are subject to policy and regulatory oversight in China*

The PRC government has implemented a system for the filing of extracts of film scripts and for film censorship, as well as an approval system for the distribution of television series and web series. As the television and film production industry is highly regulated in the PRC, if the Operating Entity Group fails to obtain and maintain the requisite approvals for films, television and web series production and distribution, there may be adverse impacts on its business and operations.

The Operating Entity Group has strict internal control processes to review its project selection and content production to ensure compliance with regulatory guidelines and requirements. In addition, the Operating Entity Group is in regular dialogue with the regulators, its channel partners and other stakeholders to ensure its content is in compliance with all relevant government regulations.

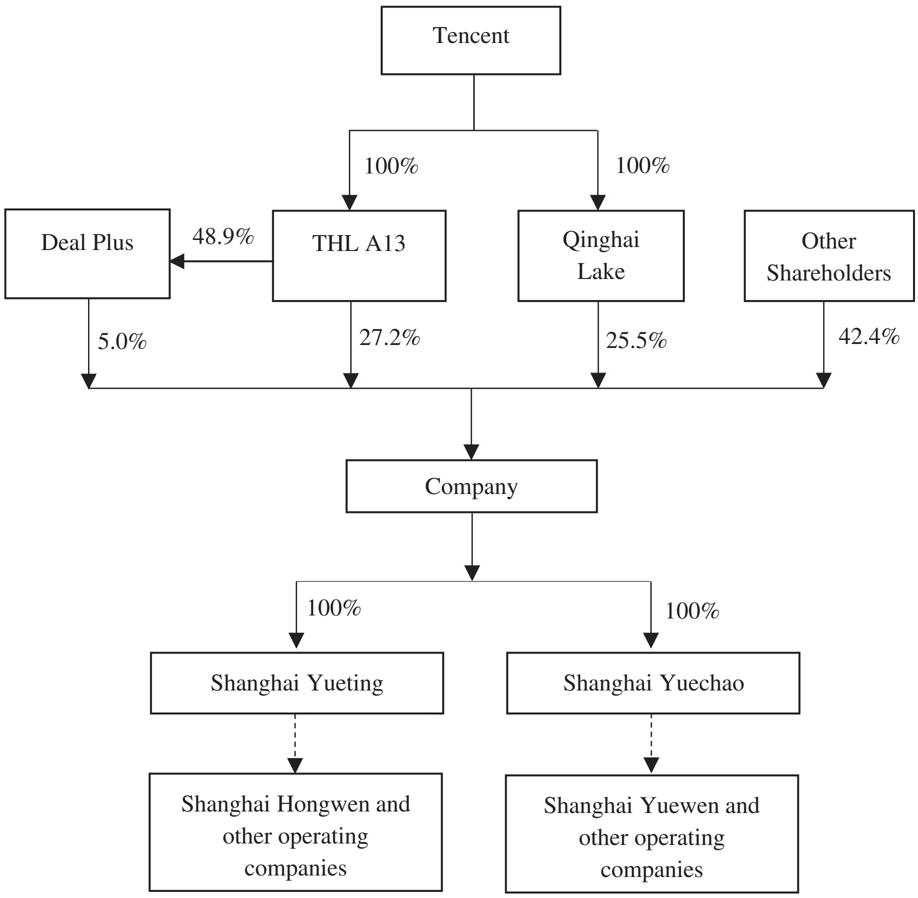
(b) *The success of films is primarily dependent on audience reception, which is difficult to predict*

Generally, the audience reception of films depends on many factors, including the perceived production quality, critical acclaim they receive, the actors and other key talent, their genre and specific subject matter. The revenue derived from the distribution of a film primarily upon acceptance by the audience. Unlike television and web series, where the Operating Entity Group is able to sell the content to television stations and online video platforms, respectively, and obtain certainty on revenues prior to broadcast, the performances of film box office are often volatile and more difficult to predict.

The Operating Entity Group has and will continue to focus on television and web series production to mitigate potential risks to revenue and profit levels. The accurate selection of subject matter through insights developed from the Operating Group's track record and experience in film could also lower the risks of revenue volatility. Furthermore, for films that utilize source material from the Company's content library, the enhanced adaptation control and audience insight available from the Company could help reduce risks associated with audience reception.

Shareholding Structure of the Group

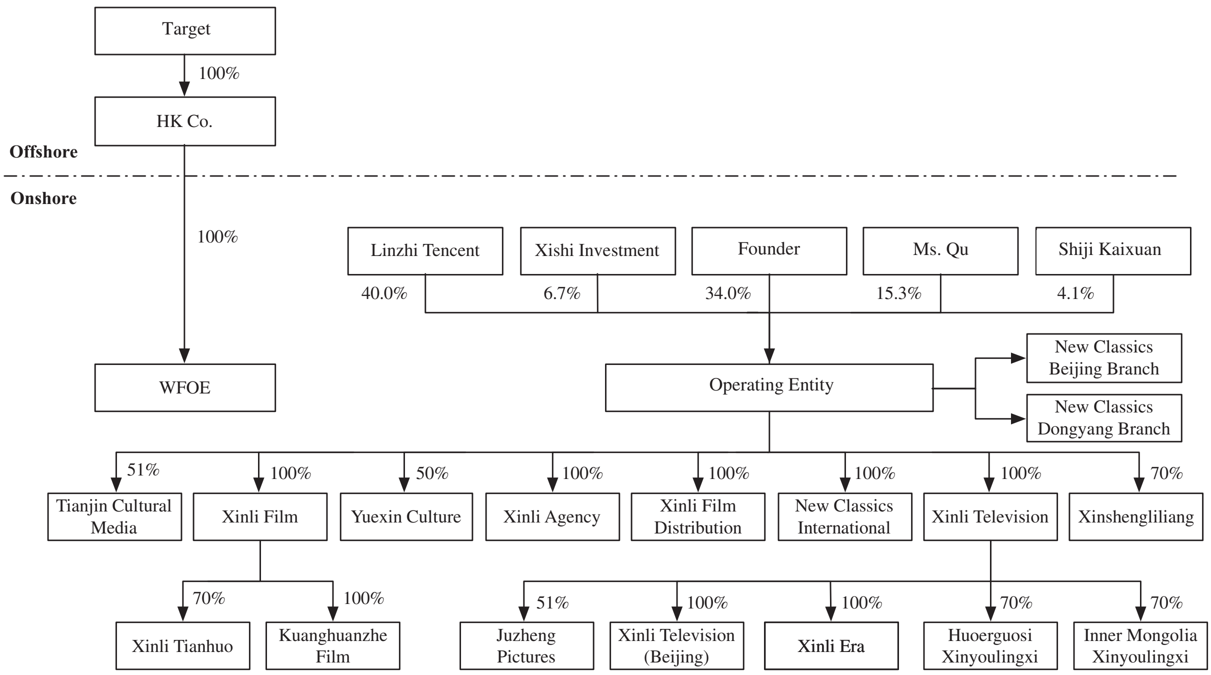
The shareholding structure of the Group as of the Latest Practicable Date is set out as follows:



Notes: As of the Latest Practicable Date, 230,705,634 shares, 246,600,000 shares are held by Qinghai Lake Investment Limited and THL A13 Limited, all being direct/indirect wholly-owned subsidiaries of Tencent, respectively. 45,000,000 shares are held by Deal Plus Global Limited, which is 48.90% owned by THL A13 Limited.

Shareholding Structure of the Target Group Before Completion

The shareholding structure of the Target Group as of the Latest Practicable Date is set out as follows:



Notes:

1. HK Co. refers to Qiandao Lake Hong Kong Limited, a limited liability company incorporated in Hong Kong and a wholly owned subsidiary of the Target, with issued share capital of HK$1.00.

2. New Classics Beijing Branch refers to New Classics Media Corporation, Beijing Consulting Branch (新麗傳媒股份有限公司北京諮詢分公司), which is principally engaged in consultation on economics and trade, literary and artistic creation, rental of photographic equipment, film and television clothing, corporate planning, conference and exhibition services, photography services, production, acting as an agent, and distribution of advertisement, culture agency services.

3. New Classics Dongyang Branch refers to New Classics Media Corporation, Zhejiang Dongyang Branch (新麗傳媒股份有限公司浙江東陽分公司), which is principally engaged in creation and trading of film scripts, rental of film and television costumes and props, rental of film and television equipment, consultation on film and television cultural information, corporate image planning, conference and exhibition services, photography services, production, acting as an agent, distribution of film and television advertisement, actors agency.

4. Tianjin Cultural Media refers to Tianjin Dahai Xingchen Xingtan Cultural Media Co., Ltd. (天津大海星辰星探文化傳媒有限公司), which is owned by the Operating Entity as to 51% and Yanqing TONG (佟豔青), a PRC national, as to 49%, with registered capital of RMB200,000. Tianjin Cultural Media is principally engaged in organizing cultural and artistic exchange activities, cultural entertainment agent, film and television planning, running advertising business, graphic design and production.

5. Xinli Film refers to Xinli Film (Zhejiang) Co., Ltd. (新麗電影（浙江）有限公司) with registered capital of RMB10,000,000. Xinli Film is principally engaged in production and distribution of films production, reproduction and distribution of featured films, columns, variety shows, animation, radio plays, TV series, film and television investment, rental of film and television costumes and props, rental of film and television equipment, consultation on film and television cultural information, corporate image planning, conference and exhibition services, photography services, production, acting as an agent, distribution of indoors and outdoors advertisement, film and television advertisement.

6. Yuexin Culture referes to Tianjin Yuexin Culture Communication Co., Ltd. (天津閱新文化傳播有限公司), which is owned by the Operating Entity as to 50% and Shanghai Yuewen Information Technology Co., Ltd. (上海閱文信息技術有限公司) as to 50%, with registered capital of RMB20,000,000. The 50% equity interest of Yuexin Culture is held by Shanghai Yuewen Information Technology Co., Ltd. which is ultimately owned by (i) Fei CHEN (陳菲), Min HU (胡敏), Huimin LI (李慧敏) and Jinsong ZHU (朱勁松) through Shenzhen Litong Industry Investment Fund Co., Ltd. (深圳市利通產業投資基金有限公司) and (ii) Wenhui WU (吳文輝), Tingfeng LIN (林庭鋒), Xuesong SHANG (商學松), Li LUO (羅立) and Qingchen HOU (侯慶辰) through Ningbo Meishan Bonded Port Area Yuebao Investment Co., Ltd. (寧波梅山保稅港區閱寶投資有限公司). All of the above-mentioned individuals are PRC nationals. Yuexin Culture is principally engaged in creation and writing of film and television scripts, consultation on culture and arts, organization of cultural and arts communication activities (except for performance), film and television planning and market planning.

7. Xinli Agency refers to Xinli (Tianjin) Culture Agency Co., Ltd. (新麗（天津）文化經紀有限公司) with registered capital of RMB5,000,000. Xinli Agency is principally engaged in operation of performance and agency business, organization of cultural and arts communication activities (except for performance), film and television planning, advertising business, graphics design and production.

8. Xinli Film Distribution refers to Xinli Film Distribution (Tianjin) Co., Ltd. (新麗電影發行（天津）有限公司) with registered capital of RMB5,000,000. Xinli Film Distribution is principally engaged in production and distribution of TV series, featured films, variety shows, animation, rental of film and television costumes and props, rental of film and television equipment, consultation on film and television cultural information, corporate image planning, conference and exhibition services, photography services, production, acting as an agent, distribution of film and television advertisement and other advertisement.

9. New Classics International refers to New Classics International Media Ltd. (新麗國際傳媒有限公司) with issued share capital of HK$10,000,000.

10. Xinli Television refers to Xinli Television Culture Investment Co., Ltd. (新麗電視文化投資有限公司) with registered capital of RMB50,000,000. Xinli Television is principally engaged in production, reproduction and distribution of featured films, columns, variety shows, animation, radio plays, TV series; Film and television investment, rental of film and television costumes and props, rental of film and television equipment, consultation on film and television cultural information, corporate image planning, conference and exhibition services, photography services, production, acting as an agent, distribution of indoors and outdoors advertisement, film and television advertisement, goods import and export.

11. Xinshengliliang refers to Xinshengliliang (Tianjin) Culture Agency Co., Ltd. (新生麗量（天津）文化經紀有限公司), which is owned by the Operating Entity as to 70% and Yuhan GONG (公鈺涵), a PRC national, as to 30%, with registered capital of RMB3,000,000. Xinshengliliang is principally engaged in operation of performance and agency business, organization of cultural and arts communication activities (except for performance), film and television planning, advertisement, graphics design and production.

12. Xinli Tianhuo refers to Xinli Tianhuo Animation Co., Ltd. (新麗天火動漫（天津）有限公司) which is owned by Xinli Film as to 70%, Jun WANG (王君), a PRC national, as to 25% and Jing WANG (王晶), a PRC national, as to 5%, respectively, with registered capital of RMB5,000,000. Xinli Tianhuo is principally engaged in organization of culture and arts communication activities, production and distribution of TV series, featured films, variety shows, animation, rental of film and television costumes and props, rental of film and television equipment, consultation on film and television culture information, corporate image planning, conference and exhibition services, photography services, production, acting as an agent, distribution of advertisement.

13. Kuanghuanzhe Film refers to Kuanghuanzhe Film Production Co., Ltd. (狂歡者電影製作有限公司) with registered capital of RMB50,000,000. Kuanghuanzhe Film is principally engaged in production, operation, and distribution of broadcasting TV programs, rental of film and television costumes and props, rental of film and television equipment, consultation on film and television culture information, corporate image planning, conference and exhibition services, photography services, production, acting as an agent, distribution of indoors and outdoors advertisement and film and television advertisement.

14. Juzheng Pictures refers to Juzheng Pictures (Tianjin) Co., Ltd. (居正影業(天津)有限公司), which is owned by Xinli Television as to 51% and Liwei WANG (王力威), a PRC national, as to 49%, with registered capital of RMB10,000,000. Juzheng Pictures is principally engaged in production and distribution of TV programs, features, shows and cartoon, rental of film and television costumes and props, rental of film and television equipment, consultation on film and television culture information, corporate image planning, conference and exhibition services photography services, production, acting as an agent, distribution of advertisement, self-management of goods or agency of goods and technology import and export.

15. Xinli Television (Beijing) refers to Xinli Television Media (Beijing) Co., Ltd. (新麗電視傳媒(北京)有限公司) with registered capital of RMB5,000,000. Xinli Television (Beijing) is principally engaged in production and distribution of animation, featured films, variety shows, except the production of social and political news and any topics and columns of same kind, project investment, rental of film and television costumes, props, equipment, consultation of culture and arts, corporate image planning, conference services and exhibitions services, photography services, design, production, acting as an agent, and distribution of advertisement, goods import and export, technology import and export, agency of import and export.

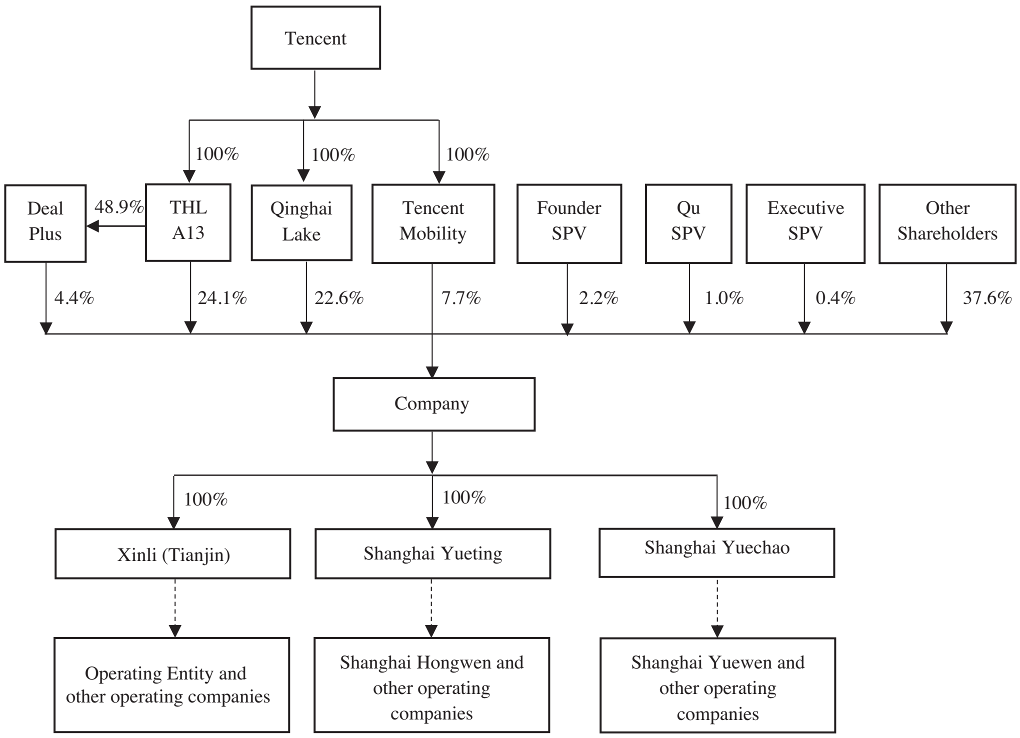
16. Xinli Era refers to Xinli Era Film Culture Co., Ltd. (新麗時代影視文化有限公司) with registered capital of RMB50,000,000. Xinli Era is principally engaged in production and distribution of TV series, featured films, variety shows, animation, rental of movie and television costumes and props, rental of movie and television equipment, consultation on film and television culture information, corporate image planning, conference and exhibition services, photography services, advertising services, import and export business.

17. Huoerguosi Xinyoulingxi refers to Huoerguosi Xinyoulingxi Film and Television Culture Co., Ltd. (霍爾果斯心有靈犀影視文化有限公司), which is owned by Xinli Television as to 70% and Dongyang Benniaoxianfei Film and Television Studios (東陽橫店笨鳥先飛影視工作室) as to 30%, with registered capital of RMB3,000,000. The 30% equity interest of Huoerguosi Xinyoulingxi and Inner Mongolia Xinyoulingxi is held by Dongyang Benniaoxianfei Film and Television Studios (東陽橫店笨鳥先飛影視工作室) which is owned by Lan HUANG (黃瀾) who is a PRC national. Huoerguosi Xinyoulingxi is principally engaged in broadcasting, film and television services, copyright transfer services, advertising services, modelling and clothing design services, audio and video production services, scene layout services, film and television cultural information consulting and planning services, photography services (except commercial performance agency services).

18. Inner Mongolia Xinyoulingxi refers to Inner Mongolia Xinyoulingxi Film and Television Culture Co., Ltd. (內蒙古新有靈犀影視文化有限公司), which is owned by Xinli Television as to 70% and Dongyang Benniaoxianfei Film and Television Studios (東陽橫店笨鳥先飛影視工作室) as to 30%, with registered capital of RMB3,000,000. Inner Mongolia Xinyoulingxi is principally engaged in production and distribution of broadcasting TV programs, rental of film and television costumes and props, rental of film and television equipment, consultation on film and television culture information, corporate image planning, conference and exhibition services, photography services, production, acting as an agent, distribution of advertisement.

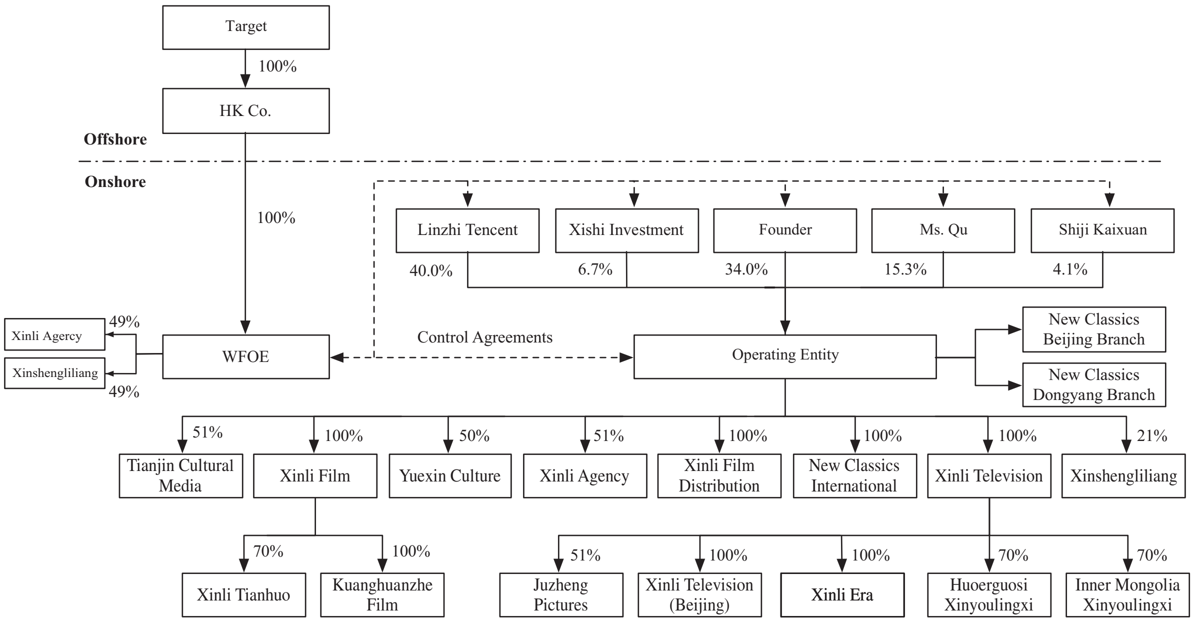
Shareholding Structure of the Group Upon Completion

The shareholding structure of the Group upon Completion of the Acquisition is set out as follows:



Shareholding Structure of the Target Group Upon Completion

The shareholding structure of the Target Group upon Completion of the Acquisition (assuming the transfer of 49% equity interest of Xinli Agency and Xinshengliliang has completed) is set out as follows:



Note: As of the Latest Practicable Date, the 49% equity interest of Xinli Agency and Xinshengliliang held by the Operating Entity is in the process of transferring to the WFOE. The 49% equity interest of Xinli Agency and Xinshengliliang held by the Operating Entity will be transferred to the WFOE within three months after Completion. After the transfer, Xinlin Agency will be directly held as to 51% and 49% by the Operating Entity and the WFOE and Xinshengliiang will be directly held as to 49%, 21% and 30% by the WFOE, the Operating Entity and Yuhan GONG (公鈺涵). The financial results of Xinli Agency and Xinshengliliang is insignificant such that the revenue of Xinli Agency and Xinshengliliang, when in aggregate, accounts for less than 1% of the revenue of the Operating Entity Group for the year ended December 31, 2017.

Effect of the Acquisition on the Shareholding Structure

As at the Latest Practicable Date, the authorised share capital of the Company was US$1,000,000 divided into 10,000,000,000 Shares of US$0.0001 each.

For illustration purpose only, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the Completion of the Acquisition (excluding those to be issued due to the Earn Out Mechanism under the Share Purchase Agreement and assuming that no adjustment will be made pursuant to the Share Purchase Agreement); and (iii) immediately upon the issuance of all the Consideration Shares (including those to be issued due to the Earn Out

Mechanism under the Share Purchase Agreement), assuming that the reference Net Profit for the years 2018, 2019 and 2020 are met and no adjustment will be made pursuant to the Share Purchase Agreement:

Shareholders	As at the Latest Practicable Date		Immediately upon the Completion(1)		Immediately upon the issuance of all Consideration Shares(2)	
	Number of Shares	Appro. % of issued Shares	Number of Shares	Appro. % of issued Shares	Number of Shares	Appro. % of issued Shares
Tencent						
- THL A13	246,600,000	27.2%	246,600,000	24.1%	246,600,000	23.3%
- Qinghai Lake	230,705,634	25.5%	230,705,634	22.6%	230,705,634	21.8%
- Tencent Mobility	—	—	78,337,470	7.7%	78,337,470	7.4%
Founder SPV	—	—	22,955,882	2.2%	45,911,762	4.3%
Deal Plus	45,000,000	5.0%	45,000,000	4.4%	45,000,000	4.2%
Qu SPV	—	—	10,318,073	1.0%	20,636,145	1.9%
Executive SPV	—	—	4,525,582	0.4%	9,051,164	0.9%
Other Shareholders	384,111,605	42.4%	384,111,605	37.6%	384,111,605	36.2%
Total	906,417,239	100%	1,022,554,246	100%	1,060,353,780	100%

Notes:

(1) For the purpose of illustration only, the table represents the shareholding structure of the Company immediately upon Completion of the Acquisition taking into account the Consideration Shares to be issued at Completion but without taking into account those Consideration Issues to be issued under the Earn Out Mechanism and without any adjustment under the Share Purchase Agreement (including in particular the adjustments to be made under the Earn Out Mechanism).

(2) For the purpose of illustration only, the table represents the shareholding structure of the Company after Completion of the Acquisition taking into account the Consideration Shares to be issued at Completion and under the Earn Out Mechanism and assumes the maximum number of Consideration Shares to be issued under the Earn Out Mechanism assuming that the Reference Net Profit of the years 2018, 2019 and 2020 are met and without any adjustment under the Share Purchase Agreement.

Compliance with Rule 14A.63

The Company will compliance with the disclosure requirements under 14A.63 if the reference net profits as disclosed above are not met.

Application for Listing of the Consideration Shares

Application will be made to the Stock Exchange for the listing of and permission to deal in the consideration Shares to be issued.

No Change of Control

Completion of the Acquisition will not result in a change of control of the Company.

DEED OF NON-COMPETITION

As one of the Conditions Precedent to Completion, Founder, Ms. Qu and each key employee of the Operating Entity Group's management (each a "**Covenantor**", collective the "**Covenantors**") hereby irrevocably and unconditionally covenants with the Company that, unless with the consent by the Company:

(a) with effect from the date of the Completion and, until the latest of (i) the third anniversary from the Completion, (ii) two years from the termination of all the employment relationship between the Covenantor and the Group or (iii) the date on which such Covenantor holds less than 1%. of the issued share capital of the Company, such Covenantor will and will do any act to procure any of his /her/its close associates (other than the Group):

(i) not to directly or indirectly engage, participate, acquire or hold any right or interest in or otherwise undertake (whether or not as shareholder, partner, agent or any other capacity, and whether or not for profits, returns or any benefits) any business in competition with or which may be in competition with the existing business activity of the Group, namely the original literary works related business; publication of original literary works; PC/online/web/mobile gaming business; television series, web series and films production and publishing business, or any business activities which the Group may undertake in the future (the "**Restricted Activity**"), save and except for (i) the interest such Covenantor holds, directly or indirectly, in the Company, or where such activities are conducted or performed through, or for the Group; (ii) where such Covenantor holds less than 1%. of the shares in issue of any company the shares of which are listed on the Stock Exchange or any other stock exchange which is engaged in, participate, acquire or hold any business that is or may be in competition with any business engaged by any member of the Group; (iii) with respect to any new business activities which the Group undertakes after the date of the Deed (for the avoidance of doubt, excluding any business activities which the Target and its subsidiaries currently are or may in the future be involved in) ("**New Business**"), a Covenantor may engage in such New Business provided that such Covenantor has already engaged in such New Business before the Group and due notification is given to the Group once the Covenantor is aware that the Group intends to or has engaged in such New Business; and (iv) the interest in any business which has been referred by the Covenantors or any of his/her/its close associates to the Company pursuant to this Deed of Non-Competition and the Company has failed to respond to the offer notice within the 30 Business Day period of the Company's receipt of the offer notice or has declined the competing business opportunity after receipt of the offer notice;

(ii) not to solicit or induce any person who, to the best of the relevant Covenantor's knowledge, is a customer or supplier of the Group to cease to engage in the business and/or transaction with the Group;

(iii) not to solicit or induce any persons who are existing employees, consultants or service providers of the Group to leave the Group or terminate the relationship with the Group, or hire or in any ways employ such persons or engage as consultants or other service providers (provided that the foregoing shall not prohibit general solicitations or advertisements of employment (or hiring as a result thereof) by the Covenantor and/or his/her/its close associates not specifically directed at such persons);

(iv) not to, criticize or disparage any member of the Group or make any statements to, or take any actions with respect to, any person who is or, to the Covenantor's knowledge, is reasonably likely to become, a customer, supplier, contractor or client of any member of the Group, which are intended to, or reasonably likely to, damage any member of the Group's or any of their respective successors', relationship with such persons; and

(v) keep the directors (including its independent non-executive directors) informed of any matter, to the best of the relevant Covenantor's knowledge, of potential material conflicts of interests between him/her (including their close associates) and the Group, in particular, a transaction between him/her (including him/her close associates) and the Group.

(b) such Covenantor will not and will not do any act to procure any of his/her/its/ their close associates to, directly or indirectly, disclose any confidential information with respect to the Group or any member thereof to any third party, save and except for information that (i) is or becomes publicly known or available otherwise than as a consequence of a breach of this Deed (ii) is required to be disclosed by law or to satisfy a legally enforceable demand by a competent court of law, a governmental or regulatory body, or a stock exchange.

LOCK-UP UNDERTAKING

As one of the Conditions Precedent to Completion, each of the Management Vendors and each of the management members (each a "**Holder**", collective the "**Holders**") shall execute a deed of Lock-up Undertaking in favour of the Company, pursuant to which each of the Holders hereby severally and individually in the case of Executive SPV or jointly and severally in the case of the Founder and Ms. Qu undertakes to the Company that he or she or it shall not, and shall procure that his/her/its affiliate(s) including but not limited to Executive SPV / Qu SPV / Founder SPV and/or the relevant registered holder(s) of the Relevant Shares as nominated by him or her or it (if applicable), in each case, who are interested in the Relevant Shares (collectively the "**Controlled Entities**") shall not, without the prior written consent of the Company, at any time from the Completion until 31 March 2020:

(a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer (including but not limited to dividend/distribution in specie) or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any legal or beneficial interest in the Relevant Shares (the foregoing restriction is expressly agreed to preclude each of the Holders from engaging in any hedging or other transactions which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of any Relevant Shares even if such shares would be disposed of by someone other than each of the Holders and/or his/her/its affiliate(s) or nominee(s), respectively. Such prohibited hedging or other transactions would include without limitation any put or call option with respect to any Relevant Shares or with respect to any security that includes, relates to or derives any significant part of its value from such shares); or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of Relevant Shares or any other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any shares of the Company); or

(c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above; or

(d) without prejudice to (a), (b) and (c) above, sell or permit to be sold any shares or interests a change in any company or entity holding or controlling (directly or indirectly) any Relevant Shares; or

(e) offer to or agree to or announce any intention to effect any transaction specified in (a), (b), (c) or (d) above, in each case, whether any of the transactions specified in (a), (b) or (c) or (d) above is to be settled by delivery of the Relevant Shares or such other securities of the Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the disposal of Relevant Shares or such other securities will be completed within the aforesaid period).

The Lock-up Period for the Relevant Shares ("**Lock-up Period**") shall commence on the Completion and shall end on 31 March 2020 (both days inclusive). Upon the Completion, the Holders shall deliver or cause to be delivered the share certificates for the Relevant Shares to the Company and the Company shall be entitled to hold and keep the share certificates during the Lock-up Period.

In a period till 31 March 2025 commencing from 31 March 2020 (both days inclusive) ("**Post Lock-up Period**"), the Holders shall not, and shall procure the Controlled Entities not to, enter into any of the transactions specified in paragraph (a), (b), (c), (d) or (e) above if immediately following such transaction, the Holders, together with his/her/its/their Controlled Entities, has/have in aggregate disposed, in each Post Lock-up Year, such number of Relevant Shares which is equal to more than 20% of the total shares issuable under the Share Purchase Agreement. In the event that any Holders, together with his/her/its Controlled Entities, dispose less than 20% of the total shares issuable under the Share Purchase Agreement in any particular a 12-month period which commences from 1 April in a calendar year and ends on 31 March in the next calendar year (both days inclusive) ("**Post Lock-up Year**"), such shortfall could be carried forward to subsequent Post Lock-up Years for the purpose of calculating the amount of Relevant Shares which could be disposed by such Holder together with his/her/its Controlled Entities in aggregate.

THE CONTROL AGREEMENTS

Reasons for the Control Agreements

Due to the foreign investment restriction in the PRC, the Target has entered into the Control Agreements on August 13, 2018 (after trading hours) such that the Target could consolidate all the economic benefits generated by the Operating Entity Group through the Control Agreements which will become effective upon the Completion Date of the Acquisition.

The Operating Entity Group is principally engaged in production and distribution of television series, web series and films and also operates certain performing agency business. As advised by the PRC Legal Adviser, pursuant to the Administrative Measures of Foreign Investment Admission (Negative List) 2018 Revision (外商投資准入特別管理措施(負面清單)(2018年版)), (i) foreign investments in the businesses of production and operation of broadcasting and television programmes (including bringing-in of such programmes), film making, film distribution, film bringing-in and theatre are prohibited (the "**Prohibited Businesses**"); and (ii) performing agency business (the "**Restricted Businesses**") shall be controlled by PRC companies or individuals, i.e., foreign investors are not allowed to hold more than 49% equity interests in any company operating performing agency business.

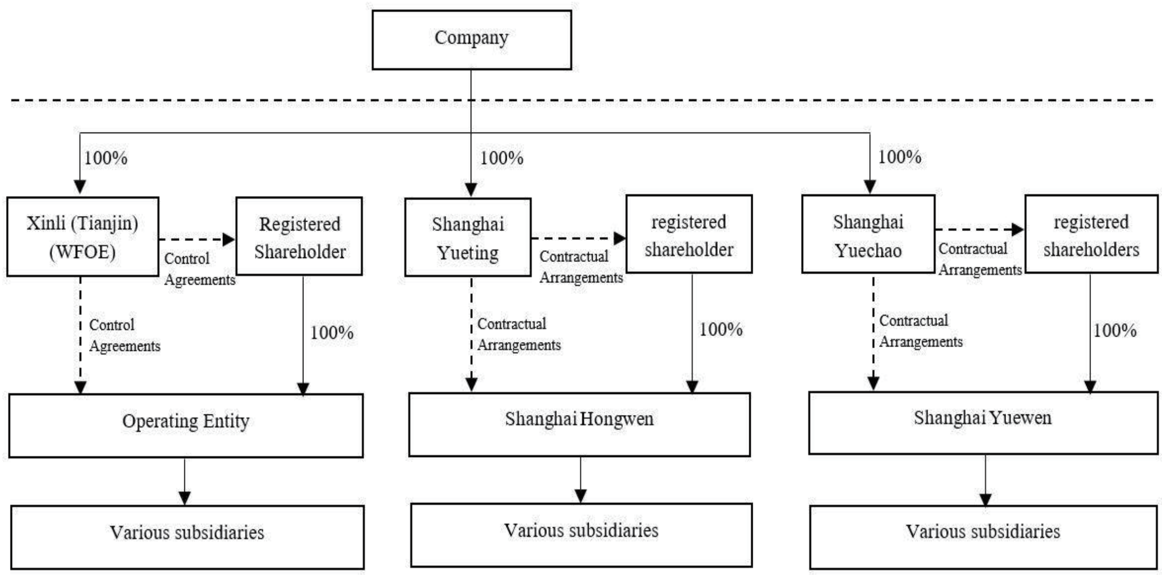
In order for the Group to control and manage the Prohibited Businesses and the Restricted Businesses of the Operating Entity Group in the PRC, the parties have entered into the Control Agreements on August 13, 2018, which are designed to provide the Company with the right and power to control over and the right to enjoy the economic benefits in the Prohibited Businesses and the Restricted Businesses operated by the Operating Entity Group.

According to the confirmation by the management of the Operating Entity, as of the Latest Practicable Date, the Target had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through the Operating Entity Group under the Control Agreements after the Completion Date.

We will unwind and terminate the Control Agreements wholly or partially through the WFOE exercising the right under the Exclusive Option Agreements to require the Registered Shareholders to transfer any or all their equity interest in the Operating Entity to the WFOE once our businesses are no longer prohibited or restricted from foreign investment.

Structure of the Operating Entity Group of the Company

Set out below is the simplified structure of the operating entities of the Company immediately upon Completion:



Details of the Control Agreements

On August 13, 2018 (after trading hours), the Registered Shareholders, the WFOE and the Operating Entity have entered into the Control Agreements which will become effective upon the Completion of the Acquisition. The details of the Control Agreements are summarised as follows:

Exclusive Business Cooperation Agreements

Under the exclusive business cooperation agreements entered into between the Operating Entity and the WFOE (the "**Exclusive Business Cooperation Agreements**"), pursuant to which, in exchange for a monthly service fee, the Operating Entity has agreed to engage the WFOE as its exclusive provider of technical support, consultation and other services, including the following services:

- the use of any relevant software legally owned by the WFOE;
- development, maintenance and updating of software in respect of the Operating Entity's business;

- design, installation, daily management, maintenance and updating of network systems, hardware and database design;

- providing technical support and staff training services to relevant employers of the Operating Entity;

- providing assistance in consultancy, collection and research of technology and market information (excluding market research business that wholly foreign owned enterprises are prohibited from conducting under PRC laws);

- providing business management consultation;

- providing marketing and promotional services;

- providing customer order management and customer services;

- transfer, leasing and disposal of equipment or properties; and

- other relevant services requested by the Operating Entity from time to time to the extent permitted under PRC laws.

Under the Exclusive Business Cooperation Agreements, the service fee consists of 100% of the total consolidated profit of the Operating Entity, after the deduction of any accumulated deficit of any members of the Operating Entity Group in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, the WFOE shall adjust the scope and amount of services fees according to PRC tax law and tax practices, and the Operating Entity will accept such adjustments. The WFOE shall calculate the service fee on a monthly basis and issue a corresponding invoice to the Operating Entity. Notwithstanding the payment arrangements in the Exclusive Business Cooperation Agreements, the WFOE may adjust the payment time and payment method, and the Operating Entity will accept any such adjustment.

In addition, absent the prior written consent of the WFOE, during the term of the Exclusive Business Cooperation Agreements, with respect to the services subject to the Exclusive Business Cooperation Agreements and other matters, the Operating Entity may not directly or indirectly accept the same or any similar services provided by any third party and may not establish cooperation relationships similar to that formed by the Exclusive Business Cooperation Agreements with any third party. The WFOE may appoint other parties, who may enter into certain agreements with the Operating Entity, to provide the Operating Entity with the services under the Exclusive Business Cooperation Agreements.

The Exclusive Business Cooperation Agreements shall also provide that the WFOE have the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the Operating Entity during the performance of the Exclusive Business Cooperation Agreement.

The Exclusive Business Cooperation Agreements shall remain effective unless terminated (a) in accordance with the provisions of the Exclusive Business Cooperation Agreements; (b) in writing by the WFOE; or (c) renewal of the expired business period of either the WFOE or the Operating Entity is denied by relevant government authorities, at which time the Exclusive Business Cooperation Agreements will terminate upon termination of that business period.

Exclusive Option Agreements

Under the exclusive option agreements entered into among the Operating Entity, the WFOE and each of the Registered Shareholders (the "**Exclusive Option Agreements**"), the WFOE shall have the rights to require the Registered Shareholders to transfer any or all their equity interests in the Operating Entity to the WFOE and/or a third party designated by it, in whole or in part at any time and from time to time, for considerations equivalent to the lowest price as permitted by PRC laws.

The Operating Entity and the Registered Shareholders, among other things, covenant that:

- without the prior written consent of the WFOE, they shall not in any manner supplement, change or amend the constitutional documents of the Operating Entity, increase or decrease its registered capital, or change the structure of its registered capital in other manner;

- they shall maintain the Operating Entity's corporate existence in accordance with good financial and business standards and practices, obtain and maintain all necessary government licenses and permits by prudently and effectively operating its business and handling its affairs;

- without the prior written consent of the WFOE, they shall not at any time following the effectiveness of the Exclusive Option Agreements sell, transfer, pledge or dispose of in any manner any material assets of the Operating Entity or legal or beneficial interest in the material business or revenues of the Operating Entity of more than RMB20,000,000, or allow the encumbrance thereon of any security interest;

- without the prior written consent of the WFOE, the Operating Entity shall not incur, inherit, guarantee or assume any debt, except for debts incurred in the ordinary course of business other than payables incurred by a loan;

- the Operating Entity shall always operate all of its businesses during the ordinary course of business to maintain its asset value and refrain from any action/omission that may adversely affect the Operating Entity' operating status and asset value;

- without the prior written consent of the WFOE, they shall not cause the Operating Entity to execute any material contract with a value above RMB20,000,000, except the contracts executed in the ordinary course of business;

- without the prior written consent of the WFOE, they shall not cause the Operating Entity to provide any person with any loan or credit;

- they shall provide the WFOE with information on the Operating Entity' business operations and financial condition at the request of the WFOE;

- if requested by the WFOE, they shall procure and maintain insurance in respect of the Operating Entity' assets and business from an insurance carrier acceptable to the WFOE, at an amount and type of coverage typical for companies that operate similar businesses;

- without the prior written consent of the WFOE, they shall not cause or permit the Operating Entity to merge, consolidate with, acquire or invest in any person;

- they shall immediately notify the WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the Operating Entity' assets, business or revenue;

- to maintain the ownership by the Operating Entity of all of its assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defences against all claims;

- without the prior written consent of the WFOE, the Operating Entity shall not in any manner distribute dividends to its shareholders, provided that upon the written request of the WFOE, the Operating Entity shall immediately distribute all distributable profits to its shareholders;

- at the request of the WFOE, they shall appoint any persons designated by the WFOE as the directors and/or senior management of the Operating Entity;

- without the written consent of the WFOE, the Operating Entity shall not engage in any business in competition with the WFOE or its affiliates; and

- unless otherwise mandatorily required by PRC laws, the Operating Entity shall not be dissolved or liquidated without prior written consent by the WFOE.

In addition, the Registered Shareholders, among other things, covenant that:

- without the written consent of the WFOE, they shall not sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in the Operating Entity, or allow the encumbrance thereon of any security interest, except for the Equity Pledge Agreements and the interests prescribed in the Powers of Attorney, and procure the shareholders' meeting and the board of directors of the Operating Entity not to approve such matters;

- for each exercise of the equity purchase option, to cause the shareholders' meeting of the Operating Entity to vote on the approval of the transfer of equity interests and any other action requested by the WFOE;

- they shall relinquish the pre-emptive right (if any) he/she is entitled to in relation to the transfer of equity interest by any other shareholders to the Operating Entity and give consent to the execution by each other shareholder of the Operating Entity with the WFOE and the Operating Entity exclusive option agreements, equity pledge agreements and powers of attorney similar to the Exclusive Option Agreements, the Equity Pledge Agreements and the Powers of Attorney, and accept not to take any action in conflict with such documents executed by the other shareholders; and

- each of the Registered Shareholders will transfer to the WFOE or its appointee(s) by way of gift any profit or dividend in accordance with the PRC law.

The Exclusive Option Agreements shall remain effective unless terminated in the event that the entire equity interests held by the Registered Shareholders in the Operating Entity have been transferred to the WFOE or its appointee(s).

Equity Pledge Agreements

Under the equity pledge agreements entered into among the WFOE, each of the Registered Shareholders and the Operating Entity (the "**Equity Pledge Agreements**"), the Registered Shareholders have agreed to pledge all their respective equity interests in the Operating Entity that they own, including any interest or dividend paid for the shares, to the WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.

The pledge in respect of the Operating Entity shall take effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of the Registered Shareholders and the Operating Entity under the relevant Control Agreements have been fully performed and all the outstanding debts of the Registered Shareholders and the Operating Entity under the relevant Control Agreements have been fully paid.

Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreements), the WFOE shall have the right to exercise all such rights as a secured party under any applicable PRC law and the Equity Pledge Agreements, including without limitations, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to the Registered Shareholders.

As advised by the PRC Legal Adviser, the equity pledge under the respective Equity Pledge Agreements is required to be registered with the relevant administration bureau for industry and commerce under the laws of the PRC. The Group will carry out the relevant filing and registration of the equity pledges as soon as practicable.

Powers of Attorney

On August 13, 2018, the Registered Shareholders have executed powers of attorney (the "**Powers of Attorney**"). Under the Powers of Attorney, the Registered Shareholders shall irrevocably appoint the WFOE and their designated persons (including but not limited to Directors and their successors and liquidators replacing the Directors but excluding those non-independent or who may give rise to conflict of interests) as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that they have in respect of their equity interests in the Operating Entity, including without limitation:

- to attend shareholders' meetings of the Operating Entity and to execute any and all written resolutions and meeting minutes in the name and on behalf of such shareholder;

- to file documents with the relevant companies registry;

- to exercise all shareholder's rights and shareholder's voting rights in accordance with law and the constitutional documents of the Operating Entity, including but not limited to the sale, transfer, pledge or disposal of any or all of the equity interests in the Operating Entity; and

- to nominate or appoint the legal representatives, directors, supervisors, general manager and other senior management of the Operating Entity.

Each of the Registered Shareholders has undertaken under the Powers of Attorney that it will not directly or indirectly participate in engage in, involve in, or own any business which potentially compete with the relevant WFOE or its affiliates.

Further, the Powers of Attorney shall remain effective for so long as each of the Registered Shareholders holds equity interest in the Operating Entity.

Confirmations from the Relevant Individual Shareholders

On August 13, 2018, each of the Relevant Individual Shareholders has confirmed to the effect that (i) his/her spouse does not have the right to claim any interests in the Operating Entity (together with any other interests therein) or exert influence on the day-to-day management of the Operating Entity; and (ii) in the event of his/her death, incapacity, divorce or any other event which causes his/her inability to exercise his/her rights as a shareholder of the Operating Entity, he/she will take necessary actions to safeguard his/her interests in the Operating Entity (together with any other interests therein) and his/her successors (including his/her spouse) will not claim any interests in the Operating Entity (together with any other interests therein) to the effect that the respective Relevant Individual Shareholder's interests in the Operating Entity shall not be affected.

Spouse Undertakings

The spouse of each of the Relevant Individual Shareholders, where applicable, has signed an undertaking (the "**Spouse Undertakings**") to the effect that (i) the respective Relevant Individual Shareholders' interests in the Operating Entity (together with any other interests therein) do not fall within the scope of communal properties, and (ii) he/she has no right to or control over such interests of the respective Relevant Individual Shareholder and will not have any claim on such interests.

Our PRC Legal Adviser is of the view that (i) the above arrangements provide protection to our Group even in the event of death or divorce of any Relevant Individual Shareholders of the Operating Entity and (ii) the death or divorce of Relevant Individual Shareholder would not affect the validity of the Control Agreements, and the WFOE can still enforce its right under the Control Agreements.

Dispute Resolution

Each of the agreements under the Control Agreements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Control Agreements, any party has the right to submit the relevant dispute to the Shenzhen Court of International Arbitration for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of our Operating Entity or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of our Operating Entity; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of the WFOE or our Operating Entity are located for interim remedies or injunctive relief.

However, our PRC Legal Adviser has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of the entities within the Operating Entity Group pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

As a result of the above, in the event that the Operating Entity or the Registered Shareholders breach any of the Control Agreements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over the entities within the Operating Entity Group and conduct our business could be materially and adversely affected. See the section headed "Risks in relation to the Control Agreements" in this circular for further details.

Conflicts of Interests

Each of the Registered Shareholders has given its irrevocable undertakings in the Powers of Attorney which address potential conflicts of interests that may arise in connection with the Control Agreements. For further details, see the sub-paragraph headed "Powers of Attorney" above.

Loss Sharing

Under the relevant PRC laws and regulations, none of the Company and the WFOE is legally required to share the losses of, or provide financial support to, the Operating Entity Group. Further, the entities within the Operating Entity Group are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. The WFOE intend to continuously provide to or assist the entities within the Operating Entity Group in obtaining financial support when deemed necessary. In addition, given that the Group conducts part of its business operations in the PRC through the Operating Entity Group, which hold the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into the Group's financial statements under the applicable accounting principles, the Company's business, financial position and results of operations would be adversely affected if the Operating Entity Group suffers losses.

However, as provided in the Exclusive Option Agreements, without the prior written consent of the WFOE, the Operating Entity shall not, among others, (i) sell, transfer, pledge or dispose of in any manner any of its material assets of more than RMB20,000,000; (ii) execute any material contract with a value above RMB20,000,000, except those entered into in the ordinary course of business; (iii) provide any loan, credit or guarantees in any form to any third party, or allow any third party create any other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business; (v) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party; and (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. Therefore, due to the relevant restrictive provisions in the Control Agreements, the potential adverse effect on the WFOE and the Company in the event of any loss suffered from the Operating Entity can be limited to a certain extent.

Liquidation

Pursuant to the Exclusive Option Agreements, in the event of a mandatory liquidation required by the PRC laws, the shareholders of the entities within the Operating Entity Group shall give the proceeds they received from liquidation as a gift to the WFOE or its designee(s) to the extent permitted by the PRC laws.

In addition, pursuant to the Exclusive Business Cooperation Agreement, the Operating Entity undertakes to appoint, to the extent permitted by PRC laws, a committee recommended by the WFOE as the liquidation committee upon the winding up of the Operating Entity to manage its assets. However, as advised by the PRC Legal Adviser, in the event of a mandatory liquidation required by the PRC laws or bankruptcy liquidation, the above provisions may not be enforceable under PRC laws.

Insurance

The Company does not maintain an insurance policy to cover the risks relating to the Control Agreements.

Information on the Registered Owners of the Operating Entity

The Registered Shareholders are the registered owners of the Operating Entity. For further information of the Registered Shareholders, please refer to the section headed "Information on the Parties" below of this circular.

Compliance of the Control Agreements with Laws and Regulations of the PRC

The PRC Legal Adviser has provided the Company with a legal opinion to the effect that (i) the Control Agreements comply with PRC laws, rules and regulations, including those applicable to the business of the WFOE and the Operating Entity Group; (ii) upon the Completion Date and completion of equity pledge registration, except otherwise stated in the section headed "The Details of the Control Agreements", each of the Control Agreements will become valid, legally binding and enforceable to each party on such agreements under the PRC laws assuming such Control Agreement will become effective in the form as at the time of signing; and (iii) the Control Agreements would not be deemed as concealing illegal intentions with a lawful form and would not be voided under the PRC Contract Law.

Board's View on the Control Agreements

On the basis of the above and subject to further due diligence exercise to be conducted on the Operating Entity Group, the Directors believe that the Control Agreements, after becoming effective and completion of equity pledge registration, would be enforceable under applicable PRC laws and would provide a mechanism that enables the WFOE to exercise effective control over and enjoy the economic interests and benefits of the Operating Entity Group.

Consolidation of the Financial Results of the Operating Entity Group

The Control Agreements, upon becoming effective, would enable the Group to control over the Operating Entity Group and receive all of the economic interests and returns generated by the Operating Entity Group. The Company has discussed with its auditor to confirm that, after the Control Agreements become effective, the financial results of the Operating Entity Group will be wholly consolidated into the Group's consolidated financial statements as if they were the Group's subsidiaries under the prevailing accounting principles.

Risks in relation to the Control Agreements

The Control Agreements bear similar risks to those associated with the pre-existing Contractual Arrangements of the Group as set out in the listing document of the Company dated October 26, 2017.

The Control Agreements may not be as effective in providing control over and entitlement to the economic interests in the Operating Entity as direct ownership

The Control Agreements may not be as effective in providing WFOE with control over and entitlement to the economic interests in the Operating Entity as direct ownership. If the WFOE had direct ownership of the Operating Entity, WFOE would be able to directly exercise its rights as a shareholder to effect changes in the board of directors of the Operating Entity. However, under the Control Agreements, WFOE can only look to and rely on the Operating Entity to perform its contractual obligations under the Control Agreements such that the WFOE can exercise effective control over the Operating Entity. The Operating Entity may not act in the best interests of WFOE or may not perform its/obligations under the Control Agreements. However, if any dispute relating to the Control Agreements remains unresolved, WFOE will have to enforce its rights under the Control Agreements and seek to interpret the terms of the Control Agreements in accordance with the PRC laws and will be subject to uncertainties in the PRC legal system. The Control Agreements are governed by the PRC laws. When a dispute arises under any of the Control Agreements, the relevant parties thereto shall settle the dispute through negotiation in an amicable manner. In case the dispute is not resolved, the parties to the dispute may have to rely on legal remedies under the PRC laws. The Control Agreements provide that dispute will be submitted to the Shenzhen Court of International Arbitration for arbitration to be conducted in Shenzhen. The decision of such arbitration is final and binding on the parties to the dispute.

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

Potential conflicts of interest among WFOE and the Operating Entity may exist

WFOE shall rely on the Control Agreements to exercise control over and to draw the economic benefits from the Operating Entity. The current Registered Shareholders and the Operating Entity may breach the Control Agreements in the event of conflicts of interest or deterioration of their relationship with WFOE, the results of which may have a material adverse impact on WFOE's business, prospects and results of operation. It is not assured that if conflicts arise, the Registered Shareholders or the Operating Entity will act in the best interests of WFOE or that the conflicts will be resolved in favour of WFOE. If the Registered Shareholders or the Operating Entity fails to perform its obligations under the respective Control Agreements, WFOE may have to rely on legal remedies under the PRC laws through legal proceedings, which may be expensive, time-consuming and disruptive to WFOE's operations and will be subject to uncertainties as discussed above.

The Control Agreements may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed

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

The Board will closely monitor any laws, regulations or rules changes in the PRC in relation to tax imposed on Control Agreements and upon receiving any such information, it shall discuss with the PRC Legal Adviser to evaluate the impact on the business and operation of the Operating Entity Group and potential resolutions. As of the Latest Practicable Date, the Operating Entity Group is only subject to normal tax liabilities in the PRC such as the Enterprise Income Tax and the Value Added Tax.

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

In case WFOE exercises its options to acquire all or part of the equity interests of the Operating Entity under the Exclusive Option Agreement, the acquisition of the entire equity interest in the Operating Entity may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals and relevant procedures under applicable PRC laws. In addition, the abovementioned acquisitions may be subject to a minimum price limitation (such as an appraised value for the entire equity interest in the Operating Entity Group) or other limitations as imposed by applicable PRC laws and we will take necessary actions to ensure that the Registered Shareholder shall return such consideration to the extent as permitted by the applicable PRC laws and regulations. Further, a substantial amount of other costs (if any), expenses and time may be involved in transferring the ownership of the Operating Entity, which may have a material adverse impact on the WFOE's businesses, prospects and results of operation.

INFORMATION ON DRAFT LAW REGARDING FOREIGN INVESTMENT IN THE PRC

Description and Promulgation Status of the Draft Foreign Investment Law

Background

The MOFCOM published the Draft Foreign Investment Law (中華人民共和國外國投資法(草案徵求意見稿)) in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in the PRC. The MOFCOM has solicited comments on this draft in early 2015 and substantial uncertainties exist with respect to its final form, enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in the PRC.

Negative List

The Draft Foreign Investment Law stipulates restriction of foreign investment in certain industry sectors on the “Catalog of Special Administrative Measures” (i.e. the “negative list”). The “Catalog of Special Administrative Measures” set out in the Draft Foreign Investment Law classifies the relevant prohibited and restricted industries into the Catalog of Prohibitions and the Catalog of Restrictions, respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalog of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalog of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sectors set out in the Catalog of Restrictions, provided that they fulfil certain conditions and apply for permission before making such investment.

However, the Draft Foreign Investment Law does not specify the businesses to be included in the Catalog of Prohibitions and the Catalog of Restrictions.

Principle of “Actual Control”

Among other things, the Draft Foreign Investment Law purports to introduce the principle of “actual control” in determining whether a company is considered a foreign invested enterprise or a foreign invested entity or “FIE”. It specifically provides that entities established in the PRC but “controlled” by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction, but cleared by the authority in charge of foreign investment as “controlled” by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the Catalog of Restrictions, subject to the examination of the relevant authority in charge of foreign investment. For these purposes, “control” is defined in the Draft Foreign Investment Law to cover any of the following summarized categories:

(i) directly or indirectly holding 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;

(ii) directly or indirectly holding less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but:

  (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision-making bodies,

(b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision-making bodies, or

(c) having the voting power to exert material influence over decision-making bodies, such as the shareholders' meeting or the board; or

(iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial, staffing and technology matters.

In respect of "actual control", the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the FIE. "Actual control" refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights, and decision-making arrangements. Article 19 of the Draft Foreign Investment Law defines "actual controllers" as the natural persons or enterprises that directly or indirectly control foreign investors or FIEs.

If an entity is determined to be a FIE and its investment amount exceeds certain threshold or its business operation falls within the "Catalog of Special Administrative Measures" to be issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

Impact of the Draft Foreign Investment Law on VIE

The "variable interest entity" structure, or VIE structure, has been adopted by many PRC-based companies. Under the Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors. As far as the new VIE structures operating in industry sectors that are in the Catalog of Restrictions are concerned, if the ultimate controlling person(s) of a domestic enterprise under the VIE structure is/are of PRC nationality (either PRC state-owned enterprises or agencies, or PRC citizens), such domestic enterprise may be treated as a Chinese investor and therefore the VIE structures may be considered as legitimate. Conversely, if ultimate controlling person(s) is/are of foreign nationalities, such domestic enterprise may be treated as a foreign investor or FIE, and therefore the operation of such domestic enterprise through VIE structures without obtaining necessary permission may be considered as illegal.

Neither the Draft Foreign Investment Law nor its accompanying explanatory notes (the "Explanatory Notes") provides a clear direction in dealing with VIE structures existing before the Draft Foreign Investment Law becoming effective. However, the Explanatory Notes contemplate three possible approaches in dealing with FIEs with existing VIE structures and conducting business in an industry falling within the "Catalog of Special Administrative Measures":

(i) requiring them to make a filing (申報) to the competent authority that the actual control is vested with Chinese investors, after which the VIE structures may be retained;

(ii) requiring them to apply to the competent authority for certification that their actual control is vested with Chinese investors and, upon verification (認定) by the competent authority, the VIE structures may be retained; and

(iii) requiring them to apply to the competent authority for permission (准入許可) to continue to use the VIE structure. The competent authority together with the relevant departments will then make a decision after taking into account the actual control of the FIE and other factors.

To further clarify, under the first possible approach, "making a filing" is simply an information disclosure obligation, which means the enterprise does not have to receive any confirmation or permission from the competent authorities, whilst for the second and third approaches, the enterprise has to receive either the confirmation or the access permission from the competent authorities. For the latter two approaches, the second approach focuses on the nationality of the controller, whereas the third approach may take factors in addition to the nationality of the controller (which are not clearly defined in the Draft Foreign Investment Law or the Explanatory Notes) into consideration.

The three possible approaches above are set out in the Explanatory Notes to solicit public opinion on the treatment of existing contractual arrangements, have not been formally adopted and may be subject to revisions and amendments taking into account the results of the public consultation.

Where foreign investors and FIEs circumvent the provisions of the Draft Foreign Investment Law by entrusted holding, trust, multi-level re-investment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalog of Prohibitions, or make investments in sectors specified in the Catalog of Restrictions without permission or violate the information reporting obligations specified therein, penalty shall be imposed in accordance with Article 144 (Investments in Sectors Specified in the Catalog of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft Foreign Investment Law, as the case may be.

If foreign investors make investments in the sectors specified in the Catalog of Prohibitions or the Catalog of Restrictions without obtaining necessary permission, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the central government of the PRC at the place where the investments are made shall order them to cease the implementation of the investments, dispose of any equity or other assets within a prescribed time limit, confiscate any illegal gains and impose a fine of not less than RMB100,000 but not more than RMB1 million or in a sum not more than 10% of illegal investments.

If foreign investors or FIEs are in violation of the provisions of the Draft Foreign Investment Law, including by way of failing to perform on schedule or evading the performance of the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the central government of the PRC at the place where the investments are made shall order them to make rectifications within a prescribed time limit. If they fail to make rectifications within the prescribed time limit or the circumstances are serious, such competent authorities shall impose a fine of not less than RMB50,000 but not more than RMB500,000 or in a sum not more than 5% of the investments.

If foreign investors or FIEs are in violation of the provisions of the Draft Foreign Investment Law, including by way of evading the performance of the information reporting obligation, or concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or FIEs and the directly responsible person-in-charge and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

Status of promulgation of the Draft Foreign Investment Law

As of the Latest Practicable Date, there was no certainty whether, or timeline when, the Draft Foreign Investment Law will be promulgated and come into effect, and if so, whether it is to be promulgated in the current draft form after it undergoes through further enactment process. Furthermore, the MOFCOM has not issued any definite rules or regulations to govern existing contractual arrangements.

As advised by the PRC Legal Adviser, there has been no promulgation progress in respect of the Draft Foreign Investment Law since the publication of the listing document of the Company dated October 26, 2017.

Risks relating to the Draft Foreign Investment Law

As advised by the PRC Legal Adviser, as of the Latest Practicable Date, the Draft Foreign Investment Law and the Explanatory Notes issued by the Ministry of Commerce are merely drafts released for the purpose of public consultation, and both of them have no legal effect. Nevertheless, Shareholders and potential investors of the Company should be advised that if the Company cannot comply with the final Foreign Investment Law, if and when it becomes effective, it may be required to dispose of its business under the Control Agreements; and if the Company no longer has a sustainable business after such disposal, the Stock Exchange may delist the Company.

As advised by the PRC Legal Adviser, given the uncertainty of the Draft Foreign Investment Law, the Company will monitor the development of the Draft Foreign Investment Law and discuss with the PRC Legal Adviser to assess the impact of the development of the Draft Foreign Investment Law on the Control Agreements and the business operations of the Operating Entity Group.

The Company will, to the extent that the Company would be required to announce such information pursuant to Part XIVA of the Securities and Futures Ordinance, timely announce (i) any updates or material changes to the Draft Foreign Investment Law and (ii) in the event that the new foreign investment law has been promulgated, a clear description and analysis of the law, specific measures adopted by the Company to comply with the law (supported by advice from our PRC Legal Adviser), as well as its impact on our business operation and financial position.

Potential impact of the Draft Foreign Investment Law on the Company

Whether the Company is controlled by PRC entities and/or citizens: The Company is under the indirect control of Tencent. Based on publicly available information, Tencent was indirectly held as to approximately 31.17% by Naspers Limited, being the single largest shareholder of Tencent as of the Latest Practicable Date. Naspers Limited is a public company listed on the London Stock Exchange and the Johannesburg Stock Exchange which was, according to the integrated annual report of Naspers Limited for the year ended March 31, 2018, held as to approximately 13.72% by Public Investment Corporation of South Africa as of March 31, 2018. The remaining 86.28% was held by the other shareholders whose information was not available in the integrated annual report. In view of the shareholding structure of Tencent to the best of knowledge of the Company, the Company may not be able to fall clearly within the definition of "control" under the Draft Foreign Investment Law in its current form. It is therefore uncertain that we could demonstrate that we are "controlled" by PRC entities and/or citizens if the Draft Foreign Investment Law is enacted in its current from.

Whether the business of the Operating Entity Group is on the "Catalog of Special Administrative Measures" to be issued by the State Council: If the operation of the business of the Operating Entity Group is not on the "Catalog of Special Administrative Measures" and the Company can legally operate such business under PRC Laws, the WFOE will exercise the call option under the Exclusive Option Agreement to acquire the equity interest of the Operating Entity and unwind the Control Agreements subject to re-approval by the relevant authorities.

If the operation of the business of the Operating Entity Group is on the "Catalog of Special Administrative Measures", depending on the definition of "control" that may be adopted in the foreign investment law as finally enacted and the treatment of VIE structures existing before the new foreign investment law becoming effective, the Control Agreements may be regarded as prohibited or restricted foreign investment and therefore may be considered as invalid and illegal. As a result, the Company will not be able to operate the business of the Operating Entity Group through the Control Agreements and would lose the rights to receive the economic benefits of the Operating Entity Group. As such, the financial results of the Operating Entity Group would no longer be consolidated into the Group's financial results and the Company would have to derecognize the Operating Entity Group's assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such derecognition.

Application for Waiver in relation to the Control Agreements

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the requirement of setting an annual cap for the transactions under the Control Agreements under Rule 14A.53 of the Listing Rules, and (ii) the requirement of limiting the term of the Control Agreements to three years or less under Rule 14A.52 of the Listing Rules. Please refer to the announcement of the Company dated September 24, 2018.

The wavier is, for so long as the Shares are listed on the Stock Exchange, subject to the following conditions:

(a) ***No change without independent non-executive Directors' approval***

No change to the Control Agreements will be made without the approval of the independent non-executive Directors.

(b) ***No change without independent Shareholders' approval***

Save as described in paragraph (d) below, no change to the Control Agreements will be made without the approval of the Company's independent shareholders.

Once independent shareholders' approval of any change has been obtained, no further announcement or approval of the independent shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Control Agreements in the annual reports of the Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) ***Economic benefits flexibility***

The Control Agreements shall continue to enable the Group to receive the economic benefits derived by the Operating Entity Group through (i) the Group' s option, to the extent permitted under PRC laws and regulations, to acquire all or part of the Operating Entity direct and indirect interest held by the Registered Shareholders at considerations equivalent to the lowest price as permitted by PRC laws, (ii) the business structure under which the net profit generated by the Operating Entity Group is substantially retained by the Group, such that no annual cap shall be set on the amount of service fees payable to the WFOE by the Operating Entity Group under the Exclusive Business Cooperation Agreements, and (iii) the Group' s right to control the management and operation of, as well as, in substance, all of the voting rights of the Operating Entity held by the Registered Shareholders in the Operating Entity.

(d) ***Renewal and reproduction***

On the basis that the Control Agreements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has direct shareholding, on one hand, and the Operating Entity Group, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the Control Agreements. The directors, chief executives or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group may establish will, upon renewal and/or reproduction of the Control Agreements, however be treated as connected persons of the Company and transactions between these connected persons and the Company other than those under similar Control Agreements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) ***Ongoing reporting and approvals***

The Company will disclose details relating to the Control Agreements on an ongoing basis as follows:

- The Control Agreements in place during each financial period will be disclosed in the Company's annual report in accordance with relevant provisions of the Listing Rules;

- The independent non-executive Directors will review the Control Agreements annually and confirm in the Company's annual report for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Control Agreements, and have been operated in a manner so that the profit generated by the Operating Entity Group has been substantially retained by the Group, (ii) no dividends or other distributions have been made by the Operating Entity Group to the holders of their equity interest which are not otherwise subsequently assigned or transferred to the Group, and (iii) the Control Agreements and if any, any new contracts entered into, renewed or reproduced between the Group and the Operating Entity during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Shareholders as a whole;

- The Company's auditors will carry out procedures annually on the transactions carried out pursuant to the Control Agreements and will provide a letter to the Directors with a copy to the Stock Exchange at least 10 business days before the bulk printing of its annual report, confirming that the transactions have received the approval of the Directors, have been entered into in accordance with the relevant Control Agreements and that no dividends or other distributions have been made by the Operating Entity Group to the holders of their equity interest which are not otherwise subsequently assigned or transferred to the Group;

- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", each of the Operating Entity Group will be treated as the Company's wholly-owned subsidiary, but at the same time, the directors, chief executives or substantial shareholders of each of the Operating Entity Group and their respective associates will be treated as connected persons of the Company (excluding for this purpose, the PRC Consolidated Affiliated Entities), and transactions between these connected persons and the Group (including for this purpose, the PRC Consolidated Affiliated Entities), other than those under the Control Agreements, will be subject to the requirements under Chapter 14A of the Listing Rules; and

- The Operating Entity Group will undertake that, for so long as the Shares are listed on the Stock Exchange, the Operating Entity Group will provide the Group's management and the Company's auditors with full access to its relevant records for the purpose of the Company's auditors' review of the continuing connected transactions.

Given that the financial results of the Operating Entity Group will be consolidated into the Group's financial results and the relationship between the Operating Entity Group and the Company under the Control Agreements, all agreements other than the Control Agreements that may be entered into between each of the Operating Entity Group and the Company in the future will also be exempted from the "continuing connected transactions" provisions of the Listing Rules.

Internal Control Measures

Under the Exclusive Business Cooperation Agreements, it was agreed that, in consideration of the services provided by the WFOE, the Operating Entity will pay services fees to the WFOE. The services fees, subject to the WFOE's adjustment, are equal to the entirety of the total consolidated profit of the Operating Entity (net of accumulated deficit of the Operating Entity in the previous financial years (if any), costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld). WFOE may adjust the services scopes and fees at its discretion in accordance with PRC tax law and practice as well as the needs of the working capital of the Operating Entity Group. WFOE also has the right to periodically receive or inspect the accounts of the Operating Entity Group. Accordingly, the WFOE has the ability, at its sole discretion, to extract all of the economic benefit of the Operating Entity through the Exclusive Business Cooperation Agreements.

In addition, under the Exclusive Business Cooperation Agreements and the Exclusive Option Agreements, the WFOE has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of the Operating Entity Group as WFOE's prior written consent is required before any distribution can be made. In the event that the Registered Shareholders receive any profit distribution or dividend from the Operating Entity Group, the Registered Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to the Company.

As a result of these Control Agreements, the Company has obtained control of the Operating Entity Group through WFOE and, at the Company's sole discretion, can receive all of the economic interest returns generated by the Operating Entity Group. Accordingly, the Operating Entity Group's results of operations, assets and liabilities, and cash flows are consolidated into the Company's financial statements.

Furthermore, the Company has adopted the following measures to ensure the effective operations of the Group with the implantation of the contractual arrangements, and the compliance with the contractual arrangements, which will extent to cover the Control Agreements:

(a) major issues arising from the implementation and compliance with the contractual arrangements (including the Control Agreements) or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

(b) the Board of the Company will review the overall performance of and compliance with the contractual arrangements (including the Control Agreements) at least once a year;

(c) the Company will disclose the overall performance and compliance with the contractual arrangements (including the Control Agreements) in its annual reports; and

(d) the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Control Agreements, review the legal compliance of WFOE and the consolidated affiliated entities to deal with specific issues or matters arising from the contractual arrangements (including the Control Agreements).

THE DISTRIBUTION FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated August 13, 2018, in relation to, among others, the Distribution Framework Agreement.

On August 13, 2018, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into the Distribution Framework Agreement, pursuant to which the Group has agreed to license the internet information broadcast rights and broadcast rights of the television series, web series, films and animation and the Retained Tencent Group shall pay licensing fees to the Group in return.

Principal Terms

Date	:	August 13, 2018 (after trading hours)
Parties	:	(1) Shanghai Yueting (on behalf of the Group); and (2) Tencent Computer (on behalf of the Retained Tencent Group)
Subject matter	:	The Group has agreed to license the internet information broadcast rights and broadcast rights of audiovisual works including television series, web series, films and animation and the Retained Tencent Group shall pay licensing fees to the Group in return.

Fee arrangements	:	The licensing fees payable by the Retained Tencent Group to the Group shall be calculated on any of the following bases: • fixed amount of licensing fees • revenue sharing • mixture of the above two
Payment and settlement terms	:	Payment and settlement terms under the Distribution Framework Agreement shall be specified in each of the implementation agreements to be entered into under the Distribution Framework Agreement.
Condition Precedent	:	The Distribution Framework Agreement shall not take effective until it is approved at a general meeting of the Company.

Proposed Annual Caps and Basis of Determination

The proposed annual caps for the licensing fees payable by the Retained Tencent Group to the Group under the Distribution Framework Agreement for the three years ending December 31, 2020 are set out as follows:

	For the year ending December 31,		
	2018	**2019**	**2020**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
The licensing fees payable by the Retained Tencent Group to the Group	1,400,000	2,100,000	2,300,000

The historical amounts for the licensing fees payable by the Retained Tencent Group to the Group in respect of the transactions under the Distribution Framework Agreement are set out as follows:

	For the year ending December 31,		
	2015	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
The licensing fees paid by the Retained Tencent Group to the Group	—	—	—

The proposed annual caps for the licensing fees under the Distribution Framework Agreement from the Tencent Group is determined based on the below formula:

CCT Annual Cap	=	the expected number of television and web series to be distributed on the platforms of the Tencent Group	×	the expected average number of episodes per television/web series, based on the pipeline invested by the Group	×	the expected average revenue per episode, with reference to the current market rates and taking into considerations the premium quality of our content

As at the Latest Practicable Date, the Group is expected to distribute and air approximately 200－400 episodes of television/web series to the Retained Tencent Group, for each of the years of 2018 to 2020. In determining the revenue per episode for the televisions to be distributed on the Tencent's platform, the Group has considered the strong track record of content production by the Operating Entity Group and prevailing market price of premium television series and web series. The average revenue per episode of the listed industry peers was approximately RMB2.0 million, RMB3.4 million and RMB4.6 million, for the years ending December 31, 2015, 2016 and 2017. Over the past few years, the licensing fees of premium television and web series have increased significantly as the demand for premium content consumption in China continued to rise.

As disclosed in the Announcement, we have also considered the following factors including (i) the growth of the television series, web series, films distribution industry and (ii) anticipated number of active users.

China's entertainment industry has manifested accelerated development. According to Frost & Sullivan report, television series, web series and films markets in China are expected to record a 2016-2020E CAGR of 9.5%, 25.1% and 20.2%, respectively. The rise and prevalence of online video platforms as the channel for daily entertainment product consumption have led to increasing demand for premium content. Premium television series, web series and films have become invaluable resources that online video operators compete for, because they are essential for online video platforms to attract new users and improving paying user conversion. As the demand for premium content consumption in China continued to rise, the licensing fees of premium television and web series have increased significantly over the past few years.

The licensing fees for films payable by the Tencent Group to the Company is expected to be immaterial as compared to licensing fees for TV/web series. Therefore, we have omitted the licensing fees for films from the annual caps determination.

As at the Latest Practicable Date, the Group expects that all estimated revenue from the Tencent Group under the Distribution Framework Agreement to only come from the Tencent Video platform.

Pricing Basis and Pricing Policies

The Group and the Retained Tencent Group shall enter into separate agreement(s) for the transactions contemplated under the Distribution Framework Agreement, which will set out further details of cooperation as further agreed among the Parties, such as the scope of works and the Retained Tencent Group's platforms, the fee arrangement and the payment and settlement terms.

The fixed licensing fees, the percentage of revenue to be shared by the Group to the Retained Tencent Group, and/or a mixture of the above fee arrangements under the Distribution Framework Agreement shall be determined after arm's length negotiations between the parties with reference to the prevailing market price and various commercial factors, including the nature, popularity, quantity, quality and commercial potential of content of the Group, including television series, web series, films and animation.

In determining fixed licensing fees, we will reference (i) the track record of revenue per episode and pricing trend of the Operating Entity Group and (ii) the prevailing market price of premium television/web series. The average revenue per episode of the listed industry peers were approximately RMB2.0 million, RMB3.4 million and RMB4.6 million, for the years ending December 31, 2015, 2016 and 2017, according to the information disclosed in their annual reports. The Operating Entity Group has achieved higher average revenue per episodes than the listed industry peers for the years ending December 31, 2015 to 2017 due to its strategic focus on producing the premium contents. Meanwhile, the licensing fees of premium television and web series have increased significantly over the past few years, as the demand of premium content consumption in China continue to rise.

As at the Latest Practicable Date, the licensing fees payable by the Retained Tencent Group to the Operating Entity Group have been determined on fixed licensing fee basis. The Group might explore in the future fee arrangements in the forms of revenue sharing or mixture of fixed licensing fee and revenue sharing in order to capture potential upside. When the licensing value of IPs cannot be fully realized by the pricing method of a fixed licensing fee, in order to secure our interest and capture more upside from our IP development, the Group might explore other pricing methods including revenue sharing or mixture of fixed licensing fees and revenue. The determination of the percentage of revenue sharing in the future may take into considerations the factors including the proposed licensing fees, the existing relationship, the expected commercial value of the television series and web series, among others, and will be determined based on arm's length negotiations. Currently, the Group only receives fixed licensing fees for distribution transactions.

The online video distribution industry in China is highly concentrated and dominated by the leading video distribution platforms in terms of MAUs. Before entering into any distribution agreement pursuant to the Distribution Framework Agreement, we will assess our business needs and compare the licensing fees proposed by the Tencent Group with the licensing fees offered by one or two other comparable platform operators in the television series, web series and films distribution industry. In addition, we will take into account a number of factors, including but not limited to (i) the breadth of user base and traffic of various online video platforms; (ii) the user demographics of different online video platforms; (iii) the existing cooperation with various platforms and (iv) the rates of licensing fees proposed by the online video platforms. We will only enter into a distribution agreement with the Tencent Group if (i) the licensing fees and quality of distribution are no less favorable than those from other independent third party provider; and (ii) it is in the best interest of our Company and the Shareholders. We shall solicit more players for pricing comparison should the landscape of the online video distribution industry evolves.

INTERNAL CONTROL MEASURES

The Company's designated business development team comprising personnel responsible for overseeing its business operations (the "**Business Development Team**") will seek to solicit cooperation with other independent third parties to the extent commercially practicable and will compare the commercial terms offered by the independent third parties with those offered by the Operating Entity Group in respect of all the continuing connected transactions of the Company entered into with the Operating Entity Group.

In making the decision as to whether the Company will cooperate with the Operating Entity Group, the Business Development Team will also consider other commercial factors, such as the potential commercial value of the intellectual properties, synergies of Co-marketing and promotions in different entertainment formats of adaptation work, the prevailing market pricing, the efficiency of the business cooperation, with a view to maximizing the value of the relevant business cooperation. The Business Development Team is required to comply with the pricing policy for the continuing connected transactions with the Operating Entity Group as set out above, and the internal control team of the Company will regularly monitor the compliance of such pricing policy.

Furthermore, regardless of the party the Company may cooperate with (whether it is the Operating Entity Group or any independent third party), the Company has established a standard procedure to examine cooperation and its underlying agreement by taking into account various commercial factors. Before entering into an agreement, legal affairs department and finance department of the Company will conduct feasibility study and separate review of the cooperation and consider the benefits and risks of such cooperation on a case-by-case basis.

REASONS AND BENEFITS OF THE TRANSACTIONS

The Acquisition

The Directors believe that the Acquisition is in line with the Company's strategic objective to unleash the monetization potential of its intellectual property and will provide significant opportunities to enhance the Company's content ecosystem, promote long term growth and create value for shareholders.

(i) *Unlock the potential value of the Company's vast literary content library*

Content adaptation companies, such as television series and web series production companies, and film studios are increasingly reliant on literary works as source materials for adaptation.

In 2016, in China, 36% of the top 50 domestic films released in terms of box office, 28% of the top 50 domestic television series aired in terms of viewership and 52% of the top 50 domestic web series aired in terms of Internet viewership were adapted from literary works. With the rise of online literature, entertainment media are increasingly turning to original online literature for source materials, primarily due to the existing viewer base and societal influence of such online literary titles prior to adaptation.

In 2016, the Company was ranked first in terms of share of online literary titles that were adapted into major domestic entertainment products including:

— 13 of the top 20 box office grossing films

— 15 of the top 20 most viewed television series; and

— 14 of the top 20 most viewed web series

The Company's deep content library provides an enduring runway of literary content for adaptation into various media formats. Integration with the Target will allow the Company to adapt more high quality literary content into popular television series, web series and films, leveraging the Target's proven track record of script development and production across multiple literary genres.

The Company has had demonstrable results in adapting its literary content into television series in the past and is currently working on serialized adaptation of titles such as *Battle through the Heavens* (鬥破蒼穹), and *Joy of Life* (慶餘年) in conjunction with the Operating Entity Group.

With the acquisition paving the way for future cooperation, the Company also plans to join force with the Operating Entity Group to explore serialized development of literary IPs into various entertainment formats, including television series, web series, films and games, to create blockbuster IPs with greater influence.

(ii) *Capture significant upside by expanding down the adaptation value chain and gaining more control of the adaptation process*

China has witnessed a number of entertainment industries experiencing rapid growth in recent years. Markets such as television series, web series and films have experienced significant expansion and have significantly stimulated the demand for high quality upstream original content sources, resulting in the increase in the market price of intellectual property.

The Acquisition will elevate the Company's revenue opportunities in literary content adaptation from fixed licensing fees, passive revenue-sharing and co-investment models to an active in-house production role to capture a larger wallet share of China's fast-growing film, television series, web series and films market.

The Acquisition will also allow the Company to achieve greater control of the adaptation process and channel user feedback and insights from its online literature platform into higher quality productions. This creates a virtuous cycle which would also enhance adaptation potential into other media formats including online animations and games. The integrated and cohesive development of various media formats will help unlock the value of potential blockbuster IPs in the Company's literary library.

(iii) *Strengthen the copyright licensing business of the Company*

The Company remains committed to capture the tremendous growth potential in its IP operations business in China and it is expected that our IP operations will benefit significantly from the Operating Entity Group's expertise and experience in screenplay development and content adaptations.

After the completion of the Acquisition, the Company and the Operating Entity Group aims to co-develop a systematic approach to uncover the adaptation potential of our content library, identify the best adaptation formats for such titles and curate a portfolio of IP licenses that can be readily made available to our content partners that best matches their requirements and preferences.

The Operating Entity Group will also work closely with our writers to facilitate the adaptation process of their literary works at an early stage to enable holistic development across both literary and visual formats.

(iv) *Enhance value proposition to writers on the Company's platform*

The Company's mission is to create value for writers and to bring their literature to people.

The Company already enables its writers to distribute their works to the largest online audience for original online literary works in China as well as to third-party platforms who license the content for onward distribution to their own users. Writers are currently able to monetize their literary works through online paid reading as well as content licensing and adaptation.

The Acquisition is expected to strengthen the Company's capabilities in directly developing literary content into scripts for television series, web series and films production and allow writers to be able to participate in script development and gain more visibility into the adaptation process.

The Acquisition will also fuel the discovery of diversified content genres for adaptation as well as serialized development for long-term value creation. The enhanced monetization potential and profile will attract and retain top writers, reinforcing the Company's competitive advantage as an original literary content powerhouse.

(v) *Broaden the Company's product offerings to enrich user experience and enlarge user base*

Popular television series, web series and films adapted from literary contents fuel interest among audience in the original literary titles and attract new users to the Company's platform. For example, during the period when Fighter of the Destiny (擇天記) was airing on television stations and video platforms in 2017, the average daily revenue for the original title on the Company's online reading platform increased by more than 300% compared to the average daily revenue during the one month period prior to the television series were released, while the increase in average daily revenue for the Legend of Fu Yao (扶搖) was over 600% during the same period in 2018.

Having considered the aforesaid factors, including the television series, web series and films currently in the Operating Entity's pipeline, synergy arising from the Acquisition, Earn-out Mechanism embedded and the factors stated in the paragraph headed "Consideration and Payment Terms" above, the Directors consider that the terms of the Acquisition, including the aggregate consideration, are fair and reasonable and the Acquisition is in the interest of the Company and the Shareholders as a whole.

The Distribution Framework Agreement

Through entering into the Distribution Framework Agreement, the literary work provided by the Group could be widely distributed through the adaptation into films, television series, games, animations, comics, the living theatre and audio work, thereby enhancing the popularity of the Group's literary contents, fully unleashing the monetization potential of the Group's intellectual property. It is also expected that the cooperation will be complementary and mutually beneficial as the Group's adaptation work will broaden the user base of the Group and the Retained Tencent Group, and drive growth in viewership and advertising revenue of the Retained Tencent Group.

LISTING RULES IMPLICATIONS

As of the Latest Practicable Date, Tencent is the controlling shareholder of the Company, through such wholly-owned subsidiaries (THL A13 and Qinghai Lake) holding approximately 52.66% of the total issued share capital of the Company, and Tencent Mobility is a wholly-owned subsidiary of Tencent. As Tencent Mobility, Tencent Computer and other members of the Tencent Group are all subsidiaries of Tencent, they are also the connected persons of the Company. Therefore, the transactions contemplated under the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement are connected transactions of the Company.

As the highest applicable percentage ratio in respect of the Share Purchase Agreement is more than 25% but all the percentage ratios are below 100%, the Share Purchase Agreement and the transactions contemplated thereunder constitute major and connected transaction as well, and are therefore subject to reporting, announcement, circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Distribution Framework Agreement is more than 5%, the Distribution Framework Agreement and the transactions contemplated thereunder constitute connected transactions of the Company, and are therefore subject to reporting, announcement, annual review, circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Linzhi Tencent and Shiji Kaixuan, an indirect wholly owned subsidiary of Tencent, will hold 40.00% and 4.08% equity interests in the Operating Entity, respectively, based on the current negotiation with the parties on the Control Agreements, the Operating Entity will be an associate of Tencent, and thus the Control Agreements and the transactions contemplated thereunder constitute connected transactions of the Company. As the highest applicable ratio in respect of the Control Agreements is more than 5%, the Control Agreements are subject to reporting, announcement, annual review, circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Tencent and its associates (including THL A13, Qinghai Lake and Deal Plus) are required under the Listing Rules to abstain from voting on the resolutions on approving the Share Purchase Agreement (including the Control Agreements) and the Distribution Framework Agreement at the Extraordinary General Meeting.

INFORMATION ON THE PARTIES

The Group is principally engaged in online literature business, and a pioneer of China's online literature market and operates the leading online literature platforms.

Tencent through its subsidiaries, principally provides value-added services and online advertising services to users mainly in the People's Republic of China. Tencent Mobility is a wholly-owned subsidiary of Tencent and is principally engaged in the business of investment holding.

Founder SPV is principally engaged in investment holding.

Qu SPV is principally engaged in investment holding.

Executive SPV is principally engaged in investment holding.

GENERAL

Your attention is drawn to the letter from the Independent Board Committee set out on pages 83 to 84 of this circular, which contains its recommendation to the Independent Shareholders in relation to the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps for each of the three years ending December 31, 2020). Your attention is also drawn to the letter of advice from the Independent Financial Adviser set out on pages 85 to pages 134 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps for each of the three years ending December 31, 2020), and the principal factors and reasons taken into account in arriving at its recommendation.

NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting to be held at Salon 1-4, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, October 19, 2018 at 9:30 a.m. is set out on pages EGM-1 of this circular. At the Extraordinary General Meeting, ordinary resolutions will be proposed to Shareholders to consider and approve, inter alia, the Share Purchase Agreement (including the Control Agreements) and the Distribution Framework Agreement (including the proposed annual caps for each of the three years ending December 31, 2020).

FORM OF PROXY

A form of proxy is enclosed for use at the Extraordinary General Meeting. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://ir.yuewen.com). Whether or not you intend to attend the Extraordinary General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time fixed for holding the Extraordinary General Meeting or any adjournment thereof. Completion and delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the Extraordinary General Meeting if they so wish and in such event the form of proxy shall be deemed to be revoked.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules and article 13.6 of the Articles of Association, any resolution put to the vote of the Shareholders at a general meeting shall be decided on a poll except where the chairman of the Extraordinary General Meeting, 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. Accordingly, each of the resolutions set out in the notice will be taken by way of poll.

On a poll, every Shareholder present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorized representative, shall have one vote for every fully paid Share of which he/she is the holder. A Shareholder entitled to more than one vote needs not use all his/her votes or cast all the votes he/she uses in the same way.

OPINION FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that terms of the Share Purchase Agreement (including the Control Agreements) were determined after arm's length negotiations, and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Directors (including the independent non-executive Directors) are of the view that terms of the Distribution Framework Agreement were determined after arm's length negotiations, and the transactions contemplated thereunder (including their respective proposed annual caps for the three years ending December 31, 2020) are conducted in the ordinary and usual business of the Company and are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The independent non-executive Directors have formed the Independent Board Committee for the purposes of advising the independent Shareholders in respect of the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps for the three years ending December 31, 2020) and whose views and recommendation is included in this circular dispatched by the Company.

Mr. James Gordon Mitchell, Mr. Lin Haifeng and Ms. Li Ming, all being Directors, are employees of Tencent, and have therefore abstained from voting on the relevant Board resolutions approving each of the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the other Directors has material interests in the transactions contemplated under the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement.

RECOMMENDATION

The Directors recommend the Shareholders to vote in favor of all the resolutions to be proposed at the Extraordinary General Meeting.

The Independent Board Committee, having taken into account the advice of Somerley, consider that the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps for the three years ending December 31, 2020 thereunder) are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of the business of the Group (except for the Share Purchase Agreement), and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the ordinary resolutions in respect of the entering into of the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps for the three years ending December 31, 2020 thereunder) at the Extraordinary General Meeting.

Yours faithfully
By order of the Board
CHINA LITERATURE LIMITED
Mr. James Gordon Mitchell
Chairman of the Board and Non-executive Director

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 Share Purchase Agreement (including the Control Agreements) and the Distribution Framework Agreement.

CHINA LITERATURE LIMITED
阅文集团
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 772)

September 28, 2018

To the Independent Shareholders

Dear Sirs or Madams,

THE SHARE PURCHASE AGREEMENT (INCLUDING THE CONTROL AGREEMENTS) AND THE DISTRIBUTION FRAMEWORK AGREEMENT

We refer to the circular dated September 28, 2018 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms defined in this circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder are entered into by the Group in its ordinary and usual course of business (except for the Share Purchase Agreement and the Control Agreements), on normal commercial terms, in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

After taking into account the advice of Somerley as set out in this circular, we consider that the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps for the three years ending December 31, 2020 thereunder) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the entering into of the Distribution Framework Agreement (including the proposed annual caps for the three years ending December 31, 2020 thereunder) is in the ordinary and usual course of the business of the Group, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transaction contemplated thereunder (including the proposed annual caps for the three years ending December 31, 2020).

Yours faithfully,
The Independent Board Committee
Ms. YU Chor Woon Carol Ms. LEUNG Sau Ting Miranda Mr. LIU Junmin
Independent non-executive Directors

The following is the full text of a letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in relation to the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in the Circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

September 28, 2018

To: The Independent Board Committee and
the independent Shareholders

Dear Sirs,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF 100% EQUITY INTEREST OF NEW CLASSICS MEDIA; AND (2) CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder (the "**Continuing Connected Transactions**") (including the related proposed annual caps for the three years ending December 31, 2020 (the "**Annual Caps**")), details of which are contained in the letter from the Board in the circular issued by the Company to the Shareholders dated September 28, 2018 (the "**Circular**"), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On August 13, 2018, the Company entered into the Share Purchase Agreement with the Vendors, pursuant to which the Company has conditionally agreed to acquire 100% equity interest in the Target. The aggregate Consideration for the Acquisition of RMB15.5 billion (subject to adjustments under the Earn Out Mechanism) will be settled by a combination of cash and new Shares, as detailed in the Company's announcement dated August 13, 2018 (the "**Announcement**").

Upon Completion, the Target will become a wholly-owned subsidiary of the Company and a member of the Group. As such, the Target Group's ongoing transactions with Tencent Mobility and its associates will become continuing connected transactions of the Group upon Completion. In particular, on August 13, 2018, Shanghai Yueting, a wholly-owned subsidiary of the Company, entered into the Distribution Framework Agreement with Tencent Computer, a wholly-owned subsidiary of Tencent, for the Group to license certain transmission and broadcast rights of television series, films and animation to the Retained Tencent Group.

As at the Latest Practicable Date, Tencent is the controlling shareholder of the Company, through such wholly-owned subsidiaries (THL A13 and Qinghai Lake) holding approximately 52.66% of the total issued Shares, and Tencent Mobility is a wholly-owned subsidiary of Tencent. As Tencent Mobility and Tencent Computer are subsidiaries of Tencent, they are the connected persons of the Company under Chapter 14A of the Listing Rules. In addition, as Linzhi Tencent and Shiji Kaixuan, both being indirect wholly-owned subsidiaries of Tencent, will hold approximately 40.00% and 4.08% equity interests in the Operating Entity, respectively, based on the current negotiation with the parties on the Control Agreements, and the Operating Entity will be an associate of Tencent and the connected persons of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Share Purchase Agreement (including the Control Agreements) and the Distribution Framework Agreement are connected transactions of the Company.

As the highest applicable percentage ratio in respect of the Share Purchase Agreement is more than 25% but all the percentage ratios are below 100%, the Share Purchase Agreement and the transactions contemplated thereunder constitute major transactions, and are therefore subject to reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Annual Caps under the Distribution Framework Agreement is more than 5%, the Distribution Framework Agreement and the transactions contemplated thereunder (including the Annual Caps) are therefore subject to reporting, announcement, annual review, circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of Tencent's interests in the Share Purchase Agreement (including the Control Agreements) and the Distribution Framework Agreement, Tencent and its associates (including THL A13, Qinghai Lake, and Deal Plus) are required under the Listing Rules to abstain from voting on the resolutions to be proposed at the EGM to approve the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder (including the Annual Caps).

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin, has been established to advise the Independent Shareholders in respect of the Share Purchase Agreement (including the Control Agreements), the Distribution Framework Agreement and the transactions contemplated thereunder (including the Annual Caps). We, Somerley, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

During the past two years, we have acted as independent financial adviser to the independent board committee and independent shareholders of the Company in relation to certain continuing connected transactions (details of which were set out in the circular of the Company dated April 12, 2018). The past engagement was limited to providing independent advisory services to the independent board committee and independent shareholders of the Company pursuant to the Listing Rules. Under the past engagement, we received normal professional fees from the Company. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley, and (b) the Group, Tencent, the Vendors and their respective subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that such information, facts and opinions were true, accurate and complete in all material aspects and will remain so up to the date of the EGM. We have also reviewed published information on the Company, including but not limited to, the prospectus of the Company (the "**Prospectus**"), the annual report of the Company for the year ended December 31, 2017 (the "**2017 Annual Report**"), the interim results announcement of the Company for the six months ended June 30, 2018 (the "**2018 Interim Results**"), and the information contained in the Circular. We have reviewed the trading performance of the Shares on the Stock Exchange. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been omitted or withheld from us, or to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have, however, not conducted any independent investigation into the business, affairs and financial position of the Group, Tencent, the Vendors and their respective subsidiaries and associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Acquisition (including the transactions contemplated under the Control Agreements) and the Continuing Connected Transactions, we have taken into account the following principal factors and reasons:

1. Background information on the Group

1.1 *Principal business activities*

The Group principally engages in the provision of reading services, copyright commercialisation, writer cultivation and brokerage, operation of text work reading and related open platform, and the realisation of these activities through technology methods and digital media. The Company was spun off from Tencent in November 2017 through the listing of the Shares on the Main Board of the Stock Exchange (the "**Listing**"), with a market capitalisation of approximately HK$45.2 billion as at the Latest Practicable Date. Tencent, remaining as the controlling Shareholder, held approximately 52.66% of the issued Shares as at the Latest Practicable Date.

The Group focuses on monetizing the intellectual property of itself and its writers through various channels and entertainment formats. The flagship product of the Group, QQ Reading, is a unified mobile content aggregation and distribution platform, while other individually branded mobile apps websites, such as qidian.com, provide customised literature experiences for the Group's readers. As at June 30, 2018, the Group had 7.3 million writers and 10.7 million works. The number of average monthly active users of the Group's self-owned platform products and self-operated channels in 2017 was 191.5 million, including 179.4 million users on mobile and 12.1 million users on personal computers, and it further increased to 213.5 million in the first half of 2018. To further monetize its intellectual properties, the Group licenses its writers' literary work for adaptation into other entertainment formats. As stated in the 2018 Interim Results, over 60 online literary works have been sub-licensed to business partners for adaptation into other entertainment formats in the first half of 2018.

1.2 ***Financial performance and financial position of the Group***

Financial performance

The following table sets out a summary of the consolidated income statements of the Group for the three years ended December 31, 2015, 2016 and 2017 and for the six months ended June 30, 2017 and 2018, as extracted from the Prospectus, the 2017 Annual Report, and the 2018 Interim Results:

	For the six months ended June 30,		**For the year ended December 31,**		
	2018	**2017**	**2017**	**2016**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*	*(audited)*
Revenues	2,282,900	1,924,198	4,095,066	2,556,866	1,606,640
Gross profit	1,196,499	962,194	2,075,440	1,054,847	580,534
Gross profit margin	52.4%	50.0%	50.7%	41.3%	36.1%
Profit/(loss) for the year	504,313	213,489	562,692	30,360	(354,159)
Net profit margin	22.1%	11.1%	13.7%	1.2%	N/A
Profit/(loss) attributable to equity holders of the Company	505,810	212,020	556,129	36,683	(347,584)
Adjusted profit/(loss) attributable to equity holders of the Company *(Note)*	483,481	300,566	721,817	85,255	(91,959)
Basic earnings/(loss) per share (RMB)	0.58	0.29	0.74	0.05	(0.52)
Diluted earnings/(loss) per share (RMB)	0.57	0.29	0.72	(0.08)	(0.52)

Note: Based on the profit/(loss) attributable to equity holders of the Company adjusted by share-based compensation, net gain from investee companies, amortisation of intangible assets resulting from acquisitions, net gain from convertible bonds, impairment provision for intangible assets, one-off listing expenses, interest income on the Company's initial public offering subscription deposits, tax effects and related non-controlling interest effect

Revenues of the Group during the above periods were mainly generated from (i) users paying for reading literary works online, principally through the Group's mobile app "QQ Reading", (ii) intellectual property operations, e.g. the licensing of literary works to outside business partners for adaptation into other entertainment formats, and (iii) physical books. Total revenues increased by approximately 59.1% from approximately RMB1,606.6 million in 2015 to approximately RMB2,556.9 million in 2016, and further increased by approximately 60.2% to RMB4,095.1 million in 2017, primarily due to an increase in the number of paying users and average revenue per paying user, the growth in the Group's third-party distribution channels and the expansion and improvement of the Group's content offerings. For the first half of 2018, the Group recorded revenues of approximately RMB2,282.9 million, representing an increase of approximately 18.6% compared with the same period last year, mainly driven by the increase in paying users and the enhanced cooperation with existing third-party distribution channels.

The Group's gross profit margin has been improving from approximately 36.1% in 2015 to approximately 50.7% in 2017, primarily as a result of, among others, the business shifting towards online reading and intellectual property operations and the increased economies of scale. The gross profit margin of the Group for the first half of 2018 increased by 2.4 percentage points to 52.4%, mainly due to the reasons as mentioned above.

The Group recorded a net profit attributable to equity holders of the Company of approximately RMB36.7 million in 2016, compared to a net loss attributable to its owners of approximately RMB347.6 million in 2015, largely due to an improvement in revenue and gross profit margins, as discussed above, and a one-off gain on redemption of convertible bonds, partly offset by an increased amount of impairment loss of intangible assets. In 2017, the Group's net profit attributable to equity holders of the Company further increased to approximately RMB556.1 million, which is driven by, to a large extent, the continuous improvement in revenue and gross profit margins mentioned above, as a result of increased economies of scale. Adjusted net profit attributable to equity holders of the Company, removing elements not related to the Group's core business such as share-based compensation and one-off listing expenses, amounted to approximately RMB721.8 million in 2017.

The net profit attributable to equity holders of the Company amounted to approximately RMB505.8 million for the first half of 2018, representing an increase of approximately 138.6% compared with the same period in 2017, as a result of the continuous growth in revenues and gross profit as discussed above. The adjusted net profit attributable to equity holders of the Company increased to approximately RMB483.5 million for the first half of 2018, from approximately RMB300.6 million for the same period last year.

On a per Share basis, the basic earnings per Share in 2017 was approximately RMB0.74 (or approximately HK$0.85). Based on the closing price of the Shares as at the Latest Practicable Date, the Shares were traded at a price to earnings ratio of approximately 58.6 times.

Financial position

The following table sets out a summary of the consolidated statement of financial position of the Group as at December 31, 2015, 2016 and 2017 and as at June 30, 2018, as extracted from the Prospectus, the 2017 Annual Report and the 2018 Interim Results:

	As at June 30, 2018	As at December 31, 2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(audited)*	*(audited)*	*(audited)*
Non-current assets	5,389,465	5,703,237	5,016,493	5,025,715
Current assets	10,227,635	9,434,131	2,115,212	1,355,375
Total assets	15,617,100	15,137,368	7,131,705	6,381,090
Current liabilities	2,080,088	1,764,166	1,658,466	1,560,300
Non-current liabilities	257,709	710,492	264,957	362,831
Total liabilities	2,337,797	2,474,658	1,923,423	1,923,131
Equity attributable to equity holders of the Company	13,269,225	12,621,196	5,166,225	4,375,468
Non-controlling interests	10,078	41,514	42,057	82,491
Total equity	13,279,303	12,662,710	5,208,282	4,457,959
Equity attributable to equity holders of the Company per Share (RMB)	14.64	13.92	N/A	N/A

As at June 30, 2018, the Group recorded total assets of approximately RMB15,617.1 million, mainly comprising (i) cash and term deposits in current assets of approximately RMB8,966.1 million, primarily related to the net proceeds raised at the initial public offering of approximately HK$7,235 million, and (ii) intangible assets in non-current assets of approximately RMB4,467.5 million, which mainly comprised goodwill, acquired trademarks, copyrights of contents, and other intangible assets acquired in the previous years.

As at June 30, 2018, the Group recorded total liabilities of approximately RMB2,337.8 million, mainly comprising (i) trade payables of approximately RMB863.2 million, (ii) bank borrowings of approximately RMB475.0 million, and (iii) other payables and accruals of approximately RMB352.9 million. The Group has a low gearing after it raised substantial proceeds from the Listing, with it's gearing ratio, calculated as debt divided by total equity, amounted to approximately 3.6% as at June 30, 2018.

As at June 30, 2018, total equity of the Group was approximately RMB13,279.3 million, representing a significant increase as compared to the amounts in the previous years, as a result of completion of the Listing. On a per share basis, as at June 30, 2018, the equity attributable to equity holders of the Company was approximately RMB14.64 (based on equity attributable to equity holders of the Company of approximately RMB13,269.2 million divided by the total number of issued Shares of 906,417,239 as at the Latest Practicable Date).

2. **Reasons for and benefits of the Acquisition**

The Directors stated in the letter from the Board that the Acquisition is in line with the Company's strategic objective to unleash the monetization potential of its intellectual property and will provide significant opportunities to enhance the value of its content ecosystem, promote long term growth and create value for the Shareholders. Summarised below are the key reasons for and benefits of the Acquisition as set out in the letter from the Board:

(i) The Group would be able to adapt more high quality literary content into popular television series and films, leveraging the Target's proven track record of script development and production across multiple literary genres, based on the trend of increasing reliance by content adaptation companies on literary works as source materials, and the Company's leading position in terms of share of online literary titles that were adapted into major domestic entertainment products;

(ii) The markets relating to television, web series and films have experienced significant expansion, which have significantly stimulated demand for high quality upstream original content sources. The Acquisition would elevate the Company's participation in literary content adaptation from fixed licensing fees, passive revenue-sharing and co-investment models to an active in-house production role, which in turn allows the Company to capture a larger share of China's fast-growing television, web series and films market and achieve a greater control of the adaptation process;

(iii) The Group's copyright licensing business could be further strengthened and benefited from the Operating Entity Group's expertise and experience in screenplay development and content adaptations. Following the Completion, a systematic approach will be developed to uncover the adaptation potential of the Group's content library and create a portfolio of the intellectual property licenses that can be readily made available to the Group's content partners;

(iv) Writers of the Group are currently able to monetize their literary works through online paid reading as well as content licensing and adaptation. It is expected that the Acquisition would strengthen the Company's capabilities in directly developing literary content into scripts for television, web series and films production and would fuel the discovery of diversified content genres for adaptation as well as serialized development for long-term value creation, thereby enhancing the monetization potential for the Group's top writers, achieving the Company's mission to create value for writers and to bring their literature to people; and

(v) The offering of popular television series, web series and films adapted from the Group's literary contents following Acquisition is expected to fuel interest among audience in the original literary titles and attract new users to the Group's platforms.

As set out in the letter from the Board, the Group and the Operating Entity Group have a demonstrable history of cooperation and strategic partnership in the past, and a joint venture has been established between two groups in October 2016 to engage in, among others, script development and scriptwriters cultivation for television series, web series and film production. Such joint venture is still at the stage of script development process. The Directors believed that the acquisition of the Operating Entity Group could expand the existing cooperation, which in turn could unlock the full potential of the Group's high-quality original literary content offerings, and capture greater upsides of successful adaptations of the Group's literary library.

We consider that the Acquisition offers a number of opportunities for leveraging the Group's large base of users and content generators to develop its various entertainment formats. The Target Group offers a platform for converting literary works into television, web series and films, thereby expanding the Group's content offering and reaching more users. The benefits as outlined above relate to the existing Group's business, for example, it may allow the Group to increase its share of China's fast-growing television, webs series and films market, and it may attract new users to the Group's platforms, which benefits the strategic decision-making process on broader trends in the literary adaptation process, for example, the popularity of certain genres. We consider that the benefits of the Acquisition also accrue to the Target Group itself, as the Group's literary content can be a source for script development, which may give the Target Group a wider breadth of source material for television series and films.

The entering into the various continuing connected transactions as described in the Announcement, including the transactions contemplated under the Distribution Framework Agreement, serves to distribute the adapted content on the popular platforms of the Retained Tencent Group, to enhance the popularity of the Group's literary content and the monetization potential of the Group's intellectual property.

3. **Principal terms of the Share Purchase Agreement**

Set out below are summaries of the principal terms of the Share Purchase Agreement. Independent Shareholders are advised to read in full further details of the Share Purchase Agreement as set out in the letter from the Board.

3.1 *100% acquisition*

The Company has conditionally agreed to acquire 100% equity interest in the Target, from the Vendors for an aggregate Consideration for the Acquisition of RMB15.5 billion (subject to adjustments under the Earn Out Mechanism). As set out in the letter from the Board, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendors (excluding Tencent Mobility) and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. Below is a summary showing details of Target Shares to be acquired by the Company from the relevant Vendors:

The Vendors	**Number and types of Target Shares**	**Approximate shareholding in the relevant class of shares of the Target**	**Approximate shareholding in the Target on an as-converted fully diluted basis**	**Consideration per ordinary share of the Target on an as-converted fully diluted basis**	**Consideration**
	(Note)	*(%)*	*(%)*	*(RMB)*	*(RMB)*
Tencent Mobility	23,065,815 series A preferred shares *(Note)* (equivalent to 72,736,741 ordinary shares upon conversion)	100% of series A preferred shares	44.1	72.73	5,289,944,800
The Founder SPV	56,032,020 ordinary shares	60.73% of ordinary shares	33.9	110.66	6,200,626,591
The Qu SPV	25,184,940 ordinary shares	27.30% of ordinary shares	15.3	110.66	2,787,020,862
The Executive SPV	11,046,299 ordinary shares	11.97% of ordinary shares	6.7	110.66	1,222,407,747
The Management Vendors			55.9		10,210,055,200
Total			**100**		**15,500,000,000**

Note: *Each series A preferred share shall be convertible, at the option of its holder, at any time into such number of ordinary shares on the basis of the ratio of approximately 1:3.15 Pursuant to the terms of the Share Purchase Agreement, the applicable exchange rate in converting the Consideration into Consideration Shares is based on an RMB: HK$ exchange rate of 1.1847 at an Issue Price of HK$80 per Consideration Share. Fractional shares have been rounded down to the nearest number*

3.2 *Basis of the Consideration*

As set out in the letter from the Board, the Consideration and payment terms for the Acquisition was determined after arm's length negotiations between the Company and the Vendor(s) on normal commercial terms taking into account, among other things, (i) the Earn Out Mechanism, Lock-up Undertaking and form of Consideration, (ii) the historical financial performance of the Target Group,

(iii) the future business prospects of the Target Group and the industry in which the Target Group is engaging, (iv) the preliminary appraised value of 100% interest in the Operating Entity Group as at March 31, 2018 by Duff & Phelps, an independent professional valuer, and (v) reasons and benefits of the Acquisition, as summarised in the section headed "Reasons for and benefits of the Acquisition".

We are given to understand that the current interest in the Operating Entity held by the Retained Tencent Group were acquired at different times in the past, at an aggregate original cost of approximately RMB4,900.3 million for its approximately 44.1% stake. Out of which, approximately 40% stake in the Operating Entity was acquired by the Retained Tencent Group in March and May 2018, at a valuation of approximately RMB72.73 per ordinary share of the Operating Entity (the "**Previous Valuation**", on an as-converted, fully diluted basis), equal to the per share consideration to be paid by the Company to Tencent Mobility under the current Acquisition. The valuation of the entire equity interest of the Target as implied by the per share consideration to be paid to Tencent Mobility is approximately RMB12.0 billion (the "**Implied Tencent Valuation**").

The purchase price of RMB110.66 per Target Shares payable to each of the Founder SPV, the Qu SPV and the Executive SPV (each being a "**Management Vendor**"), equates to a higher implied valuation of the entire equity interest of the Target of approximately RMB18.3 billion (the "**Implied Management Vendors Valuation**"). However, the consideration due to the Management Vendors is subject to deferred payment and adjustments pursuant to the Earn Out Mechanism (as described below), based on the net profits of the Target Group in the coming three years.

Settlement of the Consideration

The aggregate Consideration for the Acquisition will be settled by a combination of cash and the Consideration Shares at an issue price of HK$80 per share, subject to the payment terms and the Earn Out Mechanism at the time of allotment in the Share Purchase Agreement. The consideration payable to Tencent Mobility will be settled in full upon Completion, while the consideration payable to the Management Vendors will be settled in various instalments upon and after Completion. The breakdown and schedule between cash and Consideration Shares as a percentage of the total Consideration payable to each of the Vendors under the Share Purchase Agreement is set out in the table below.

Vendors	Total value of consideration	Payment at Completion	Earn out consideration for the year ending December 31,		
	(RMB)		2018	2019	2020
		(Note 1)	*(Notes 1 and 2)*	*(Notes 1 and 2)*	*(Notes 1 and 2)*
Tencent Mobility	5,289,944,800	100% Consideration Shares	Nil	Nil	Nil
The Management Vendors *(Note 2)*	10,210,055,200	15% cash & 25% Consideration Shares	15% cash & 5% Consideration Shares	10% cash & 10% Consideration Shares	10% cash & 10% Consideration Shares

Notes:

(1) Representing percentage of the total Consideration to each Vendor in cash or Consideration Shares

(2) The mode of settlement is subject to the deferred payment schedule from the Earn Out Mechanism

As advised by the management of the Group, the cash portion of the total Consideration for the Acquisition will be funded principally by internal resources of the Company. The Consideration Shares will be allotted and issued pursuant to the Specific Mandate.

The Consideration Shares

The maximum Consideration Shares to be allotted and issued by the Company to settle the aggregate Consideration for the Acquisition (including the maximum Earn Out Consideration) is 153,936,541 new Shares, representing approximately 16.98% of the issued Shares as at the Latest Practicable Date.

The Consideration Shares, when allotted and issued, subject to the Lock-up Undertaking (as explained below), will rank pari passu in all respects among themselves and with the Shares in issue. An application will be made by the Company to the Stock Exchange for the approval for the listing of, and permission to deal in, the Consideration Shares. Further information on the effect of the issuance of the Consideration Shares on the shareholding structure of the Company is set out in the section headed "The effect of the Acquisition on the shareholding structure of the Company".

The Consideration Shares for the Acquisition will be issued at a price of HK$80 per Consideration Share, which was determined after arm's length negotiations among the parties taking into account, among other things, the prevailing market performance of the Shares. Further analysis on the Issue Price is set out in the section headed "Assessment of the Issue Price of the Consideration Shares".

Earn Out Mechanism

As a downside protection for the Company, the Earn Out Mechanism is incorporated in the Share Purchase Agreement, such that the consideration payable to each of the Management Vendors is subject to a downward-only adjustment mechanism if the Target Group's net profits (the "**Actual Net Profit**") for the years ending December 31, 2018, 2019 and 2020 fall below the relevant benchmarked level, i.e. RMB500 million, RMB700 million and RMB900 million respectively (the "**Reference Net Profit**"). In other words, the consideration payable to the Management Vendors under the Earn Out Mechanism will only be made in full if the Reference Net Profits are achieved. The Reference Net Profit, which was arrived at after arm's length negotiation between the Company and the Management Vendors with reference to the business prospects and business development of the Target Group, represented a compound annual growth rate of the Target Group's net profit of approximately 33.7% between 2017 to 2020.

We understand from the Company that the Earn Out Mechanism, in conjunction with the Controlled Account, the Deed of Non-Competition and the Lock-up Undertaking, have been designed to align the long-term objectives of the Management Vendors with those of the Company, and that the due execution by certain key employees of the employment contracts has been included as one of the conditions precedents, to ensure retention of critical management team to continue carrying out the business plans of the Target Group after Completion. In addition, the Earn Out Mechanism is a tool to incentivize the management of the Operating Entity (namely, the Founder, Ms. Qu and other Management Vendors) and offers potential upside to the management of the Target if the performance targets as set out in the Earn Out Mechanism are met.

Based on our discussions with the management of the Group, the Retained Tencent Group only acquired a significant stake in the Operating Entity of approximately 40% (out of the approximately 44% interest in the Operating Entity that it currently holds, on an as-converted, fully diluted basis) in the first half of 2018 and it is not involved in the day-to-day management and operations of the Operating Entity. As such, Tencent Mobility will not be subject to the Earn Out Mechanism, which is also reflected in the lower per share Consideration to be paid to Tencent Mobility compared to the per share Consideration to be paid to the Management Vendors. Based on the above, we concur with the Board's view that it is reasonable that the consideration payable to Tencent Mobility is not subject to the Earn Out Mechanism.

If the Actual Net Profit is met, the Earn Out Consideration payable by the Company to the relevant Management Vendor for that earn out year shall follow the payment schedule as set out above in the section headed "Settlement of the Consideration". If the Actual Net Profit is not met, the consideration payable by the Company to the relevant Management Vendor for that earn out year shall be reduced by a deduction amount as determined in accordance with the following formula:

$$\text{Deduction amount} = \frac{\text{Reference Net Profit benchmark for the year} - \text{Actual Net Profit for the year}}{\text{Total Reference Net Profit benchmark (i.e. RMB2,100 million)}} \times \text{Total Consideration payable to the relevant Management Vendor (as if there is no adjustment under the Share Purchase Agreement)}$$

Note: If the actual Net Profit in any relevant earn out year is a negative figure, for the purpose of the formula as set out above, the amount of Net Profit of the Target Group for that relevant earn out year shall be regarded as zero

The deduction amount shall be applied towards the deduction of the Earn Out Consideration for that earn out year, first by deducting the portion of the Earn Out Consideration being settled by issue of Consideration Shares, and thereafter, the portion of the Earn Out Consideration being settled by cash.

For further details, including mode of settlement of the Earn Out Consideration, the Company and the Management Vendors' obligations as to the Earn Out Consideration, and escrow account arrangement for the Instalment Amount, please refer to the sections headed "Earn Out Mechanism" and "Controlled Account" in the letter from the Board.

Roll-over mechanism

If the Instalment Amount is less than the deduction amount (if any) for an earn out year as determined above, such shortfall, in addition to any further deduction amount incurred in the relevant earn out year, shall be carried forward to and shall be applied to deduct the Instalment Amount of the subsequent earn out year(s), until the total Instalment Amount(s) for the remaining earn out year(s) is/are reduced to zero.

Overall final adjustment

After the Actual Net Profit for the year ending December 31, 2020 (the 3rd earn out year) has been determined, in the event that the Actual Net Profit for each earn out year is no less than 90%, 75% and 100% of the Reference Net Profit benchmark for the 1st earn out year, 2nd earn out year and 3rd earn out year respectively, the net profit shortfall (if any) in an earn out year ending on December 31, 2018 and/or 2019 (being the 1st and/or 2nd earn out year) shall be set off (in the order of firstly the Net Profit shortfall (if any) of 1st earn out year, and then that of 2nd earn out year) by any net profit surplus incurred in any subsequent (but not preceding) earn out year(s).

Following the adjustment above, the Company shall pay to the relevant Management Vendor an amount equal to the deduction amount(s) already deducted from the Instalment Amount which arise(s) from the net profit shortfall so set off above.

Return of Consideration

Following the roll-over mechanism and overall final adjustment above, if there remains any outstanding deduction amount which have not yet been applied for deduction, the relevant Management Vendor shall pay such amount to the Company in the manner as set out under the section headed "Management Vendor's obligations" in the letter from the Board.

Further Adjustment

The relevant Management Vendor's consideration shall be reduced by the amount of consideration payable by the Purchaser to the relevant Management Vendor in respect of the transfer of equity interests held by that Management Vendor in the Operating Entity or any other entity within the Operating Entity Group as required by the Purchaser under the terms of the Share Purchase Agreement and the Control Agreements. The further adjustment clause offers the Company a mechanism to have the Registered Shareholders return any consideration received from the Group in connection with any transfer of equity interest in the Operating Entity Group, where the Consideration received by the Registered Shareholder will be deducted by any consideration received in the above transfers.

As at the Latest Practicable Date, the Company has no intention to restructure the holding structure of the equity interest of the Operating Entity Group (except for the transfer of 49% of Xinli Agency and Xinshengliliang) and no adjustment is expected to be made pursuant to the above.

As set out in the letter from the Board, the Consideration for the Acquisition shall not exceed RMB15.5 billion in all circumstances.

3.3 ***Conditions precedent***

Details of the conditions precedent to Completion are set out in the section headed "Conditions Precedent" in the letter from the Board. The major ones are as follows:

(i) *Independent Shareholders' Approval*: the approval of the independent Shareholders of the Company having been obtained at an extraordinary general meeting of the Company by way of a poll for the entering into of the Share Purchase Agreement and the performance of all transactions contemplated under the Share Purchase Agreement, including the allotment and issue of the Consideration Shares, in accordance and in compliance with the Listing Rules;

(ii) *Listing Approval*: the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Consideration Shares issued as consideration on the Stock Exchange;

(iii) *Execution of the Control Agreements*: the due execution of the Control Agreements by the parties thereto;

(iv) *Deed of Non-Competition*: the due execution of the Deed of Non-Competition by the parties thereto;

(v) *Lock-up Undertaking*: the due execution of the Lock-up Undertaking by the parties thereto;

(vi) *Execution of Employment Contracts*: the due execution by each key employee of the employment contracts in the form as agreed among the parties to the Share Purchase Agreement; and

(vii) *CCT Waiver*: the Stock Exchange having granted the waiver of the requirement under the Listing Rules that (x) an annual cap must be set for each of the transactions under the relevant Control Agreements and that (y) the Control Agreements must not exceed three years.

If the conditions precedent set out above are not satisfied or waived (except the conditions precedent which cannot be waived) on or before 5 p.m. on the Long Stop Date, being December 17, 2018 (or such other date as may be agreed among the parties in writing), either the Company or the Founder SPV may (as the case may be), in its or their sole discretion, terminate the Share Purchase Agreement. As at the Latest Practicable Date, other than the condition as set out in paragraphs (iii) and (vii) above, no other conditions precedent set out above have been fulfilled or waived under the Share Purchase Agreement.

3.4 ***Lock-up Undertaking***

As one of the conditions precedent to Completion, each of the Management Vendors and each of the management members (each a "**Holder**", collectively, "**the Holders**") shall execute a deed of Lock-up Undertaking in favour of the Company, pursuant to which each of the Holders undertakes to the Company that he or she or it shall not, and shall procure that his/her/its affiliate(s) shall not, without the prior written consent of the Company, at any time from the Completion until March 31, 2020, among others, enter into any swap or other arrangement to transfer or dispose of, or create an encumbrance over any legal or beneficial interest in the Relevant Shares or any other securities of the Company or any interest therein.

For the 5-year period commencing from March 31, 2020 up to March 31, 2025 (both days inclusive), the Holders are still subject to disposal restrictions, such that the relevant Holder shall not dispose more than 20% of its holdings each year. Please refer to the section headed "Lock-up Undertaking" in the letter from the Board.

The Lock-up Undertaking demonstrates the Holders' long-term commitment to the Group and confidence in its future development, including the Target Group to be acquired, and in our view, it prevents any immediate downward pressure on the price of the Shares provided that the selling of the Consideration Shares is restricted as discussed above.

3.5 ***Deed of Non-Competition***

As one of the conditions precedent to Completion, the Founder, Ms. Qu and each key employee of the Operating Entity Group's management (each a "**Covenantor**", collective the "**Covenantors**") hereby irrevocably and unconditionally covenant with the Company that: with effect from the date of the Completion and until the latest of (i) the third anniversary from the Completion, (ii) two years from the termination of all the employment relationship between the Covenanters and the Group or (iii) the date on which such Covenantor holds less than 1% of the issued Shares, such Covenantor will and will do any act to procure any of his/her/its close associates (other than the Group), among others, not to directly or indirectly engage, participate, acquire or hold any right or interest in or otherwise undertake any business in competition with or which may be in competition with the existing business activity of the Groupor any business activities which the Group may undertake in the future, with some exceptions as set out in the Deed of Non-Competition. For further details, please refer to the section headed "Deed of Non-Competition" in the letter from the Board.

3.6 ***Completion***

Completion shall take place on the fifth business day (as defined in the Share Purchase Agreement) following the date on which the last of the conditions precedent (other than the conditions precedent which by their terms are to be satisfied at Completion) is satisfied or waived in accordance with the Share Purchase Agreement (or such other date as may be notified by the parties in writing).

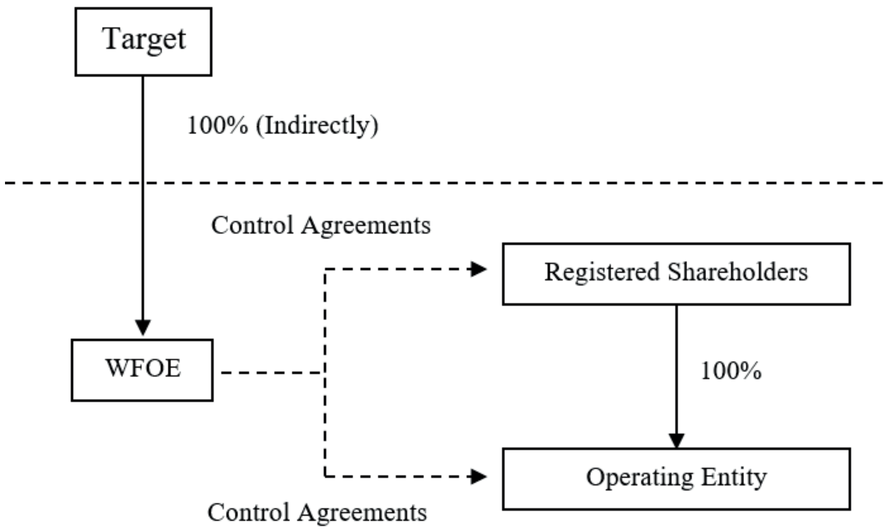
4. **The Control Agreements**

4.1 ***Reasons for and benefits of the Control Agreements***

According to the opinion letter issued by Hankun Law Offices, the Company's PRC Legal Adviser, (i) foreign investments in the businesses of production and operation of broadcasting and television programmes (including bringing-in of such programmes), film making, film distribution, film bringing-in and theatre are prohibited (the "**Prohibited Businesses**"), and (ii) performing agency business (the "**Restricted Business**") shall be controlled by PRC companies or individuals (i.e. foreign investors are not allowed to hold more than 49% equity interests in any company operating performing agency business), pursuant to the Administrative Measures of Foreign Investment Admission (Negative List) 2018 Revision (外商投資准入特別管理措施(負面清單)(2018年版)). As the Operating Entity Group operates in such Prohibited Business and Restricted Business, foreign investment in this regard is prohibited by the laws of the PRC.

In order for the Group to control and manage the Prohibited Businesses and the Restricted Businesses of the Operating Entity Group in the PRC, on August 13, 2018 (after trading hours), the Registered Shareholders, the WFOE and the Operating Entity have entered into the Control Agreements which will become effective upon Completion, under which the Group will manage all business, financial and operating activities of the Operating Entity Group through the WFOE, which is wholly-owned by the Target. The Control Agreements are designed to provide the Company, through the WFOE, with the right and power to control over and the right to enjoy the economic benefits in the Prohibited Businesses and the Restricted Businesses operated by the Operating Entity Group.

Set out below is the simplified structure of the Target Group immediately upon Completion:



As set out in the letter from the Board, according to the confirmation by the management of the Operating Entity, as of the Latest Practicable Date, the Target had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through the Operating Entity Group under the Control Agreements after the Completion Date.

Set out below is a summary of the proposed principal terms of the Control Agreements, including the Exclusive Business Cooperation Agreement, Exclusive Option Agreements, Equity Pledge Agreements, Powers of Attorney, Confirmations from the Relevant Individual Shareholders and Spouse undertakings. Further details of the terms of the above are set out in the letter from the Board.

4.2 ***Exclusive Business Cooperation Agreements***

Pursuant to the Exclusive Business Cooperation Agreements entered into among the Operating Entity and the WFOE, the Operating Entity has agreed to engage the WFOE as its exclusive provider of technical support, consultation and other services, in exchange for a monthly service fee. The WFOE will have the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the Operating Entity during the performance of the Exclusive Business Cooperation Agreement.

The monthly service fee consists of 100% of the total consolidated profit of the Operating Entity, after the deduction of any accumulated deficit of any members of the Operating Entity Group in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions. The WFOE shall calculate the service fee on a monthly basis and issue a corresponding invoice to the Operating Entity. Notwithstanding the foregoing, the WFOE shall adjust the scope and amount of services fees according to PRC tax law and tax practices and the payment time and method, and the Operating Entity will accept any such adjustments.

The Exclusive Business Cooperation Agreements shall remain effective unless (a) terminated in accordance with the provisions of the Exclusive Business Cooperation Agreements; (b) terminated in writing by the WFOE; or (c) renewal of the expired business period of either the WFOE or the Operating Entity is denied by relevant government authorities, at which time the Exclusive Business Cooperation Agreements will terminate upon termination of that business period.

4.3 ***Exclusive Option Agreements***

Pursuant to the Exclusive Option Agreements entered into among the Operating Entity, the WFOE and each of the Registered Shareholders, the WFOE shall have the rights to require the Registered Shareholders, who are Linzhi Tencent, Century Triumph, Mr. Huayi Cao, Ms. Yaqian Qu, Xishi Investment, to transfer any or all their equity interests in the Operating Entity to the WFOE and/or a third party designated by it, in whole or in part at any time and from time to time, for considerations equivalent to the lowest price as permitted by PRC laws.

The Exclusive Option Agreements shall remain effective unless terminated in the event that the entire equity interests held by the Registered Shareholders in the Operating Entity have been transferred to the WFOE or its appointee(s).

4.4 ***Equity Pledge Agreements***

Pursuant to the Equity Pledge Agreements entered into among the WFOE, each of the Registered Shareholders and the Operating Entity, the Registered Shareholders have agreed to pledge all their respective equity interests in the Operating Entity that they own, including any interest or dividend paid for the shares, to the WFOE as a security interest to guarantee the performance of contractual obligations under the relevant Control Agreements and the payment of outstanding debts.

The pledge in respect of the Operating Entity shall take effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of the Registered Shareholders and the Operating Entity under the relevant Control Agreements have been fully performed and all the outstanding debts of the Registered Shareholders and the Operating Entity under the relevant Control Agreements have been fully paid.

Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreements), the WFOE shall have the right to exercise all such rights as a secured party under any applicable PRC law and the Equity Pledge Agreements, including without limitations, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to the Registered Shareholders.

Further, as set out in the Letter from the Board, the equity pledge under the respective Equity Pledge Agreements is required to be registered with the relevant administration bureau for industry and commerce under the laws of the PRC, according to the advice from the PRC Legal Adviser. The Group will carry out the relevant filing and registration of the equity pledges as soon as practicable.

4.5 ***Powers of Attorney***

Under the Powers of Attorney, the Registered Shareholders shall irrevocably appoint the WFOE and their designated persons as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that they have in respect of their equity interests in the Operating Entity.

Each of the Registered Shareholders has undertaken under the Powers of Attorney that it will not directly or indirectly participate in engage in, involve in, or own any business which potentially compete with the relevant WFOE or its affiliates.

The Powers of Attorney shall remain effective for so long as each of the Registered Shareholders holds equity interest in the Operating Entity.

4.6 ***Confirmations from the Relevant Individual Shareholders and Spouse undertakings***

On August 13, 2018, each of the Relevant Individual Shareholders has confirmed to the effect that (i) his/her spouse does not have the right to claim any interests in the Operating Entity or exert influence on the day-to-day management of the Operating Entity; and (ii) in the event of his/her death, incapacity, divorce or any other event which causes his/her inability to exercise his/her rights as a shareholder of the Operating Entity, he/she will take necessary actions to safeguard his/her interests in the Operating Entity and his/her successors will not claim any interests in the Operating Entity to the effect that the respective Relevant Individual Shareholder's interests in the Operating Entity shall not be affected.

The spouse of each of the Relevant Individual Shareholders has signed an undertaking to the effect that (i) the respective Relevant Individual Shareholder's interests in the Operating Entity do not fall within the scope of communal properties, and (ii) he/she has no right to or control over such interests of the Operating Entity and will not have any claim on such interests.

4.7 ***Risks associated with the Control Agreements***

The execution of the Control Agreements is narrowly tailored to achieve the Operating Entity Group's business purpose, in order to provide a mechanism that enables the WFOE to exercise effective control over and enjoy the economic interests and benefits of the Operating Entity Group. Nevertheless, there are certain risk exposures faced by the Group under the transactions contemplated under the Control Agreements. Please refer to the section headed "Risks in relation to the Control Agreements" in the letter from the Board for further details. Below is a summary of the principal risks associated with the Control Agreements:

(i) the Control Agreements may not be as effective in providing the WFOE with control over and entitlement to the economic interests in the Operating Entity as direct ownership, which the WFOE can only look to and rely on the Operating Entity to perform its contractual obligations under the Control Agreements;

(ii) the current Registered Shareholders and the Operating Entity may breach the Control Agreements in the event of conflicts of interest or deterioration of their relationship with the WFOE, the results of which may have a material adverse impact on the WFOE's business, prospects and results of operation;

(iii) the Control Agreements may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed on the WFOE. The operation results of the WFOE may be materially and adversely affected if the tax liabilities of the Operating Entity or those of the WFOE increase significantly or if they are required to pay interest on late payments;

(iv) the acquisition of the entire equity interest in the Operating Entity by the WFOE pursuant to the Exclusive Option Agreement may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals and relevant procedures under applicable PRC laws; and

(v) if the Group cannot comply with the final Foreign Investment Law, if and when it becomes effective, it may be required to dispose of its business under the Control Agreements. In addition, if the Company no longer has a sustainable business after such disposal, the Stock Exchange may delist the Company.

We note from the PRC Legal Adviser's legal opinion dated September 19, 2018 setting out that (i) the Control Agreements comply with the PRC laws, rules and regulations, including those applicable to the business of the WFOE and the Operating Entity Group; (ii) upon Completion and completion of equity pledge registration, except the relevant dispute under the Control Agreements to be submitted for arbitration stated in the section headed "Details of the Control Agreements" in the letter from the Board, each of the Control Agreements will become valid, legally binding and enforceable to each party on such agreements under the PRC laws, assuming the Control Agreements will become effective in the form as at the time of signing; and (iii) the Control Agreements would not be deemed as concealing illegal intentions with a lawful form and would not be voided under the PRC Contract Law.

We further note that, as stated in the letter from the Board, there has been no promulgation progress in respect of the Draft Foreign Investment Law since the publication of the Prospectus. The Company will announce in a timely manner such information pursuant to the Listing Rules and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the SFO, including (i) any updates or material changes to the Draft Foreign Investment Law and (ii) in the event that the new foreign investment law has been promulgated, a clear description and analysis of the law, specific measures adopted by the Company to comply with the law (supported by advice from the PRC Legal Adviser), as well as its impact on our business operation and financial position.

Our view

We have reviewed each of the Control Agreements, the opinion letter issued by the PRC Legal Adviser, the listing decision HKEx-LD43-3 and the guidance letter HKEx-GL77-14 in relation to a listed issuer using contract-based arrangements or structures to indirectly own and control any part of their businesses, published by the Stock Exchange. We are of the view that:

(i) the Exclusive Business Cooperation Agreements allows the Company, through the WFOE, to (a) control over and enjoy the economic benefits of the Operating Entity held by the Registered Shareholders in the PRC, (b) manage all the business, financial and operating activities of the Operating Entity, and (c) have the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the Operating Entity, which, together with other Control Agreements, are tailored to achieve the Operating Entity Group's business purpose;

(ii) the Exclusive Option Agreements provide the Company, through the WFOE, (a) the rights to require the Registered Shareholders to transfer any or all their equity interests in the Operating Entity to the WFOE and/or a third party designated by it, and (b) the options to acquire the equity interests in the Operating Entity held by the Registered Shareholders, which minimise the potential risk of unforeseen shareholding change in the Operating Entity that would otherwise affect the economic interests and benefits of the Group;

(iii) the Equity Pledge Agreements allow the Company, through the WFOE, to holds all the equity interests in the Operating Entity owned by the Registered Shareholders as a security, which serve as a protection mechanism to safeguard the interests of the Group;

(iv) the Powers of Attorney grant to the Company, through the WFOE and their designed persons, to exercise all rights that they have in respect of their equity interests in the Operating Entity, and require each Registered Shareholder to undertake that it will not directly or indirectly participate in engage in, involve in, or own any business which potentially compete with the relevant WFOE or its affiliates, to address potential conflicts of interests that may arise in the connection with the Control Agreements; and

(v) the confirmations from the Relevant Individual Shareholders and Spouse undertakings provide additional protection to the Company regarding its rights and interests in the Operating Entity, in particular in the event which causes their inability to exercise their rights as a shareholder of the respective Registered Shareholder.

Each of the agreements under the Control Agreements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Control Agreements, any party has the right to submit the relevant dispute to the Shenzhen Court of International Arbitration for arbitration, in accordance with the then effective arbitration rules.

In summary, the Control Agreements allow the Group to have the full control of the day-to-day management of the Operating Entity to safeguard the economic interests and benefits of the Group. However, the PRC Legal Adviser has advised that dispute resolution provisions may not be enforceable under the PRC laws, and in the event that the Operating Entity or the Registered Shareholders breach any of the Control Agreements, the Group may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the entities within the Operating Entity Group and conduct our business could be materially and adversely affected.

As regards the risk associated with the Control Agreements, it is stated in the letter from the Board that the Control Agreements bear similar risks to those associated with the pre-existing Contractual Arrangements of the Group as set out in the Prospectus. Nevertheless, we would like to draw the Independent Shareholders' attention to the fact that the above risks associated with the Control Agreements are inherent and it is unfeasible to eliminate such risks since such contractual arrangements are subject to risk of the potential change to the PRC laws and regulations and the Control Agreements may not exert full control on the behaviour of the Registered Shareholders.

Based on the listing decision HKEx-LD43-3 and the guidance letter HKEx-GL77-14, and given the proposed principal terms and conditions of the Control Agreements as set out above and other factors as stated in the letter from the Board, in particular:

(i) the Company will unwind and terminate the Control Agreements wholly or partially once the Target Group's businesses are no longer prohibited or restricted from foreign investment;

(ii) the execution of the Control Agreements is narrowly tailored to achieve the Operating Entity Group's business purpose are enforceable under the relevant laws and regulations of the PRC;

(iii) the PRC Legal Adviser is of the view that (i) the Control Agreements comply with the PRC laws, rules and regulations, including those applicable to the business of the WFOE and the Operating Entity Group; (ii) upon Completion and completion of equity pledge registration, except otherwise stated in the section headed "Details of the Control Agreements" in the letter from the Board, each of the Control Agreements will become valid, legally binding and enforceable to each party on such agreements under the PRC laws, assuming the Control Agreements will become effective in the form as at the time of signing; and (iii) the Control Agreements would not be deemed as concealing illegal intentions with a lawful form and would not be voided under the PRC Contract Law;

(iv) the Control Agreements include the Powers of Attorney by which each Registered Shareholder will give the Company all rights that they have in respect of their equity interests in the Operating Entity;

(v) the Control Agreements give the Group control over the Operating Entity Group in substance, such that, when the Control Agreements become effective, it is currently expected that, except for certain subsidiaries not wholly-owned by the Operating Entity, and the consolidated financial position and operating results of the Operating Entity Group will be consolidated into the Group's consolidated financial statements;

(vi) the confirmations from the Relevant Individual Shareholders and Spouse undertakings will be in place to safeguard the Group's assets held through the Control Agreements; and

(vii) the Control Agreements bear similar risks to those associated with the pre-existing Contractual Arrangements of the Group, as set out in the Prospectus, and the relevant internal control measures have been adopted by the Group to ensure the effective operations of the Group with the implementation of the contractual arrangements, which will be extended to cover the Control Agreements.

Having considered the above, we are of the view that the terms of the Control Agreements are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Waiver from strict compliance with the Listing Rules

As set out in the letter from the Board, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance from (i) the requirement of setting an annual cap for the transactions under the Control Agreements under Rule 14A.53 of the Listing Rules, and (ii) the requirement of limiting the term of the Control Agreements to three years or less under Rule 14A.52 of the Listing Rules. The wavier is, for so long as the Shares are listed on the Stock Exchange, subject to the following conditions: (a) no change to the Control Agreements will be made without approval of the independent non-executive Directors and the Company's independent Shareholders; (b) the Control Agreements shall continue to enable the Group to receive the economic benefits derived by the Operating Entity Group; and (c) the Company will disclose details relating to the Control Agreements on an ongoing basis. Details of the waiver are set out in the section headed "Application for Waiver in relation to the Control Agreements" in the letter from the Board.

As set out above, foreign investment in the Prohibited Business and the Restricted Business is prohibited by laws of the PRC, and the Control Agreements are designed to provide the Company, through the WFOE, with the right and power to control over and the right to enjoy the economic benefits in the Prohibited Businesses and the Restricted Businesses operated by the Operating Entity Group. We consider the arrangements under the Control Agreements are fundamental and vital to the stability of the business operations and financial performance of the Group. In our view, it is commercially sound for the WFOE not to set an annual cap for the potential transaction amounts under the Control Agreements as it may limit the ability of the Group to manage the rights and interests in as well as enjoy the economic benefits of the Operating Entity Group, and it is commercially desirable and essential for the WFOE to enter into the Control Agreements with a duration of more than three years to secure a revenue stream from the Operating Entity Group in the medium to long term until acquisition of all or part of the Operating Entity or indirect interest held by the Registered Shareholders, is permitted under the relevant PRC laws and regulations.

5. **Information on the Target Group**

5.1 ***Background and business of the Target Group***

The Target is a company incorporated with limited liability in the Cayman Islands, while the Operating Entity is a company established in the PRC. As at the Latest Practicable Date, the Target was owned as to approximately 44.1% by the Retained Tencent Group, and as to approximately 55.9% by the Management Vendors, on an as-converted, fully diluted basis. For details of history and development of the Operating Entity Group, please refer to the section headed "Information on the Operating Entity Group" in the letter from the Board.

The Target Group, including the Operating Entity Group controlled by the Target through the Control Agreements, is principally engaged in production and distribution of television series, web series and films. In order for the Operating Entity Group to carry on its business, it needs to comply with the relevant PRC laws and regulations for the production and distribution of television programs and films, such as the Administrative Regulations on Radio and Television (《廣播電視管理條例》) and the Film Regulations (《電影管理條例》), and to obtain the relevant licenses, such as the radio and television program production license (廣播電視節目製作經營許可證) and film distribution operation license (電影發行經營許可證), and is in general subject to policy and regulatory oversight in China.

Under the television series segment, the Operating Entity Group develops and produces television series and web series, and distributes the broadcast rights to television stations and online video streaming platforms. Under the films segment, the Operating Entity Group produces films, and distributes films to theatres and online video streaming platforms.

The Operating Entity Group has produced a number of television series and films across different genres and with various partners regularly with a team of scriptwriters, directors and producers. During the three years ended December 31, 2017, the Operating Entity Group obtained the requisite licenses and secured the airing of ten television series and one web series in which it acted as the lead producer or co-producer, including "The First Half of My Life" (我的前半生), "White Deer Plain" (白鹿原) and "Yu Zui" (餘罪). The Operating Entity Group distributes its television series by premiering its content on free-to-air television channels in China such as Dragon TV (東方衛視) and Hunan Television (湖南衛視), as well as online video streaming platforms such as Tencent Video (騰訊視頻) and iQIYI (愛奇藝). The Operating Entity Group receives additional revenue from subsequent broadcasting of its content on other channels, advertising, as well as from derivative merchandise.

In addition, the Operating Entity Group has participated in the production of nine films, including "Wu Kong" (悟空傳), "Some Like It Hot" (情聖) and "Never Say Die" (羞羞的鐵拳). The Operating Entity Group also participates in the promotion and distribution of films, which are typically shown in leading theatres and online video streaming platforms across China.

As advised by the management of the Group, the Operating Entity Group plans to continue its strategy going forward of producing high quality television series, web series and films across multiple genres. We note that the business performance of the Operating Entity Group is dependent on, among other factors, the success and the expected audience reception to the television/web series and films, and the number of television/web series and films being distributed or screened by the Operating Entity Group in a particular year. The success and expected audience reception of a television/web series or a film is mainly influenced by the appeal of the content to a broad audience and the effectiveness of associated marketing and promotional activities. The popularity of projects is inherently difficult to predict, as audience reception of the television/web series and films is subject to, among other factors, changes in market trends. However, the Operating Entity Group achieved strong financial growth in the past three years following the success of a number of its television/web series and films. Further analysis on the historical performance of the Operating Entity Group is set out in below section headed "Financial performance and position of the Target Group".

5.2 ***Financial performance and position of the Target Group***

The Target is a company recently incorporated in Cayman Islands, serving as the indirect holding vehicle of the WFOE, which in turn executed the Control Agreements with the Operating Entities and the Registered Shareholders, for the purpose of the Group to control and manage the business of the Operating Entities. As shown in the financial information of the Target SPV Group as set out in Appendix II to the Circular, the Target SPV Group has minimal profit or loss, and has minimal assets and liabilities as at 30 June 2018. As such, we consider the analysis of the financial information of the Operation Entity Group, as set out in Appendix III to the Circular, gives a better picture of the financial performance and financial position of the business of the Operating Entity.

Financial performance

The following table sets out a summary of the combined statements of profit or loss of the Operating Entity Group for the three years ended December 31, 2015, 2016 and 2017, and for the three months ended March 31, 2017 and 2018, as extracted from the accountants' report of the Operating Entity Group set out in Appendix III to the Circular:

	For the three months ended March 31,		**For the year ended December 31,**		
	2018	**2017**	**2017**	**2016**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(unaudited)*	*(audited)*	*(audited)*	*(audited)*
Revenue	46,287	178,222	1,683,909	761,863	725,233
Cost of revenue	(25,504)	(65,617)	(832,688)	(394,187)	(389,696)
Gross profit	20,783	112,605	851,221	367,676	335,537
Gross profit margin	*44.9%*	*63.2%*	*50.6%*	*48.3%*	*46.3%*
Interest income	1,047	207	1,738	1,784	576
Other gains/(losses), net	1,321	(230)	13,228	41,166	40,477
Selling and marketing expenses	(22,739)	(55,733)	(244,833)	(113,633)	(160,624)
General and administrative expenses	13,367	(9,809)	(131,244)	(61,455)	(46,181)
Finance costs	(24,171)	(10,540)	(69,119)	(19,532)	(35,964)
Share of loss of a joint venture	(515)	(391)	(1,604)	(342)	—
Profit/(Loss) before income tax	(10,907)	36,109	419,387	215,664	133,821
Income tax expense	(1,133)	(10,721)	(42,715)	(54,581)	(36,336)
Profit/(Loss) and total comprehensive income/(loss) for the year/period	(12,040)	25,388	376,672	161,083	97,485
Net profit margin	*N/A*	*14.2%*	*22.4%*	*21.1%*	*13.4%*
Profit/(Loss) attributable to equity holders of the Operating Entity	(11,866)	25,597	383,479	161,270	98,269

Revenue

The revenue of the Operating Entity Group is derived from the licensing of television series, web series and films to television stations and online video platforms, film distribution, which represents the Operating Entity Group's share of box office sales from films distributed in movie theatres, and the provision of advertising services. We understand that, in general, revenue is recognised by the Operating Entity Group when or as the control of the goods or services, such as the master tapes and materials in respect of television series and film right, is transferred to the customer, which may be transferred over time or at a point in time, depending on the terms of the relevant contract and applicable laws. Further details of the Operating Entity Group's revenue recognition policies, please refer to the section headed "Business Model and Operation of the Operating Entity Group" in the letter from the Board.

The table below sets out details of the Operating Entity Group's segment revenues:

	For the three months ended March 31,		For the year ended December 31,		
	2018	**2017**	**2017**	**2016**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(unaudited)*	*(audited)*	*(audited)*	*(audited)*
Revenue					
License of television series	5,502	12,906	1,136,412	676,226	252,889
Film distribution in movie theatres	11,372	133,273	448,350	41,457	382,939
License of film rights	28,561	32,043	70,318	28,232	34,618
Advertising services	81	—	27,838	15,572	54,486
Others	771	—	991	376	301
	46,287	178,222	1,683,909	761,863	725,233

As shown in the above breakdown of revenue, the majority of the Operating Entity Group's revenue comes from license of television series and film distribution in movie theatres. Revenue increased by approximately 5.1% in 2016, to approximately RMB761.9 million, mainly due to the growth in the revenue from license of television series as a result of the distribution of certain new television series in 2016, partly offset by a considerable decline in revenue from film distribution in movie theatres. In 2017, revenue increased significantly by approximately 121.0% to approximately RMB1,683.9 million, principally driven by an increase in revenue from both license of television series and film distribution in movie theatres, as a result of the distribution of a successful television series, and an expansion of the film distribution business in 2017 with the release of several films.

For the three months ended March 31, 2018, the Operating Entity Group recorded revenue of approximately RMB46.3 million, representing a significant decrease of approximately 74.0% as compared to the corresponding period last year, as a result of the scheduling arrangements which resulted in an absence of television series and web series being distributed in the first quarter of 2018.

As shown above, the level of revenues of the Operating Entity Group depends on how the Operating Entity Group's television series, web series and films are received in the market. Future revenue streams will depend to a large extent on the production pipeline of the television series, web series and films, and the launching date of the television series, web series and films will affect the revenue of the Operating Entity Group in a particular year.

Cost of revenue and gross profit margins

Cost of revenue mainly comprised the amortisation of capitalised production costs of television series, web series and films, which were expensed in accordance with the expected consumption pattern by usage through various channels, such as television release, theatrical release or internet release, and other licensing arrangements. As advised by the management of the Group, production costs for different television series, web series and films vary, and depending on the television series, web series and films distributed in a given period, the associated costs of revenue can fluctuate.

Gross profit margin of the Operating Entity Group, on the other hand, was relatively stable, in the range of between approximately 46.3% and 50.6% in 2015 to 2017. The gross profit margin decreased to approximately 44.9% for the three months ended March 31, 2018, from approximately 63.2% during the same period in 2017. The primary cause of this was scheduling arrangements resulting in an absence of television series or web series distributed in the first quarter of 2018, which normally has a higher gross profit margin than films.

Selling and marketing expenses

Selling and marketing expenses mainly consisted of promotion and advertising expenses for TV series, films and web series. The selling and marketing expenses decreased by approximately 29.3%, from approximately RMB160.6 million to approximately RMB113.6 million in 2016, mainly due to less promotion expenses associated with films distributed in 2016. In 2017, the selling and marketing expenses increased by approximately 115.5% to approximately RMB244.8 million, which was broadly in line with the growth rate in revenue, in particular revenue derived from the film distribution business. For the three months ended March 31, 2018, the selling and marketing expenses decreased by approximately 59.2%, due to the same reason as mentioned above.

General and administrative expenses

General and administrative expenses mainly consist of salaries and benefits for management and administrative personnel, professional service expense, allowance for doubtful debts and other general corporate expenses. The general and administrative expenses increased from approximately RMB46.2 million in 2015 to approximately RMB61.5 million in 2016, and further increased to approximately RMB131.2 million in 2017. The significant increase from 2016 to 2017 was mainly driven by incurrence of one-off professional fees associated with the Operating Entity Group's A-share listing application in June 2017 and impairment provisions made for certain receivables that associated with LeTV that may not be recovered. For the three months ended March 31, 2018, the general and administrative expenses stood at a negative amount of approximately RMB13.4 million, in contrast to a positive amount of approximately RMB9.8 million for the first quarter of 2017, which primarily resulted from a reversal of impairment losses on trade receivables.

Finance costs

Finance costs mainly comprised interest expenses for bank and other borrowings. In 2016, finance costs decreased by approximately 45.7%, from approximately RMB36.0 million to approximately RMB19.5 million, mainly due to a drop in outstanding borrowing balance during 2016. In 2017, finance costs increased by approximately 253.9% to approximately RMB69.1 million, as a result of an increase in the level of bank borrowings, from approximately RMB425.0 million as at December 31, 2016 to approximately RMB1,211.4 million as at December 31, 2017. For the three months ended March 31, 2018, the finance costs increased by approximately 129.3% as a result of the same reason explained above.

Net profit

The net profit of the Operating Entity Group exhibited significant growth from approximately RMB97.5 million in 2015 to approximately RMB161.1 million in 2016, and further increased to approximately RMB376.7 million in 2017, which was mainly attributable to an increase in revenues and a gradual increase in gross profit margins as mentioned above. Net profit margins of the Operating Entity Group were approximately 13.4%, 21.1% and 22.4% in 2015, 2016 and 2017 respectively. As advised by the management of the Group, the net profit margins of the Operating Entity Group fluctuated mainly due to changes in the gross profit margins as stated above and fluctuations in selling and marketing expenses as well as general and administrative expenses outlined above.

For the three months ended March 31, 2018, the Operating Entity Group recorded a net loss of approximately RMB12.0 million, as opposed to a net profit of approximately RMB25.4 million for the corresponding period in 2017, largely due to the decrease in both revenue and gross profit margin as discussed above.

Financial position

The following table sets out the combined statement of financial position of the Operating Entity Group as at December 31, 2015, 2016 and 2017 and as at March 31, 2018, as extracted from the accountants' report of the Operating Entity Group set out in Appendix III to the Circular:

	As at March 31,	As at December 31,		
	2018	**2017**	**2016**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Assets				
Property, plant and equipment	3,036	3,595	1,142	1,404
Intangible assets	529	548	625	703
Investment in a joint venture	7,539	8,054	3,658	—
Prepayment, deposits and other assets	192,371	192,371	178,959	49,871
Deferred income tax assets	55,868	56,028	33,399	20,622
Total non-current assets	259,343	260,596	217,783	72,600
Television series and film rights	1,857,448	1,742,461	1,130,304	479,690
Trade and notes receivables	726,152	1,133,283	593,344	611,342
Prepayment, deposits and other assets	396,301	348,672	130,745	96,952
Financial assets at fair value through profit or loss	9,600	—	—	—
Restricted cash	58,758	58,758	—	—
Cash and cash equivalents	634,304	574,718	277,933	286,514
Total current assets	3,682,563	3,857,892	2,132,326	1,474,498
Total assets	3,941,906	4,118,488	2,350,109	1,547,098
Liabilities				
Borrowings	834,305	1,006,274	270,000	238,000
Trade payables	211,310	262,881	125,330	96,271
Financial liabilities at fair value through profit or loss	—	—	—	7,000
Other payables and accruals	1,363,270	1,314,533	833,121	360,077
Deferred income	11,300	—	—	—
Current income tax liabilities	4,348	19,087	31,520	17,295
Total current liabilities	2,424,533	2,602,775	1,259,971	718,643

	As at March 31,	As at December 31,		
	2018	**2017**	**2016**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(audited)*
Borrowings	230,145	205,145	155,000	55,000
Deferred income	—	11,300	11,300	11,000
Total non-current liabilities	230,145	216,445	166,300	66,000
Total liabilities	2,654,678	2,819,220	1,426,271	784,643
Net current assets	1,258,030	1,255,117	872,355	755,855
Net assets	1,287,228	1,299,268	923,838	762,455
Equity attributable to equity holders of the Operating Entity	1,292,024	1,303,890	920,411	759,141

As at March 31, 2018, the Operating Entity Group recorded total assets of approximately RMB3,941.9 million. This included television series and film rights, which were classified as current assets, of approximately RMB1,857.4 million, representing adaption rights and scripts, television series, web series and films under production and completed television series, web series and films. As at March 31, 2018, approximately 55.1% of television series and film rights where classified as being under production, with the remainder classified either as "completed" or as "adaption rights and scripts". Other assets recorded by the Operating Entity Group as at March 31, 2018 included (i) trade and notes receivables mainly from television stations, online video platforms and film distributors of approximately RMB726.2 million, (ii) cash and cash equivalents of approximately RMB634.3 million, and (iii) prepayment, deposits and other assets of approximately RMB588.7 million, primarily comprising of prepayments relating to the production of television series, web series and films and prepayments to directors, actors and writers, for which the associated production had not yet started.

As at March 31, 2018, the Operating Entity Group recorded total liabilities of approximately 2,654.7 million, of which approximately RMB1,363.3 million, or approximately 51.4% of total liabilities, comprised of other payables and accruals, which included (i) contract liabilities of approximately RMB665.0 million relating to prepayments received from customers such as television stations and advertisers, for television series, web series or films for which a broadcasting license has not yet been obtained or for advertising services which have not yet been provided, (ii) payables relating to proceeds generated from television series and film rights that are collected as a distribution agent of approximately RMB329.9 million, and (iii) payments received from co-producers of approximately RMB295.4 million for co-produced television series, web series and films under joint operation agreements. As at March 31, 2018, the Operating Entity Group recorded trade payables of approximately RMB211.3 million.

As at March 31, 2018, the Operating Entity Group recorded equity attributable to its owners of approximately RMB1,292.0 million.

Borrowings constituted approximately RMB1,064.5 million as at March 31, 2018, of which approximately 95.3% were bank and other borrowings denominated in Renminbi, guaranteed by the chief executive of the Operating Entity, who is also one of the Vendors. The gearing ratio of the Operating Entity Group, calculated as debt divided by total equity, was approximately 82.7% as at March 31, 2018.

In short, the financial performance of the Operating Entity Group is largely dependent on how the Operating Entity Group's television, webs series and films are received in the market. Given the nature of the business, the Operating Entity Group's balance sheet primarily comprises capitalised production expenses, which are amortised and/or impaired as applicable and other working capital items, with a gearing ratio of approximately 82.7% as at March 31, 2018.

5.3 ***Prospects***

The Operating Entity Group produces television shows, films, and other visual entertainment following a process of literary content adaptation and distributes such output to various media outlets such as television channels, online platforms and movie theatres. As set out above, the Operating Entity Group's financial performance in any given year is to a large effect driven by how its creative output fares in the marketplace. Its performance in the first quarter of 2018 has been not as good as in the same quarter in 2017, mainly due to scheduling arrangements resulting in an absence of television series or web series distributed in the first quarter of 2018, indicating that, while revenue is dependent on when productions will be released into the market, the recent set of titles under production exhibit a healthy pipeline of content.

As set out in the letter from the Board, as at the Latest Practicable Date, three television series and web series produced by the Operating Entity Group, being "Ruyi's Royal Love in the Palace" (如懿傳), "The Revolution of Our Love" (愛情進化論) and "Battle through the Heavens" (鬥破蒼穹), are airing or just finished first round of airing on television stations and online video platforms, and one film in which the Operating Entity Group acted as a co-producer, being "Hello Mr. Billionaire" (西虹市首富), was released in July 2018. In addition, the Operating Entity Group has completed production of several other television series, web series and films, including "The Wolf" (狼殿下), "City of Desires" (欲望之城), "Hello, Mrs. Money" (李茶的姑媽) and "the Rookies" (素人特工) which are expected to premiere in the second half of 2018, paving the way for substantial revenue for the Operating Entity Group for full year 2018. We are advised by the management of the Group that based on the relevant licensing contracts of the three TV series and web series that have premiered from 1 January 2018 to the Latest Practicable Date, the total contract value has exceeded RMB1.4 billion, out-performing that of the same period for 2017. Moreover, the Operating Entity Group is in the process of production of "Joy of Life" (慶餘年) and "the Memories of Peking" (芝麻胡同), which are expected to be premiered in 2019.

The Operating Entity Group has a roster of scriptwriters, directors and producers. It has been collaborating with experienced directors and producers to produce and develop television series, web series and films, and has entered into contracts with scriptwriters to create original scripts and conduct adaptation on scripts or intellectual properties which are purchased by the Operating Entity Group. In addition, the key employees of the Operating Entity Group will be led by the Founder, who are experienced in the filming and production industry, following the Completion.

The Operating Entity Group also possesses a sizeable content library which will be further supplemented by the vast and diverse literary content offered by the Group following completion of the Acquisition. As set out in the section headed "Reasons for and benefits of the Acquisition", benefits of the Acquisition accrue to both the existing business of the Group and the Operating Entity Group. For example, the Operating Entity Group would be able to adapt literary content into popular television series and films, and the Group may enhance its offerings with an active in-house production business. There would also be further monetization potential for the Group's pool of writers and their content. We consider that prospects of the Operating Entity Group are further enhanced by the ability of the Group, following Completion, to develop a content generating ecosystem which would generate viewership data and industry expertise to develop user insights and a more precise assessment of commercial potential of various content genres.

According to the statistics published by the State Administration of Radio and Television, gross box office receipts in the PRC increased from approximately RMB44.1 billion in 2015 to approximately RMB55.9 billion in 2017, and the number of movie theatre visits increased from approximately 1.3 billion in 2015 to approximately 1.6 billion in 2017. We also note that the number of online video streaming platform user reached approximately 580.0 million in December 2017, representing an increase of approximately 15.1% compared with that in December 2015, based on the data released by China Internet Network Information Center. Prospects of the Operating Entity Group are further strengthened by the overall growth of the PRC's film industry, as evidenced by the growing gross box office in the past three years, and the country's entertainment sector more broadly, as shown by the increasing number of movie theatre visits and online video streaming platform users. As set out in the letter from the Board, the entertainment industry market size is expected to grow at a compound annual growth rate of approximately 14.3% between 2016 and 2020. We consider that such growth could positively impact the Operating Entity Group's ability to license TV series, web series and film distribution rights, and also may drive growth of various media content channels across the wider Group following Completion.

6. **Valuation of the Operating Entity Group and evaluation of the Consideration**

6.1 ***Overview***

The Operating Entity Group has been valued by D&P China (HK) Limited (the "**Valuer**"), an valuer independent from the Company. The Valuation Report is set out in Appendix VI to the Circular.

For this purpose, we have discussed the Valuation Report with the Valuer, including specifics on (i) the Valuer's overall approach to valuing the Operating Entity Group, (ii) bases and assumptions used, which included trading multiples based on comparable listed companies and transaction multiples based on comparable transactions, and (iii) the Valuer's due diligence work performed. We were also provided by the Valuer with relevant materials that it used to underpin and support the conclusions contained in the Valuation Report.

Further, we have interviewed the Valuer, covering topics such as its expertise in business valuation including its experience in Hong Kong and the PRC, and details of any current or prior relationships with the Group, other parties to the transaction and connected persons of either the Group or another party to the transaction. We have also reviewed the terms of engagement (having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuation Report); and assessed whether representations made by the Group or another party to the transaction are in accordance with our knowledge, as required under Listing Rule 13.80 Note 1(d).

6.2 ***Valuation methodology***

In assessing the equity value of the Operating Entity Group, the Valuer adopted the market approach for valuation purposes, which utilises comparisons with publicly traded comparable companies and/or comparable transactions to arrive at an estimation of the market value of a company. The Valuer has confirmed that such valuation method is common for this type of business. The Valuer has referenced both publicly traded comparable companies and comparable transactions, which in our view offers a more comprehensive picture of the Operating Entity Group's value than using only one point of reference. We consider the use of the market approach for the valuation of the Operating Entity Group to be reasonable in this context.

The Valuer has used the enterprise value to earnings before interest and taxes (after excluding non-recurring items) ratio (the "**EV/EBIT**" ratio) and the price to earnings ratio (the "**P/E**" ratio) to determine the indicated enterprise value and equity value of the Operating Entity Group. Broadly speaking, the fundamental difference between the above two ratios is that the P/E ratio accounts for the capital structure of a company by comparing its net profits (i.e. after interest payments, among others) with its equity value (which excludes other sources of funds such as debt). On the other hand, the EV/EBIT ratio analyses the value of a company's business as funded by both its equity and debt, where its denominator excludes interest payments and the numerator, i.e. the enterprise value, includes the value of a company's debts. We consider that both ratios are commonly used for corporate valuation purposes, and the use of both multiples for the purpose of valuing the Operating Entity Group is prudent as it offers a broader base for determining the Operating Entity Group's value.

The EV/EBIT of the Operating Entity Group, based on the enterprise value of the Operating Entity Group (i.e. sum of the aggregate Consideration of RMB15,500 million and the Operating Entity Group's net debt of approximately RMB371.4 million as at March 31, 2018) and the Operating Entity Group's 2017 EBIT of approximately RMB486.8 million, is approximately 32.6 times. Similarly, the P/E ratio of the Operating Entity Group, based on the aggregate Consideration and the 2017 net profit attributable to equity holders of the Operating Entity Group of approximately RMB383.5 million, is approximately 40.4 times.

According to the Valuation Report, the equity value of the Operating Entity Group as at 31 March 2018 is in the range of between approximately RMB13.9 billion to RMB18.4 billion:

(RMB billion)	**Comparable transactions**		**Comparable companies**	
	EV/EBIT	**P/E**	**EV/EBIT**	**P/E**
Market value of 100% equity interest of the Operating Entity Group	14.9	13.9	18.4	15.8
Valuation range	13.9 to 18.4			

6.3 ***Comparable transactions***

The comparable transactions forming the basis of the valuation were selected with reference to data from Mergermarket, on the following basis: (i) publicly announced and completed acquisitions in the past 5 years, (ii) the principal business of the target acquired was substantially similar to that of the Operating Entity Group and (iii) earnings data of the target, including earnings before interest and tax and net income, was available. On this basis, the Valuer has identified 16 comparable transactions.

We have discussed the above criteria with the Valuer and consider the Valuer's selection criteria represent a prudent balance between (a) including as many recent transactions as possible, to increase the number of data points used for the valuation, and (b) limiting the selection of transactions to those which are reasonably comparable to the Acquisition. We have independently researched comparable transactions and have identified, on an exhaustive basis according to the above criteria, the same 16 comparable transactions ascertained by the Valuer.

For the above comparable transactions, the Valuer derived the implied EV/EBIT ratio and the P/E ratio, as publicly available, on which basis a comparable indicated valuation for the Operating Entity Group was determined. Specific adjustments were made by the Valuer in respect of precedents involving an acquisition of less than 50% of the target, to take into account that no "control premium" was assumed to be paid. The EV/EBIT ratios and the P/E ratios were in ranges of 10.0 to 95.0 times and 14.2 to 180.2 times respectively, with medians of approximately 32.5 times and 37.0 times respectively. For both the EV/EBIT and the P/E ratios, the Valuer selected the median of the price multiples to reflect how much an investor would pay for a company that engaged in the same or a similar line of business as that of the Operating Entity Group, and considered that the median of price multiples is appropriate to the valuation because it has excluded the extreme multiples which could be caused by specific considerations of the acquirers in the comparable transactions that cannot reliably be discerned. We consider it appropriate to use median price multiples as it minimises the effect of possible outliers (as opposed to the arithmetical mean) in this case.

6.4 ***Comparable companies***

In addition to a valuation based on comparable transactions as set out above, the Valuer also based its valuation on comparable companies. The Valuer has identified seven comparable listed companies that carried on a business similar to that of the Operating Entity Group in the PRC for at least two years, with more than half of their revenues derived from film and television drama production business and a positive net profit, with a market capitalisation of at least US$100.0 million. We further understand from the Valuer that they have excluded the comparable companies that have been suspended from trading for more than six months during the period between January 2017 and the Latest Practicable Date. The Valuer has confirmed to us that no readily identifiable and profitable comparable companies with principal business substantially similar to that of the Operating Entity Group listed on the Stock Exchange have been found, and for this reason the Valuer has expanded its scope to include companies listed on any global stock exchange.

We consider the Valuer's selection criteria represent an appropriate approach to identify the comparable companies which are engaged in business that is similar to the Operating Entity Group. In a similar manner as for the comparable transactions above, we have independently researched comparable listed companies and have identified, on an exhaustive basis according to the above criteria, the same seven comparable listed companies ascertained by the Valuer.

For such comparable companies the Valuer derived the implied EV/EBIT ratio and the P/E ratio, as publicly available. Adjustments were made to take into account the "control premium" to account for the acquisition of the entire Operating Entity Group, with reference to historical statistics. The valuation has been further adjusted to take into account that a marketability discount, based on the fact that the Operating Entity Group is not publicly traded, unlike the comparable companies. We consider the application of a control premium and a marketability discount on the valuation based on comparable companies to be a reasonable approach, given the Group will be acquiring a 100% stake in the Operating Entity Group (rather than a minority stake as would typically be the case for transactions on a stock exchange), and that the Operating Entity Group is not traded on any stock exchange and therefore its shares have limited liquidity.

The EV/EBIT ratios and the P/E ratios were in ranges of 16.4 to 60.7 times and 16.0 and 46.3 times respectively, with medians of approximately 32.3 times and 33.6 times respectively. Similar to the comparable transactions median price multiples were use, which we consider appropriate.

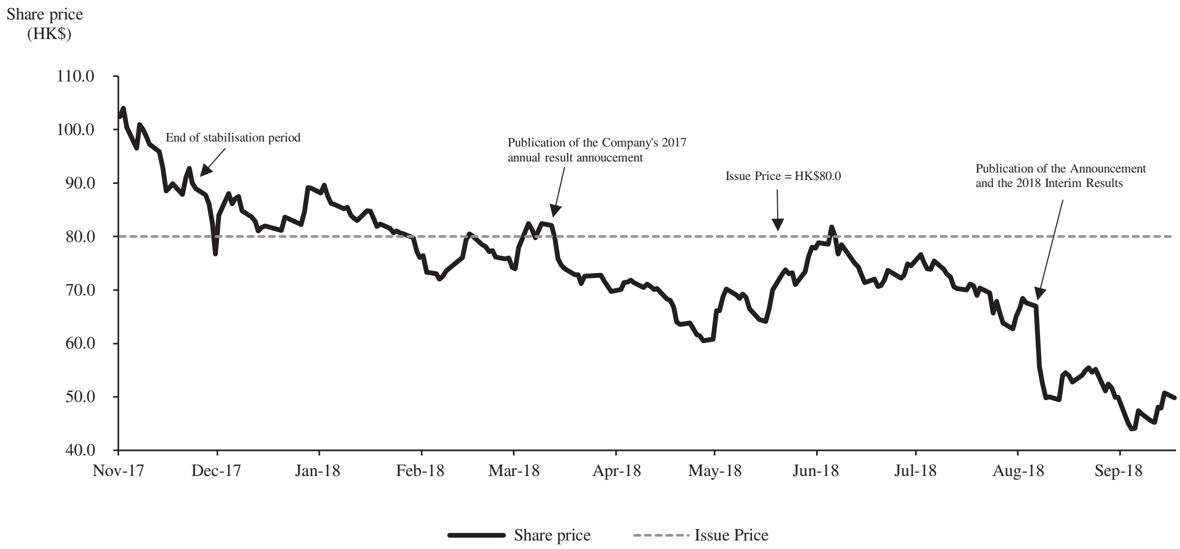
6.5 ***Our comments***

Generally speaking, we concur with the valuation approaches the Valuer has taken in valuing the Operating Entity Group. Viewing the Acquisition as a whole, the aggregate Consideration of RMB15.5 billion is slightly below the mid-point of valuation range as derived by the Valuer, between approximately RMB13.9 billion and RMB18.4 billion. More specifically, the Implied Tencent Valuation of approximately RMB12.0 billion is below the above valuation range, which we consider favourable to the Independent Shareholders. We also note that the Implied Tencent Valuation is equal to the Previous Valuation, which was determined on an arms' length basis. On the other hand, the Implied Management Vendors Valuation of approximately RMB18.3 billion is within and close to the high end of the Valuer's valuation range set out above, but it is subject to the Earn Out Mechanism based on profit guarantees in the coming years, whereby the consideration payable to the Management Vendors is subject to downward (not upward) adjustments if actual profit in future is less than the guaranteed amount.

7. **Assessment of the Issue Price of the Consideration Shares**

7.1 ***Historical price performance of the Shares***

The share price chart below illustrates the historical closing price the Shares as quoted on the Stock Exchange from November 8, 2017 (being the listing date of the Shares) up to and including the Latest Practicable Date (the "**Review Period**").



Source: Stock Exchange

Trading of the Shares commenced on November 8, 2017 and reached a high of HK$104.00 on the second trading day after the Listing, being the highest point during the Review Period and representing an increase of approximately 89.1% when compared to the Company's initial public offering price of HK$55.00 per Share. The stabilisation period in connection with the Company's initial public offering ended on November 30, 2017. Subsequently, the market price of the Shares broadly exhibited a downward trend for the rest of 2017, except for a slight rebound by the end of the year.

Price of the Shares again showed a general downward trend in early 2018, reaching a low of HK$72.00 on February 13, 2018, before gradually climbed back and closed at HK$82.05 on March 19, 2018, prior to the publication of the Company's 2017 annual result announcement, with an increase in total revenues of approximately 60.2% and an increase in adjusted profit attributable to equity holders of the Company of approximately 7.5 times in 2017, as compared to that of 2016. The Share price dropped by approximately 3.1% on the next day, and continued to trade lower, reaching HK$60.55 on May 4, 2018, being the lowest point during the Review Period. The Share price increased gradually in May and early June 2018, to above the Issue Price of HK$80.0 on June 12, 2018, before gradually falling back to HK$67.00 on the Last Trading Day, along with the general downward trend in the broader market during the same period as represented by the Hang Seng Index. Broadly speaking, the Shares were traded below the Issue Price of HK$80.0 since mid-March 2018.

On the Last Trading Day (after trading hours), the Company announced the Acquisition and the 2018 Interim Results. The Share price dropped by approximately 17.0% and closed at HK$55.60 on the following trading day, and the price continued to decline to a low of HK$44.00 on 11 September 2018. The Share price slightly recovered since then, and closed at HK$49.85 on the Latest Practicable Date.

7.2 ***Historical trading volumes of the Shares***

The table below sets out the total monthly trading volume of the Shares during the Review Period, and the percentage of total monthly trading volume of the Shares to the total issued number of Shares and the public float in each of the respective months:

	Total monthly trading volume of the Shares	**% of total monthly trading volume of the Shares to the total issued Shares** *(Note 1)*	**% of total monthly trading volume of the Shares to the total public float** *(Note 2)*
2017			
November (*Note 3*)	299,933,914	33.1%	85.0%
December	48,401,466	5.3%	13.7%
2018			
January	55,442,865	6.1%	15.7%
February	37,513,167	4.1%	10.6%
March	61,406,397	6.8%	17.4%
April	24,650,715	2.7%	7.0%
May	68,407,780	7.5%	19.4%
June	49,893,725	5.5%	14.1%
July	23,895,279	2.6%	6.8%
August	54,903,146	6.1%	15.6%
From 1 September up to and including the Latest Practicable Date	31,428,343	3.5%	8.9%

Source: Stock Exchange, the Company

Notes:

(1) *Based on the total monthly trading volumes of the Shares divided by the number of the issued Shares at the end of each month or as at the Latest Practicable Date, as applicable*

(2) *Based on the total monthly trading volumes of the Shares divided by the number of the issued Shares held by the public at the end of each month or as at the Latest Practicable Date, as applicable*

(3) *The Shares listed on the on the Main Board of the Stock Exchange on November 8, 2017*

As shown in the above table, except for November 2017, being the month that the Shares listed in the Stock Exchange, during which, in the first few days after listing, the Shares exhibited very high trading volumes, the monthly trading volumes of the Shares represented approximately 2.6% to 7.5% of the total issued Shares, equivalent to approximately 6.8% to 19.4% of the Shares constituting the public float of the Company. On the basis of the above, the Shares have been fairly actively traded.

7.3 ***Analysis of the Issue Price***

The Issue Price of HK$80.0 for the Consideration Shares represents:

(i) a premium of approximately 19.4% over the closing price of the Shares of HK$67.00 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 21.1% over the average closing price of the Shares of approximately HK$66.07 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day;

(iii) a premium of approximately 13.7% over the average closing price of the Shares of approximately HK$70.37 per Share as quoted on the Stock Exchange for the thirty consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 3.7% over to the average closing price of the Shares of approximately HK$77.15 per Share as quoted on the Stock Exchange for the period from the Company's listing on 8 November 2017 up to and including the Last Trading Day;

(v) a premium of approximately 60.5% over approximately HK$49.85, the closing price of Shares as quoted on the Stock Exchange on the Latest Practicable Date; and

(vi) a premium of approximately 3.7 times over the unaudited net asset value of the Group attributable to the Shareholders of approximately HK$16.80 per Share as at June 30, 2018.

As explained above, the Share price was trading higher during the period after its initial public offering in late 2017, and subsequently trading largely below the Issue Price of HK$80.0 since mid-March 2018. The Issue Price represents a premium of approximately 3.7% of the average closing price of the Shares since its listing, and higher premia between approximately 13.7% and 21.1% compared to more recent trading prices before the announcement in relation to the Acquisition. We consider the Issue Price was set at a level of premium over market that is beneficial to the Company, reducing the number of Consideration Shares to be issued and the level of dilution to the Independent Shareholders. In particular, the Issue Price represents a substantial premium of approximately 60.5% over the closing price of the Shares as at the Latest Practicable Date.

8. **The effect of the Acquisition on the shareholding structure of the Company**

Immediately upon Completion and subsequent to Completion, the Consideration Shares will be allotted and issued to the Management Vendors, in accordance with the payment terms of the Share Purchase Agreement. Set out below is a table showing the shareholding structure of the Company (i) as at the Latest Practicable Date, (ii) and immediately upon Completion ("**Scenario 1**"), and (iii) immediately upon the issuance of all Consideration Shares (without taking into account those Consideration Issues to be issued under the Earn Out Mechanism and without any adjustment under the Share Purchase Agreement) ("**Scenario 2**"):

Name of Shareholder	As at the Latest Practicable Date		Scenario 1		Scenario 2	
	Number of Shares	*Approximate percentage of total issued Shares*	*Number of Shares*	*Approximate percentage of total issued Shares (Note 1)*	*Number of Shares*	*Approximate percentage of total issued Shares (Note 1)*
Tencent	477,305,634	52.7%	555,643,104	54.3%	555,643,104	52.4%
Deal Plus Global Limited	45,000,000	5.0%	45,000,000	4.4%	45,000,000	4.2%
Tencent and its associates	522,305,634	57.6%	600,643,104	58.7%	600,643,104	56.6%
The Management Vendors	—	—	37,799,537	3.7%	75,599,071	7.1%
Independent Shareholders	384,111,605	42.4%	384,111,605	37.6%	384,111,605	36.2%
Total	906,417,239	100.0%	1,022,554,246	100.0%	1,060,353,780	100.0%

Notes:

(1) assuming no other Shares are issued other than the Consideration Shares from the Latest Practicable Date until Completion

(2) the above figures may not add up due to rounding

As illustrated above, the shareholdings in the Company held by the existing independent Shareholders would be diluted from approximately 42.4% as at the Latest Practicable Date to approximately 36.2% under the Scenario 2. Notwithstanding the above, Independent Shareholders should note that (i) the issue price of the Consideration Shares is above the closing prices of the Shares during the period before the publication of the Announcement, as analysed in the section headed "Assessment of the Issue Price of the Consideration Shares", and (ii) following Completion, the Target Group (including the Operating Entity Group) is expected to contribute substantial profitability to the

Group, as indicated by the Reference Net Profits in coming three years under the Earn Out Mechanism. For further details on the shareholding structure of the Company, please make reference to the section headed "Effect of the Acquisition on the Shareholding Structure" in the letter from the Board.

9. **Financial effects of the Acquisition on the Group**

Following Completion, the Target will become a wholly-owned subsidiary of the Company. As such, the operating results and the financial position of the Target Group, including the Operating Entity Group, will be consolidated into the financial statements of the Group, after the Control Agreements become effective.

9.1 ***Earnings***

The Operating Entity Group were profitable for the past three years ended December 31, 2017, with its latest 2017 net profit attributable to equity holders of approximately RMB383.5 million. Although it recorded a net loss attributable to equity holders of approximately RMB11.9 million for the first three months in 2018 as there was no distribution/release of new television series or films during that period, we note (i) the Operating Entity Group plans to continue its strategy going forward of producing high quality television series, web series and films across multiple genres, and (ii) the Reference Net Profit of RMB500 million, RMB700 million and RMB900 million for the year of 2018, 2019 and 2020 respectively under the Earn Out Mechanism. Referencing the Group's adjusted profit attributable to equity holders of approximately RMB85.3 million and RMB721.8 million for the year of 2016 and 2017 respectively, the Acquisition would bring substantial improvement in the Group's profitability if the above Reference Net Profit can be achieved in future.

9.2 ***Assets and liabilities***

As at June 30, 2018, the unaudited total assets and total liabilities of the Group amounted to approximately RMB15,617.1 million and RMB2,337.8 million respectively. Assuming the Acquisition had been completed on June 30, 2018, the total assets and total liabilities of the Enlarged Group as at June 30, 2018 would be substantially increased, to approximately RMB31,085.4 million and RMB10,312.2 million respectively, according to the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in Appendix V to the Circular.

Shareholders should note that as set out in note 3 to the unaudited pro forma financial information of the Enlarged Group, the Enlarged Group would have a significant amount of intangible assets of approximately RMB12,887.9 million, arising from the Acquisition, which is the difference between the aggregate Consideration for the Acquisition and the estimated fair value of the identifiable assets and liabilities of the Operating Entity Group (details of which have been set out in the pro forma statement). Such goodwill is associated with a highly skilled workforce, established reputation of the Operating Entity Group and synergies derived from the Group and the Operating Entity Group. The actual amounts of the adjustments will be determined upon Completion, which may be different from the amounts presented in the pro forma statement and such differences may be material. The Directors are not aware of any indications that an impairment of the Enlarged Group's goodwill and other intangible assets is required after considering the nature, prospects, financial condition and business risks of the Enlarged Group.

The net assets of the Group would increase substantially, from approximately RMB13,279.3 million as at June 30, 2018 to approximately RMB20,773.1 million on a pro forma basis, principally due to the issue of the Consideration Shares which would enlarge the capital base of the Company. On a per Share basis, the Group's net asset attributable to the Shareholders as at June 30, 2018 was approximately RMB14.64 per Share. As the Issue Price of HK$80 per Consideration Share is higher than the existing net asset value per Share, the resultant net asset value per Share after Completion is expected to be significantly enhanced.

9.3 ***Gearing***

As at June 30, 2018, the Group's gearing ratio is approximately 3.6%. As mentioned in the section headed "Financial performance and position of the Target Group", as at March 31, 2018, the gearing ratio of the Operating Entity Group amounted to approximately 82.7%. On a pro forma basis, based on total borrowings and total equity of the Enlarged Group as set out in Appendix V to the Circular, the Enlarged Group's gearing ratio would be increased to approximately 7.4%. The gearing figure is primarily affected by the result of (i) having assumed the borrowings of the Operating Entity Group following Completion, and (ii) having issued the Consideration Shares to finance the Acquisition. Management of the Group considers the level of the pro forma gearing ratio of the Enlarged Group, as stated above, to be reasonable in the context of the Group's business model.

10. **Continuing connected transaction under the Distribution Framework Agreement**

10.1 ***Background to and reasons for the continuing connected transaction under the Distribution Framework Agreement***

Based on our discussion with the management of the Group, strategic partnership has been formed between the Group and Tencent, whereby the Group has exclusive and direct distribution access through Tencent's portfolio of leading internet products, including Mobile QQ, QQ Browser, Tencent News and Weixin Reading. Currently, the work distributed by the Group includes literary, audio and comics work.

Upon Completion, the Target will become a wholly-owned subsidiary of the Company and a member of the Group, and the Group would be able to adapt its literary contents into different types of contents, including television series, web series, films, games and animations by leveraging the Target's expertise. As such, it is expected that the distribution cooperation, in particular the distribution television series and films, between the Group and the Retained Tencent Group will continue to develop in the near future after Completion.

As set out in the letter from the Board, the cooperation between the Group and the Retained Tencent Group's under the Distribution Framework Agreement is expected to further enhance the popularity of the Group's literary contents and increase the monetization potential of the Group's intellectual property. It is also expected that cooperation will be complementary and mutually beneficial as the Group's adaptation work will broaden the user base of the Group and the Retained Tencent Group, and drive growth in viewership and advertising revenue of the Retained Tencent Group.

10.2 ***Principal terms of the Distribution Framework Agreement***

On August 13, 2018 (after trading hours), Shanghai Yueting (for itself and on behalf of other members of the Group) and Tencent Computer (for itself and on behalf of other members of the Retained Tencent Group) entered into the Distribution Framework Agreement, pursuant to which the Group has agreed to license the internet information broadcast rights and broadcast rights of the television series, web series, films and animations to the Retained Tencent Group, which in return shall pay licensing fees to the Group. The Distribution Framework Agreement will become effective conditional upon the obtaining of the approval from the Independent Shareholders at the extraordinary general meeting of the Company, and will end on December 31, 2020.

The Group and the Retained Tencent Group shall enter into specific agreements for individual transactions contemplated under the Distribution Framework Agreement, in order to agree on the details of cooperation, such as the details of content to be licensed to the Retained Tencent Group's platforms, the fee arrangements and the payment and settlement terms.

As at the Latest Practicable Date, the licensing fees payable by the Retained Tencent Group to the Operating Entity Group have been determined on fixed licensing fee basis, with reference to (i) the track record of revenue per episode and pricing trend recorded by the Operating Entity Group and (ii) the prevailing market price of premium television/web series, as stated in the letter from the Board. It is expected that the Group might explore fee arrangements in the forms of revenue sharing, or mixture of fixed licensing fee and revenue sharing, in order for the Group to capture potential upside. The relevant percentage of revenue sharing will be determined based on arm's length negotiations between the parties, after taking into account, among others, (a) the proposed licensing fees, (b) the existing relationship, (c) the expected commercial value of the television series and web series.

Fee payments are expected to be project based and made in various installments, upon (a) signing of a specific agreement, (b) obtaining the relevant distribution permit, and (c) the relevant content being aired.

Internal control measures

As set out in the letter from the Board, the Company has a designated business development team comprising personnel responsible for overseeing its business operations, which will seek to solicit cooperation with other independent third parties to the extent commercially practicable, and will compare the commercial terms offered by the independent third parties with those offered by the Retained Tencent Group in respect of the Continuing Connected Transactions. For instance, the Group will assess its business needs and compare the licensing fees proposed by the Retained Tencent Group with the licensing fees offered by one or two other comparable platform operators in the television series, web series and films distribution industry.

In making the decision as to whether the Group will cooperate with the Retained Tencent Group, the business development team will also consider other commercial factors, such as the potential commercial value of the intellectual properties, synergies of co-marketing and promotions in different entertainment formats of adaptation work, the prevailing market pricing, the efficiency of the business cooperation, with a view to maximizing the value of the relevant business cooperation. In respect of the selection of the platform operators, the Group will also consider other factors, including (i) the breadth of user base and traffic of various online video platforms; (ii) the user demographics of different online video platforms; (iii) the existing cooperation with various platforms and (iv) the rates of licensing fees proposed by the online video platforms.

The business development team is required to comply with the pricing policy for the Continuing Connected Transactions as set out above, and the internal control team of the Company will regularly monitor the compliance of such pricing policy. In addition, as part of the Group's standard procedures, regardless of the party the Group may cooperate with (whether it is the Retained Tencent Group or any independent third party), the legal affairs department and financial department of the Company will conduct a feasibility study and a separate review of the cooperation and consider the benefits and risks of such cooperation on a case-by-case basis before entering into an agreement. As set out in the letter from the Board, the Group will only enter into a distribution agreement with the Retained Tencent Group if (i) the licensing fees and quality of distribution are no less favorable than those from other independent third-party provider; and (ii) it is in the best interest of the Company and the Shareholders. The Group shall solicit more players for pricing comparison should the landscape of the online video distribution industry evolves.

In our view, the above internal control procedures are important for the conduct of the Continuing Connected Transactions, since exact terms of the transactions will only be agreed upon the entering into of the specific agreements. In these circumstances, we concur that the solicitation of cooperation with other independent third parties, and comparison of the terms with those offered by the Retained Tencent Group, will help the Group ensure that the underlying transactions pursuant to the Distribution Framework Agreement are in no less favourable terms to the Group. In addition, the independent non-executive Directors and auditors of the Company will review the Continuing Connected Transactions each year, details of which are set out in the section below headed "Reporting requirements and conditions of the Continuing Connected Transactions".

10.3 ***The Annual Caps***

Review of historical transactions

According to the management of the Group, the Group has not previously entered into any agreements with any members of the Retained Tencent Group to conduct the Continuing Connected Transactions.

Annual Caps

The Annual Caps for the three years ending December 31, 2020 are RMB1,400 million, RMB2,100 million and RMB2,300 million, respectively. The cap amounts are determined based on the following formula:

Cap amounts	=	the expected number of television and web series to be distributed on the platforms of the Tencent Group	x	the expected average number of episodes per television/web series (based on the pipeline invested by the Group)	x	the expected average revenue per episode (with reference to the current market rates and taking into considerations the premium quality of the Group's content)

As set out in the letter from the Board, (i) the growth of the television series, web series and films distribution industry; and (ii) the anticipated number of active users in the Tencent Video platform operated by the Retained Tencent Group, have also been taken into account in determining the Annual Caps. It is assumed that the licensing fees for films are relatively immaterial, and has therefore not been reflected in the determination of the Annual Caps.

In assessing the reasonableness of the Annual Caps, we have obtained the underlying projections of the Annual Caps in the coming years, and have discussed with the Group the bases and assumptions underlying such projections. We are given to understand that it is expected for the Group to license approximately 200 to 400 episodes of television/web series to the Retained Tencent Group, for each of the years 2018 to 2020, and the number of episodes expected to be distributed on the platforms of the Retained Tencent Group is assumed to grow in 2019 and 2020, after taking into account the increasing number of television/web series to be produced by the Operating Entity Group in the upcoming years. The growth of the number of episodes of television/web series is expected to be higher in 2019 and more gradual in 2020. We observe that the expected average revenue per episode in 2018 is estimated based on the historical revenue per episode of the television/web series produced by the Operating Entity Group in 2017, and it is assumed to grow gradually in 2019 and remain stable in 2020, which is, as advised by the management of the Group, for conservative reasons when determining the Annual Caps.

According to "One Series, Two Channels" ("一劇兩星") policy released by State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China, with effect from January 1, 2015, a television series could only be broadcasted on not more than 2 television channels each night during prime time, and each television channel can only broadcast not more than 2 episodes of such television series per night. This factor has contributed to, the online video streaming platforms becoming an increasingly important channel for distributing television series. We are advised by the management of the Group, due to the intense competition between the platform operators and quality of television series in the PRC, the licensing fees per episode for television and web series varies significantly. However, as mentioned in the section headed "Prospect", the growing number of online video streaming platform user and the overall growth of the PRC film industry and the entertainment industry market size served as contributing factors to the transactions between two groups.

We note that the proposed Annuals Caps under the Distribution Framework Agreement in coming years represented a significant part of the historical revenue of the Group, amounting to approximately RMB4.1 billion in 2017. For illustrative purpose only, the proposed Annual Cap in 2018 would represent approximately 25.5% of the Enlarged Group's revenue in 2018, assuming revenue from existing business of the Group remains constant in 2018, and the Target Group contributes revenues from the Retained Tencent Group of RMB1.4 billion to the Enlarged Group in 2018, without taking into account revenues earned by the Target Group from other independent third parties. On the above basis and taking into account the total amount of revenues generated by the Group from the Retained Tencent Group of approximately RMB410 million in 2017 under the Online Platform Cooperation Framework Agreement and the IP Cooperation Framework Agreement, which are defined and set out in the 2017 Annual Report, the aggregate revenue from the Retained Tencent Group (including the proposed Annual Cap) would represent approximately 32.9% of the Enlarged Group's revenue in 2018. However, revenue from the Group's existing business has been growing substantially in the past, from approximately RMB1.6 billion in 2015 to approximately RMB2.6 billion in 2016, and further to approximately RMB4.1 billion in 2017. Based on the above growing trend of the Group's existing business, we do not consider the future cooperation pursuant to the Distribution Framework Agreement would create a substantial reliance by the Group on the Retained Tencent Group.

Our general view

Generally speaking, in our opinion, it is in the interests of the Group and the Shareholders to determine the Annual Caps in a way that can accommodate the potential growth of the Group's business. As set out in the Circular, the Group continues to develop new businesses in the television series, web series and film productions, the distribution cooperation between the Group and the Retained Tencent Group under the Distribution Framework Agreement is expected to strengthen, meaning that the Group will generate additional revenue through such cooperation. The expected high growth in the Continuing Connected Transactions in the coming year is also justifiable, given the substantial growth of the Target Group's business in recent years as set out in the section headed "Financial performance and position of the Target Group".

At the same time, we note that the determination of the Annual Caps is subject to a considerable extent of uncertainty, due to the difficulty in determine the exact availability of particular television series/films in coming three years, and the price per episode would depend on the expected popularity, which in turn is mainly influenced by the appeal of the content to a broad audience, the quality of production and the effectiveness of co-marketing and promotions. Provided that the Continuing Connected Transactions are subject to annual review by the independent non-executive Directors and auditors of the Company (as summarised below), as required under the Listing Rules and other internal control procedures to safeguard the Group's interest (as summarised in the section above headed "Principal terms of the Distribution Framework Agreement"), the Group would have desirable flexibility in conducting its business if the Annual Caps are tailored to future business activities. In assessing the reasonableness of the Annual Caps, we have discussed with the management of the Group the factors taken into account as stated earlier in this section.

10.4 ***Reporting requirements and conditions of the Continuing Connected Transactions***

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

(a) the independent non-executive Directors must review the Continuing Connected Transactions every year and confirm in the annual report whether the Continuing Connected Transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

(b) the Company must engage its auditors to report on the Continuing Connected Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Group's annual report) confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group if the Continuing Connected Transactions involve the provision of goods or services by the Group;

(iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the Continuing Connected Transactions; and

(iv) have exceeded the Annual Caps;

(c) the Company must allow, and ensure that the counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b) above;

(d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements and conditions attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Continuing Connected Transactions and the Annual Caps not being exceeded, and given the Company's internal safeguards in place, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and assist in safeguarding the interests of the Shareholders.

DISCUSSION AND ANALYSIS

The Acquisition represents a strategic move

The Group operates a leading online literature platform in the PRC. As part of its principal business, the Group also monetizes the intellectual property owned by both itself and its writers through various channels and entertainment formats, which includes the adaptation of literary content into other media formats including television series, web series and films. The Target Group (including the Operating Entity Group), on the other hand, produce and distribute television series, web series and films. We concur with the Directors that the Acquisition represents a strategic move by the Group to form a vertically integrated business model for its intellectual property operations, to elevate the Company's participation in literary content adaptation from a passive fixed or revenue-sharing model to a more active in-house production role. The Group's literary content can also be a source for script development, which may give the Target Group a wider breadth of source material for adaptation, and at the same time enhance the monetization potential of the Group's top writers, in line with the Company's mission to create value for writers.

Terms of the Acquisition

The Target Shares are to be transacted at two different prices, amounting to an aggregate consideration of RMB15.5 billion. The consideration for acquiring Tencent Mobility's 44.1% interest in the Target is determined at a per share valuation of approximately RMB72.73, equal to the consideration paid by the Retained Tencent Group in the Previous Valuation in March and May 2018, and to be settled entirely by the issue of Consideration Shares. The consideration for acquiring the Management Vendors' 55.9% interest in the Target is determined at a higher per share valuation of approximately RMB110.66. This is explained by the fact that all the consideration payable to the Management Vendors will be subject to the Earn Out Mechanism, pursuant to which the Target Group would need to achieve a total net profit of RMB2.1 billion in 2018, 2019 and 2020, or a deduction from such consideration will be made. We consider the Earn Out Mechanism, coupled with the Controlled Account, the Lock-up Undertaking and the Deed of Non-Competition, serves to align the long-term objectives of the Management Vendors with those of the Company, which is beneficial to the Shareholders.

The overall consideration is to be settled approximately one-third by cash and two-thirds by the issue of the Consideration Shares, which we consider to be a prudent approach given the significant sum involved and the financial position of the Group.

The Control Agreements are designed for the Group to control and manage the business of the Operating Entity Group in the PRC, and are subject to similar risks to those associated with the pre-existing contractual arrangements relating to the Group's existing business.

Financial information and prospect of the Target

The Operating Entities have experienced substantial growth in revenue and net profit, and improvement in gross and net margins. Although a net loss was incurred for the three months ended 31 March 2018, it is expected that the pipeline of upcoming television series, web series and films would enable the Operating Entity Group to achieve further growth in coming years. The Reference Net Profits under the Earn Out Mechanism represents a compound annual growth rate of net profit of approximately 33.7% between 2017 to 2020. The overall growth of the PRC film industry and the entertainment sector should positively impact the Target Group's ability to license television series, web series and film distribution rights, and at the same time drive growth of various media content channels across the Group. Following completion of the Acquisition, the Operating Entities, with a net profit of approximately RMB376.7 million in 2017, will contribute immediate and substantial profitability to the Group.

Valuation of the Operating Entity Group

The Operating Entity Group has been valued by an independent professional valuer. We have reviewed the Valuation Report, which is set out in full in Appendix VI of the Circular, and have discussed with the Valuer the bases and assumptions on which it is based. We concur that the valuation methodology used, the market approach, is a reasonable one. We also consider the Valuer's selection criteria for the sets of comparable transactions and comparable companies to be appropriate. The aggregate Consideration of RMB15.5 billion falls within, and is close to the mid-point of, the range of valuation as derived by the Valuer of RMB13.9 billion and RMB18.4 billion. In particular, the Implied Tencent Valuation falls below the above range of valuation, which we consider to be favourable to the Independent Shareholders.

In addition, the consideration payable to Tencent is to be satisfied entirely by the issue of Consideration Shares. The Issue Price of HK$80 per Consideration Share represents a premium of close to 20% to the closing price of the Shares of HK$67 as at the Last Trading Date, meaning less Shares are to be issued, with less dilution to the Independent Shareholders, than if the Issue Price was set at HK$67. We consider such premium to be beneficial to the Independent Shareholders. The Shares closed at HK$49.85 on the Latest Practicable Date.

Future continuing connected transactions

In conjunction with the Acquisition, various framework agreements have been entered into in respect of future cooperation between the Enlarged Group and the Retained Tencent Group. With the Retained Tencent Group having one of the biggest online distribution channels in the PRC, it is natural for the Enlarged Group to license broadcast rights for its television series, web series and films to the Retained Tencent Group. We consider the Annual Caps to be reasonable, and given that proper internal controls (including the annual review under the Listing Rules) will be in place to ensure the transactions under the continuing connected transactions are to be conducted at no less favourable terms to the Group, we consider the Annual Caps under the Distribution Framework Agreement, which represent future revenue to the Group, should be determined in a way to accommodate the potential growth of the Group's business.

Having considered the above, and our analyses in this letter, we consider the entering into of the Share Purchase Agreement (including the Control Agreements) and the Distribution Framework Agreement represents a strategic move by the Group to broaden its income base and profitability, and to create synergistic value with the Target Group, at terms that we consider to be fair and reasonable.

OPINION AND RECOMMENDATION

Having taken into account the principal factors and reasons set out above, we consider that that the transactions contemplated under the Share Purchase Agreement (including the Control Agreements) and the Distribution Framework Agreement (including the Continued Connected Transactions and the Annual Caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the entering into of the Share Purchase Agreement (including the Control Agreements) and the Distribution Framework Agreement (including the Continuing Connected Transactions and the Annual Caps) are in the ordinary and usual course of business of the Company, and in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend that the Independent Board Committee to advise, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Share Purchase Agreement (including the Control Agreements) and the Distribution Framework Agreement (including the Continuing Connected Transactions and the Annual Caps).

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
John Wong
Director

Mr. John Wong is a licensed person registered with the SFC and a responsible officer of Somerley, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

I. FINANCIAL INFORMATION OF THE GROUP FOR THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2017

Financial information of the Group for the years ended 31 December 2015, 2016 and 2017 have been disclosed on the annual report of the Company for the year ended 31 December 2017 and Appendix I of the global offering prospectus dated October 26, 2017, all of which are published on the website of the Stock Exchange at http://www.hkexnews.hk/, and the website of the Company at http://ir.yuewen.com:

- 2017 Annual Report (for the financial information of the Group for the year ended December 31, 2017): http://www.hkexnews.hk/listedco/listconews/SEHK/2017/1026/LTN20171026021.pdf

- Prospectus (for the financial information of the Group for the years ended December 31, 2015 and 2016): http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0412/LTN20180412473.pdf.

II. INDEBTEDNESS

Borrowings

As at the close of business on 31 July 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of the Circular, the Enlarged Group had the following outstanding borrowings:

	As at 31 July 2018
	RMB'000
Current portion	
- guaranteed	1,155,550
- pledged	300,000
	1,455,550
Non-current portion	
- guaranteed	300,000
- guaranteed and pledged	59,145
	359,145
Total borrowings	1,814,695

Contingent liabilities

As at the close of business on 31 July 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of the Circular, the Enlarged Group had no unrecorded significant contingent liabilities, guarantees or any litigation against it.

III. WORKING CAPITAL

Taking into account the Acquisition and the financial resources available to the Group, including the internally generated funds and available banking facilities, the Directors are of the opinion that the Group has sufficient working capital to meet its present requirements for the next twelve months from the date of this circular.

IV. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As mentioned in the annual report of the Company for the year 2017, our focus through 2018 will be on further building up the scale and capabilities of our ecosystem, increasing the depth of our content library and expanding it into new genres; we are investing in driving technological innovation to improve the user experience and are diversifying our distribution channels so that we are able to reach more users; we are increasingly investing in, and involved in, adapting our IP into different content formats. The Acquisition could be regarded as the part of our strategy for the year 2018, thereby expanding our ecosystem and unlocking our vast literary content library. For details of the benefits of the Acquisition, please refer to the section headed "REASONS AND BENEFITS OF THE TRANSACTIONS".

Based on the above, the Directors consider that the Acquisition is line with the strategic objective of the Group and believe it will enhance the value of the Shareholders. As such, Directors are optimistic about the prospects of the Group for the year 2018.

V. THE GROUP'S LIQUIDITY AND FINANCIAL RESOURCES

Our Group funds cash requirements principally from capital contributions from shareholders, cash generated from our operations. As of June 30, 2018, our Group had net cash of RMB8,491.1 million. The sequential increase in net cash in the six months ended June 30, 2018 was mainly due to net cash generated from our business growth. Our bank balances and term deposits are primarily in USD and RMB. Our Group monitors capital on the basis of the gearing ratio, which is calculated as debt divided by total equity. As of June 30, 2018, our Group's gearing ratio was 3.6%, compared to 3.8% as of December 31, 2017.

As of June 30, 2018, our total borrowings were RMB475.0 million, which were primarily denominated in RMB and related to a borrowing balance of RMB475.0 million borrowed from the Bank of Communications, Shanghai Branch, with a floating interest rate of the Bank of Communications' loan prime rate minus 0.025% per annum due in March 2019. The borrowing was under the loan facility agreement of up to RMB500.0 million, which Shanghai Yuewen, one of our Group's subsidiaries, and Bank of Communications, Shanghai Branch, entered into, with a guarantee from the Bank of Communications, Tokyo Branch. As of June 30, 2018, our Group's unutilized banking facility under the aforementioned loan facility agreement and the other loan facility agreement was RMB26.8 million.

As of June 30, 2018, our Group did not have any significant contingent liabilities.

As of June 30, 2018, our Group had not used any financial instruments for hedging purposes.

VI. THE CAPITAL STRUCTURE OF THE GROUP

Our Company continued to maintain a healthy and sound financial position. Our total assets grew from RMB15,137.4 million as of December 31, 2017 to RMB15,617.1 million as of June 30, 2018, while our total liabilities changed from RMB2,474.7 million as of December 31, 2017 to RMB2,337.8 million as of June 30, 2018. Our liabilities-to-asset ratio changed from 16.3% as of December 31, 2017 to 15.0% as of June 30, 2018.

As of June 30, 2018, our current ratio (being the ratio of total current assets to total current liabilities) was 491.7%, compared to 534.8% as of December 31, 2017.

As of June 30, 2018, our Group has not pledged any assets as security.

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

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF CHINA LITERATURE LIMITED

Introduction

We report on the historical financial information of Qiandao Lake Holding Limited (the ''Target Company'') and its subsidiaries (hereinafter collectively referred to as the ''Target SPV Group'') set out on pages II-3to II-18, which comprises the consolidated statements of financial position and the statements of financial position of the Target Company as at 31 July 2018, and the consolidated statements of comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the period from 18 May 2018 (date of incorporation of the Target Company) to 31 July 2018 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the ''Historical Financial Information''). The Historical Financial Information set out on pages II-3 to II-18 forms an integral part of this report, which has been prepared for inclusion in the circular of China Literature Limited (the "Company") dated 28 September 2018 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

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

The financial statements of the Target SPV Group for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements of the Target SPV Group for the Track Record Period. The directors of the Target Company are responsible for the preparation and fair presentation of the previously issued financial statements of the Target SPV Group in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in*

Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Company as at 31 July 2018 and the consolidated financial position of the Target SPV Group as at 31 July 2018 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
28 September 2018

I. FINANCIAL INFORMATION OF THE TARGET SPV GROUP

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

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

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

Consolidated Statements of Comprehensive Loss

		From 18 May 2018 (date of incorporation) to 31 July 2018
	Note	*RMB'000*
Revenue	4	—
Cost of revenue		—
Gross profit		—
General and administrative expenses	5	(2)
Loss before income tax		(2)
Income tax expense	7	—
Loss and total comprehensive loss for the period		(2)
Loss and total comprehensive loss attributable to:		
Equity holders of the Target Company		(2)

The accompanying notes form an integral part of the Historical Financial Information.

Consolidated Statements of Financial Position

		As at 31 July 2018
	Note	*RMB'000*
ASSETS		
Current assets		
Amounts due from shareholders	9	8
Total assets		8
EQUITY		
Capital and reserves attributable to equity holders of the Target Company		
Share capital	10	6
Other reserves	11	2
Accumulated losses		(2)
Total equity		6
LIABILITIES		
Current liabilities		
Accruals	12	2
Total liabilities		2
Total liabilities and equity		8

The accompanying notes form an integral part of the Historical Financial Information.

Statements of Financial Position

		As at 31 July 2018
	Note	*RMB'000*
ASSETS		
Non-current assets		
Investments in subsidiaries	8	—
Current assets		
Amounts due from shareholders	9	8
Total assets		8
EQUITY		
Share capital	10	6
Other reserves	11	2
Total equity		8
Total liabilities and equity		8

The accompanying notes form an integral part of the Historical Financial Information.

Consolidated Statements of Changes in Equity

	Note	**Share capital**	**Other reserves**	**Accumulated losses**	**Total**
	RMB'000	**RMB'000**	**RMB'000**		**RMB'000**
Balance at 18 May 2018 (date of incorporation)		—	—	—	—
Issue of ordinary shares upon incorporation	10	—	—	—	
Cancel of ordinary shares issued	10	—	—	—	—
Issue of ordinary shares	10	6	—	—	6
Issue of series A preferred shares	11	—	2	—	2
Total comprehensive loss for the period		—	—	(2)	(2)
Balance at 31 July 2018		6	2	(2)	6

The accompanying notes form an integral part of the Historical Financial Information.

Consolidated Statements of Cash Flows

		From 18 May 2018 (date of incorporation) to 31 July 2018
	Note	*RMB'000*
Cash flows from operating activities		
Losses before taxation		(2)
Increase in accruals		2
Cash provided by operations		—
Income tax paid		—
Net cash flows generated from operating activities		—
Net increase in cash and cash equivalents		—
Cash and cash equivalents at end of the period		—

The accompanying notes form an integral part of the Historical Financial Information.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION ON THE TARGET SPV GROUP

1 General information

The Target Company was incorporated in the Cayman Islands on 18 May 2018 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of its register office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

On 13 July 2018, Qiandao Lake Hong Kong Limited, the subsidiary of the Target Company, established a wholly owned subsidiary, Xinli (Tianjin) Media Technology Limited (新麗(天津)傳媒科技有限公司), in Tianjin Province, the People's Republic of China (the "PRC").

On 30 July 2018, C-Hero Limited, Ding Dong-D Limited and X-Poem Limited subscribed for ordinary shares of the Target Company of 56,032,020,25,184,940 and 11,046,299, respectively, while Tencent Mobility Limited surrendered all the ordinary shares of the Target Company and in the meantime it subscribed for 23,065,815 series A preferred shares of the Target Company. Upon completion and on an as converted and fully diluted basis of Tencent Mobility Limited's series A preferred shares, C-Hero Limited, Ding Dong-D Limited, X-Poem Limited and Tencent Mobility Limited held 33.96%, 15.26%, 6.69% and 44.08%, respectively, in the Target Company.

The Target Company and its subsidiaries (together the "Target SPV Group") are principally engaged in investment holdings.

On 13 August 2018, Xinli (Tianjin) Media Technology Limited (新麗(天津)傳媒科技有限公司) entered into a series of agreements with the registered shareholders of New Classics Media Corporation (新麗傳媒股份有限公司) for the purpose to obtain control over New Classics Media Corporation (新麗傳媒股份有限公司), including exclusive business cooperation agreements, exclusive option agreements, equity pledge agreements, powers of attorney, confirmations from certain relevant individual shareholders, spouse undertakings, dispute resolution, conflict of interest, loss sharing, liquidation and insurance. As at the date of this accountant's report, such agreements have not been effective as certain precedent conditions have not been met.

On 13 August 2018, China Literature Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited since November 2017, entered into a Share Purchase Agreement with the aforesaid shareholders of the Target Company, including C-Hero Limited, Ding Dong-D Limited, X-Poem Limited and Tencent Mobility Limited. Pursuant to which, China Literature Limited has conditionally agreed to acquire 100% equity interests in the Target Company (the "Acquisition"). Upon completion of the Acquisition, the Target Company and its subsidiaries, including the structured entities, would be the wholly owned subsidiary of China Literature Limited. As at the date of this accountant's report, the Acquisition has not been completed.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") under the historical cost convention.

The Target SPV Group has consistently applied the accounting policies as set out in Note 2 throughout the Track Record Period, as if these policies had always been in effect.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target SPV Group's accounting policies. During the Track Record Period, there was no area involving a higher degree of judgement or complexity, or area where assumptions and estimates are significant to the consolidated financial statements.

(a) *New and revised standards adopted*

All new standards, amendments to standards and interpretations, which are mandatory for the financial year beginning 1 January 2018, are consistently applied to the Target SPV Group throughout the Track Record Period presented.

(b) *New standards, amendments and interpretations to existing standards have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted by the Target SPV Group:*

New standards, interpretations and amendments	**Effective date**
IFRS 16, "Leases"	1 January 2019
International Financing Reporting Interpretations Committee ("IFRIC") Interpretation 23	1 January 2019
Amendments to IFRS 9, "Prepayment Features with Negative Compensation"	1 January 2019
Amendments to IAS 28, "Long-term Interests in Associates and Joint Ventures"	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to IAS 19, "Plan Amendment, Curtailment or Settlement"	1 January 2019
IFRS 17, "Insurance contract"	1 January 2021
Amendments to IFRS 10 and IAS 28, "Sale or contribution of assets between an investor and its associate or joint ventures	To be determined

The Target SPV Group is in the process of making an assessment of the impact of the above new standards, amendments and interpretations to standards on the financial statements of the Target SPV Group in their initial applications.

2.2 Consolidation

(a) *Subsidiaries*

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

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(b) *Separate financial statements*

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

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

2.3 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Target SPV Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Target Company and presentation currency of the Target SPV Group are Hong Kong Dollars ("HKD") and RMB, respectively.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

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

2.4 **Impairment of non-financial assets**

Investments in subsidiaries are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.5 **Financial assets**

(a) *Classification*

The Target SPV Group classifies its financial assets in measurement category of those to be measured at amortised cost.

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

(b) *Recognition and measurement*

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

For the financial assets measured at amortised cost, a gain or loss on the financial assets is recognised in the consolidated statement of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in interest income using the effective interest rate method.

2.6 **Impairment of financial assets**

The Target SPV Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost, including amounts due from shareholders. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

Impairment on amounts due from shareholders are measured as 12-month expected credit losses, if, at the reporting date, the credit risk on these receivables has not increased significantly since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.7 **Share capital**

Ordinary shares are classified as equity.

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

2.8 **Accruals**

Accruals are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.9 **Segment reporting**

As per IFRS 8 "Operating Segments", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown as the Target SPV Group only engages in investment holding.

3 **Financial risk management**

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

3.1 **Financial risk factors**

The Target SPV Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk, and liquidity risk. The Target SPV Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Company's financial performance. Risk management is carried out by the senior management of the Target SPV Group.

(a) ***Market risk***

(i) *Foreign exchange risk*

No sensitivity analysis on foreign currency risk is performed since the Target SPV Group's has no material foreign currency denominated monetary assets and liabilities at the end of the reporting period.

(ii) *Cash flow and fair value interest rate risk*

The Target SPV Group does not have significant interest-bearing assets or liabilities. As a result, the Target SPV Group's results and operating cash flows are substantially independent of changes in market interest rate.

The Target SPV Group considers that there is no significant cash flow interest rate risk and fair value interest rate risk as the Target SPV Group does not have variable rate and fixed rate borrowings.

The Target SPV Group's exposure to market risk for changes in interest rates relates primarily to the bank balances. Floating-rate interest income is charged to the statement of profit or loss and other comprehensive income as incurred.

(b) ***Credit risk***

The Target SPV Group is not exposed to credit risk in the event of the counterparties' failure to perform their obligations at Track Record Period in relation to the recognised financial asset is the carrying amount of those assets as stated in the statement of financial position.

(c) ***Liquidity risk***

The Target SPV Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Target SPV Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

3.2 **Capital risk management**

The primary objectives of the Target SPV Group's capital management are to safeguard the Target SPV Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Target SPV Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure the Target SPV Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

3.3 **Fair value estimation**

The directors consider that the carrying amounts of the financial assets and financial liabilities recognised in the financial statements that are not measured at fair value on a recurring basis approximate their fair values.

During the Track Record Period, the Target SPV Group did not have any financial assets or liabilities measured at fair value.

4 **Revenue**

The Target SPV Group did not generate any revenue during the Track Record Period.

5 **General and administrative expenses**

General and administrative expenses for the period from 18 May 2018 (date of incorporation) to 31 July 2018 mainly represented certain incorporate expenses.

6 **Directors' remuneration**

No director received any fee or emolument in respect of their services rendered to Target SPV Group during the Track Record Period.

No auditors' remuneration and employees' emoluments were paid by the Target SPV Group during the Track Record Period.

7 **Taxation**

(i) ***Cayman Islands corporate income tax***

The Target SPV Group was not subject to any taxation in the Cayman Islands during the Track Record Periods.

(ii) ***Hong Kong profits tax***

No Hong Kong profit tax has been provided because Target SPV Group did not have any assessable profits arising in Hong Kong during the Track Record Periods.

(iii) ***PRC corporate income tax ("CIT")***

No CIT has been provided because Target SPV Group did not have any assessable profits arising in the PRC during the Track Record Periods.

The income tax expenses for the year can be reconciled to the losses before taxation per the statement of profit or loss and other comprehensive income as follows:

	From 18 May 2018 (date of incorporation) to 31 July 2018
	RMB'000
Losses before income tax expense	(2)
Tax calculated at applicable tax rates	—
Tax losses not recognised for deferred income tax assets	—
Income tax expenses	—

8 **Investments in subsidiaries**

(i) ***Investments in subsidiaries***

	As at 31 July 2018
	RMB
Investments in subsidiaries - Unlisted shares at cost (i)	6

(i) The Target Company's investment cost in a subsidiary is United States dollars ("USD") 1.00, which is paid upon incorporation.

As at 31 July 2018 and as at the date of this accountant's report, the Target Company has direct and indirect interests in the following subsidiaries.

	Place of incorporation/ establishment	Ownership interest held by the Target Company	Principal activities
Directly held by the Target Company:			
Qiandao Lake Hong Kong Limited	Hong Kong	100%	Investment holding
Indirectly held by the Target Company:			
Xinli (Tianjin) Media Technology Limited (新麗(天津)傳媒科技有限公司)	Tianjin, China	100%	Investment holding

9 Amounts due from shareholders

As at 31 July 2018, amounts due from shareholders represented capital receivables related to subscription of new ordinary shares and series A preferred shares issued on 30 July 2018. All balances are unsecured, interest-free and collectable on demand.

	As at 31 July 2018 *RMB'000*
Receivables on ordinary shares	6
Receivables on series A preferred shares	2
	8

10 Share capital

	Note	Number of ordinary shares (in thousands)	Nominal value of ordinary shares *USD'000*	Number of series a preferred shares (in thousands)	Nominal value of series a preferred shares *USD'000*
Authorised:					
Ordinary shares upon incorporation	(a)	50	50	—	—
Share Subdivision	(b)	4,999,950	—	—	—
Reclassification and redesignation of ordinary shares	(b)	(1,000,000)	(10)	1,000,000	10
As at 31 July 2018		4,000,000	40	1,000,000	10

	Note	Number of shares	Nominal value of shares) *USD*	Equivalent Nominal value of share *RMB*
Issued:				
Issue of ordinary shares upon incorporation	(a)	1	1	6
Share Subdivision	(b)	99,999	—	—
Cancellation on ordinary shares issued	(b)	(100,000)	(1)	(6)
Issue of new ordinary shares	(b)	92,263,259	923	6,288
As at 31 July 2018		92,263,259	923	6,288

(a) The Target Company was incorporated on 18 May 2018 with an authorised share capital of USD50,000 divided into 50,000 ordinary shares of a par value of USD1.00 each, out of which one ordinary share of USD1.00 (equivalent to approximately RMB6) was issued to Tencent Mobility Limited.

(b) On 30 July 2018, each ordinary share of a par value of USD1.00 in the authorised share capital of the Target Company (including issued and unissued share capital) was subdivided into 100,000 shares of a par value of US$0.00001 each (the "Share Subdivision").

Immediately following the Share Subdivision, the 1,000,000,000 authorised but unissued shares of the Target Company was reclassified and redesignated into 1,000,000,000 series A preferred shares of a par value of US$0.00001 each. Accordingly, the authorised share capital of the Target Company was US$50,000 divided into (i) 4,000,000,000 ordinary share of a par value of US$0.00001 each, and (ii) 1,000,000,000 series A preferred shares.

Concurrently with the Share Subdivision on 30 July 2018, the Target Company entered into the subscription and shareholder agreement (the "SSA") with C-Hero Limited, Ding Dong-D Limited, X-Poem Limited and Tencent Mobility Limited (together as the "Vendors"). Pursuant to the SSA, Tencent Mobility Limited agreed to surrender all the ordinary shares held for no consideration and the Target Company shall cancel all the surrendered ordinary shares. Meanwhile, the Vendors agreed to subscribe for and the Target Company agreed to issue an aggregate of 92,263,259 ordinary shares and 23,065,815 series A preferred shares at the subscription price per share equivalent to the par value of US$0.00001 as mentioned in Note 1.

11 **Other reserves**

	Note	**Series A preferred shares**	**Others**	**Total**
		RMB	*RMB*	*RMB*
Balance at 18 May 2018 (date of incorporation)				
Cancel of ordinary shares issued	10(b)	—	6	6
Issue of series A preferred shares	(a)	1,574	—	1,574
Balance at 31 July 2018		1,574	6	1,580

(a) As described in Note 1 and Note 10(b), the Target Company issued series A preferred shares to Tencent Mobility Limited on 30 July 2018. According to the terms of the series A preferred shares, the Target Company has no contractual obligation to deliver cash or other financial assets, and the series A preferred shares is convertible on the basis of a fixed number of ordinary shares. Therefore, the series A preferred shares has been accounted for as equity instrument and no remeasurement subsequent to initial recognition.

On 30 July 2018, the fair value of the series A preferred shares approximated its carrying amounts as no operating activities carried out in the Target SPV Group.

12 **Accruals**

As at 31 July 2018, accruals amounting to RMB1,898 were unsecured, interest-free and repayable on demand.

13 **Related party transactions**

Save as transactions disclosed elsewhere in this accountant's report, the Target SPV Group had not entered the following material transactions with its related parties during the Track Record Period.

14 **Subsequent events**

Save as disclosed in Note 1, there was no other significant subsequent event.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or its subsidiaries in respect of any period subsequent to 31 July 2018 up to the date of this report. No dividend or distribution has been declared or made by the Target Company or its subsidiaries in respect of any period subsequent to 31 July 2018.

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

I. FINANCIAL INFORMATION OF THE OPERATING ENTITY GROUP

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF CHINA LITERATURE LIMITED

Introduction

We report on the historical financial information of New Classics Media Corporation (新麗傳媒股份有限公司) (the ''Operating Entity'') and its subsidiaries (hereinafter collectively referred to as the ''Operating Entity Group'') set out on pages III-4 to III-86, which comprises the consolidated statements of financial position and statements of financial position of the Operating Entity as at 31 December 2015, 2016 and 2017 and 31 March 2018, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (the ''Track Record Period'') and a summary of significant accounting policies and other explanatory information (together, the ''Historical Financial Information''). The Historical Financial Information set out on pages III-4 to III-86 forms an integral part of this report, which has been prepared for inclusion in the circular of China Literature Limited (the ''Company'') dated 28 September 2018 (the "Circular") in connection with the proposed acquisition of Qiandao Lake Holding Limited by the Company.

Directors' responsibility for the Historical Financial Information

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

The financial statements of the Operating Entity Group for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements of the Operating Entity Group for the Track Record Period. The directors of the Operating Entity are responsible for the preparation and fair presentation of the previously issued financial statements of the Operating Entity Group in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

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

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

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Operating Entity and the consolidated financial position of the Operating Entity Group as at 31 December 2015, 2016 and 2017 and 31 March 2018 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Operating Entity Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the three months ended 31 March 2017 and other explanatory information (the ''Stub Period Comparative Financial Information''). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope that an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
28 September 2018

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

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

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

Consolidated Statements of Comprehensive Income

		Year ended 31 December			Three months ended 31 March	
		2015	**2016**	**2017**	**2017**	**2018**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	5	725,233	761,863	1,683,909	178,222	46,287
Cost of revenue	7	(389,696)	(394,187)	(832,688)	(65,617)	(25,504)
Gross profit		335,537	367,676	851,221	112,605	20,783
Interest income	9	576	1,784	1,738	207	1,047
Other gains/(losses), net	6	40,477	41,166	13,228	(230)	1,321
Selling and marketing expenses	7	(160,624)	(113,633)	(244,833)	(55,733)	(22,739)
General and administrative expenses	7	(46,181)	(61,455)	(131,244)	(9,809)	13,367
Operating profit		169,785	235,538	490,110	47,040	13,779
Finance costs	10	(35,964)	(19,532)	(69,119)	(10,540)	(24,171)
Share of loss of a joint venture		—	(342)	(1,604)	(391)	(515)
Profit/(loss) before income tax		133,821	215,664	419,387	36,109	(10,907)
Income tax expense	11	(36,336)	(54,581)	(42,715)	(10,721)	(1,133)
Profit/(loss) and total comprehensive income/(loss) for the year/period		97,485	161,083	376,672	25,388	(12,040)
Profit/(loss) and total comprehensive income/(loss) attributable to:						
Equity holders of the Operating Entity		98,269	161,270	383,479	25,597	(11,866)
Non-controlling interests		(784)	(187)	(6,807)	(209)	(174)
		97,485	161,083	376,672	25,388	(12,040)

The accompanying notes form an integral part of the Historical Financial Information.

Consolidated Statements of Financial Position

		As at 31 December			As at 31 March
		2015	**2016**	**2017**	**2018**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	18	1,404	1,142	3,595	3,036
Intangible assets		703	625	548	529
Investment in a joint venture	20	—	3,658	8,054	7,539
Prepayment, deposits and other assets	13	49,871	178,959	192,371	192,371
Deferred income tax assets	21	20,622	33,399	56,028	55,868
		72,600	217,783	260,596	259,343
Current assets					
Television series and film rights	14	479,690	1,130,304	1,742,461	1,857,448
Trade and notes receivables	15	611,342	593,344	1,133,283	726,152
Prepayment, deposits and other assets	13	96,952	130,745	348,672	396,301
Financial assets at fair value through profit or loss	16	—	—	—	9,600
Restricted cash	17	—	—	58,758	58,758
Cash and cash equivalents	17	286,514	277,933	574,718	634,304
		1,474,498	2,132,326	3,857,892	3,682,563
Total assets		1,547,098	2,350,109	4,118,488	3,941,906

		As at 31 December			As at 31 March
		2015	**2016**	**2017**	**2018**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY					
Capital and reserves attributable to equity holders of the Operating Entity					
Share capital and share premium	22	219,590	219,590	219,590	219,590
Other reserves	23	59,016	67,602	107,328	107,443
Retained earnings		480,535	633,219	976,972	964,991
		759,141	920,411	1,303,890	1,292,024
Non-controlling interests		3,314	3,427	(4,622)	(4,796)
Total equity		762,455	923,838	1,299,268	1,287,228
LIABILITIES					
Non-current liabilities					
Borrowings	24	55,000	155,000	205,145	230,145
Deferred income	25	11,000	11,300	11,300	—
		66,000	166,300	216,445	230,145
Current liabilities					
Borrowings	24	238,000	270,000	1,006,274	834,305
Trade payables	26	96,271	125,330	262,881	211,310
Financial liabilities at fair value through profit or loss	28	7,000	—	—	—
Other payables and accruals	27	360,077	833,121	1,314,533	1,363,270
Deferred income	25	—	—	—	11,300
Current income tax liabilities		17,295	31,520	19,087	4,348
		718,643	1,259,971	2,602,775	2,424,533
Total liabilities		784,643	1,426,271	2,819,220	2,654,678
Total liabilities and equity		1,547,098	2,350,109	4,118,488	3,941,906

The accompanying notes form an integral part of the Historical Financial Information.

Statement of Financial Position

		As at 31 December			As at 31 March
		2015	**2016**	**2017**	**2018**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment		349	178	769	729
Intangible assets		703	625	548	529
Investment in subsidiaries	19	74,451	75,151	78,394	78,394
Investment in a joint venture	20	—	3,658	8,054	7,539
Prepayment, deposits and other assets	13	49,871	112,716	121,188	121,188
Deferred income tax assets	21	1,440	5,207	1,710	1,218
		126,814	197,535	210,663	209,597
Current assets					
Television series and film rights	14	104,203	264,069	161,584	168,814
Trade and notes receivables	15	302,534	45,766	280,896	88,903
Prepayment, deposits and other assets	13	92,818	418,114	693,003	754,533
Financial assets at fair value through profit or loss	16	—	—	—	9,600
Restricted cash	17	—	—	58,758	58,758
Cash and cash equivalents	17	164,293	15,974	109,904	217,944
		663,848	743,923	1,304,145	1,298,552
Total assets		790,662	941,458	1,514,808	1,508,149

The accompanying notes form an integral part of the Historical Financial Information.

		As at 31 December			As at 31 March
		2015	2016	2017	2018
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY					
Share capital and share premium	22	219,590	219,590	219,590	219,590
Other reserves	23	21,924	21,924	29,683	30,029
Retained earnings	23	157,321	145,523	215,357	218,475
Total equity		398,835	387,037	464,630	468,094
LIABILITIES					
Non-current liabilities					
Borrowings	24	55,000	155,000	166,000	186,000
Deferred income	25	11,000	11,300	11,300	—
		66,000	166,300	177,300	186,000
Current liabilities					
Borrowings	24	153,000	90,000	404,000	374,000
Trade payables	26	45,822	64,446	71,335	43,629
Financial liabilities at fair value through profit or loss	28	7,000	—	—	—
Other payables and accruals	27	103,620	233,675	388,982	422,639
Deferred income	25	—	—	—	11,300
Current income tax liabilities		16,385	—	8,561	2,487
		325,827	388,121	872,878	854,055
Total liabilities		391,827	554,421	1,050,178	1,040,055
Total liabilities and equity		790,662	941,458	1,514,808	1,508,149

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Operating Entity					
	Share capital and premium	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2015	219,590	49,178	393,216	661,984	2,387	664,371
Comprehensive income/(loss)						
Profit/(loss) for the year	—	—	98,269	98,269	(784)	97,485
Transactions with equity holders						
Profit appropriations to statutory reserves	—	10,950	(10,950)	—	—	—
Acquisition of additional equity interests in a non-wholly owned subsidiary	—	(1,119)	—	(1,119)	218	(901)
Partial disposal of equity interests in a non-wholly owned subsidiary	—	7	—	7	1,493	1,500
Total transactions with equity holders recognised directly in equity for the year	—	9,838	(10,950)	(1,112)	1,711	599
Balance at 31 December 2015	219,590	59,016	480,535	759,141	3,314	762,455

	Attributable to equity holders of the Operating Entity					
	Share capital and premium	**Other reserves**	**Retained earnings**	**Sub-total**	**Non-controlling interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016	219,590	59,016	480,535	759,141	3,314	762,455
Comprehensive income/(loss)						
Profit/(loss) for the year	—	—	161,270	161,270	(187)	161,083
Transactions with equity holders						
Profit appropriations to statutory reserves	—	8,586	(8,586)	—	—	—
Non-controlling interests on incorporation of a subsidiary	—	—	—	—	300	300
Total transactions with equity holders recognised directly in equity for the year	—	8,586	(8,586)	—	300	300
Balance at 31 December 2016	219,590	67,602	633,219	920,411	3,427	923,838

	Attributable to equity holders of the Operating Entity					
	Share capital and premium	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2017	219,590	67,602	633,219	920,411	3,427	923,838
Comprehensive income/(loss)						
Profit/(loss) for the year	—	—	383,479	383,479	(6,807)	376,672
Transactions with equity holders						
Capital injection	—	—	—	—	600	600
Profit appropriations to statutory reserves	—	39,726	(39,726)	—	—	—
Acquisition of additional equity interests in a non-wholly owned subsidiary	—	—	—	—	(1,842)	(1,842)
Total transactions with equity holders recognised directly in equity for the year	—	39,726	(39,726)	—	(1,242)	(1,242)
Balance at 31 December 2017	219,590	107,328	976,972	1,303,890	(4,622)	1,299,268

	Attributable to equity holders of the Operating Entity					
	Share capital and premium	**Other reserves**	**Retained earnings**	**Sub-total**	**Non-controlling interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2018	219,590	107,328	976,972	1,303,890	(4,622)	1,299,268
Comprehensive loss						
Loss for the period	—	—	(11,866)	(11,866)	(174)	(12,040)
Transactions with equity holders						
Profit appropriations to statutory reserves	—	115	(115)	—	—	—
Total transactions with equity holders recognised directly in equity for the year	—	115	(115)	—	—	—
Balance at 31 March 2018	219,590	107,443	964,991	1,292,024	(4,796)	1,287,228

	Attributable to equity holders of the Operating Entity					
	Share capital and premium	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)						
Balance at 1 January 2017	219,590	67,602	633,219	920,411	3,427	923,838
Comprehensive income/(loss)						
Profit/(loss) for the period	—	—	25,597	25,597	(209)	25,388
Transactions with equity holders						
Capital injection	—	—	—	—	600	600
Profit appropriations to statutory reserves	—	5,583	(5,583)	—	—	—
Total transactions with equity holders recognised directly in equity for the year	—	5,583	(5,583)	—	600	600
Balance at 31 March 2017	219,590	73,185	653,233	946,008	3,818	949,826

The accompanying notes form an integral part of the Historical Financial Information.

Consolidated Statements of Cash Flows

		Year ended 31 December			Three months ended 31 March	
		2015	**2016**	**2017**	**2017**	**2018**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cash flows from operating activities						
Cash provided by/(used in) operations	29	303,467	(147,484)	(460,680)	(189,887)	235,239
Income tax paid		(61,936)	(55,025)	(86,850)	(34,019)	(15,908)
Net cash flows generated from/(used in) operating activities		241,531	(202,509)	(547,530)	(223,906)	219,331
Cash flows from investing activities						
Payment for investment in a joint venture	20	—	(4,000)	(6,000)	—	—
Purchase for property, plant and equipment	18	(192)	(400)	(3,251)	(621)	(160)
Purchase of intangible assets		(73)	—	—	—	—
Proceeds from disposals of property, plant and equipment		—	—	103	—	—
Interest received		576	1,784	1,738	207	1,047
Net cash flows generated from/(used in) investing activities		311	(2,616)	(7,410)	(414)	887
Cash flows from financing activities						
Proceeds from borrowings		320,000	563,000	1,103,863	270,000	75,000
Repayments of borrowings		(368,005)	(431,000)	(316,000)	—	(220,000)
Interest paid		(33,246)	(14,655)	(67,797)	(15,655)	(14,902)
Proceeds from film investors		51,000	126,400	322,000	—	—
Repayments to film investors		(70,000)	(18,500)	(128,000)	(30,000)	—
Increase in restricted cash		—	—	(58,758)	(58,758)	—
Payment for acquisition of non-controlling interests in non-wholly owned subsidiaries		(901)	—	(1,842)	—	—

		Year ended 31 December			Three months ended 31 March	
		2015	**2016**	**2017**	**2017**	**2018**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Proceeds from disposals of non-controlling interests in a non-wholly owned subsidiary		1,500	—	—	—	—
Capital injection from a non-controlling interest shareholder		—	300	600	600	—
Dividends paid to owners of the Operating Entity		—	(33,000)	—	—	—
Net cash flows (used in)/generated from financing activities		(99,652)	192,545	854,066	166,187	(159,902)
Net increase/(decrease) in cash and cash equivalents		142,190	(12,580)	299,126	(58,133)	60,316
Cash and cash equivalents at beginning of the year/period		143,330	286,514	277,933	277,933	574,718
Exchange gains/(losses) on cash and cash equivalents		994	3,999	(2,341)	(390)	(730)
Cash and cash equivalents at end of the year/period		286,514	277,933	574,718	219,410	634,304

The accompanying notes form an integral part of the Historical Financial Information.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE OPERATING ENTITY GROUP

1 General information

New Classics Media Corporation (新麗傳媒股份有限公司) (the "Operating Entity") and its subsidiaries (together, the "Operating Entity Group") are principally engaged in the production of television series and films and related entertainment businesses in the People's Republic of China ("PRC").

The Operating Entity is a joint stock company incorporated in the PRC on 7 February 2007 and is directly controlled by Mr Cao Huayi. The address of its registered office is C1-018-A, Film and Television Industry Experimental Area, Hengdian Town, Zhejiang Province, PRC.

On 13 August 2018, Xinli (Tianjin) Media Technology Limited (新麗(天津)傳媒科技有限公司, a wholly owned subsidiary of Qiandao Lake Holding Limited) entered into a series of agreements with the registered shareholders of the Operating Entity for the purpose of obtaining control over the Operating Entity, including exclusive business cooperation agreements, exclusive option agreements, equity pledge agreements, powers of attorney, confirmations from certain relevant individual shareholders, spouse undertakings, dispute resolution, conflict of interest, loss sharing, liquidation and insurance. As at the date of this accountant's report, such agreements have not been effective as certain preset conditions have not been met.

The Financial Information is presented in RMB and all values are rounded to the nearest thousand ("RMB'000"), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss which are carried at fair value.

The Operating Entity Group has consistently applied the accounting policies as set out in Note 2 used throughout the Relevant Periods, as if these policies had always been in effect.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Operating Entity Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) ***New and revised standards adopted***

All new standards, amendments to standards and interpretations, which are mandatory for the financial year beginning 1 January 2018, are consistently applied to the Operating Entity Group throughout the years/periods presented. Among which, IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers" are effective on 1 January 2018 and full retrospective method is applied, accordingly, the Operating Entity Group has applied IFRS 9 and 15 consistently throughout the Relevant Periods.

(b) New standards, amendments and interpretations to existing standards have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted by the Operating Entity Group:

New standards, interpretations and amendments	**Effective date**
IFRS 16, "Leases"	1 January 2019
International Financing Reporting Interpretations Committee ("IFRIC") Interpretation 23	1 January 2019
Amendments to IFRS 9, "Prepayment Features with Negative Compensation"	1 January 2019
Amendments to IAS 28, "Long-term Interests in Associates and Joint Ventures"	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to IAS 19, "Plan Amendment, Curtailment or Settlement"	1 January 2019
IFRS 17, "Insurance contract"	1 January 2021
Amendments to IFRS 10 and IAS 28, "Sale or contribution of assets between an investor and its associate or joint ventures"	To be determined

The Operating Entity Group is in the process of making an assessment of the impact of the above new standards, amendments and interpretations to standards on the financial statements of the Operating Entity Group in their initial applications. So far, the Operating Entity Group has identified that IFRS 16 is expected to have an impact on the Operating Entity Group's financial performance and position, which would result in the recognition of an asset (the right to use the leased item) and a financial liability for future payments, and the only exceptions are short-term and low-value leases.

2.2 **Consolidation**

(a) ***Subsidiaries***

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

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(b) ***Changes in ownership interests in subsidiaries without change of control***

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) ***Separate financial statements***

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

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

2.3 **Joint arrangements**

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Operating Entity Group recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognize the Operating Entity Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Operating Entity Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Operating Entity Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Operating Entity Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Operating Entity Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Operating Entity Group and its joint ventures are eliminated to the extent of the Operating Entity Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Operating Entity Group.

2.4 **Foreign currency translation**

(a) ***Functional and presentation currency***

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

(b) ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

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

2.5 **Property, plant and equipment**

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

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

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

Computer equipment	3 years
Furniture and fixtures	3 - 5 years
Motor vehicles	4 years
Leasehold improvement	Shorter of expected lives of leasehold improvements and lease term

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.7).

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

2.6 **Intangible assets**

Intangible assets comprise trademarks and software. At initial recognition, intangible assets are recognised at their cost as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses.

The Operating Entity Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

Trademarks	10 years
Software	10 years

2.7 **Impairment of non-financial assets**

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

2.8 **Financial assets**

(a) ***Classification***

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

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortised cost.

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instrument, this will depend on the business model in which the investment is held. For investments in equity instruments. This will depend on whether the Operating Entity Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Operating Entity Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) ***Recognition and measurement***

At initial recognition, the Operating Entity Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income.

Debt instruments

Subsequent measurement of debt instruments depends on the Operating Entity Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Operating Entity Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the consolidated statement of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in interest income using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the consolidated statement of comprehensive income within "other gains, net" in the period in which it arises.

2.9 **Trade and other receivables**

Trade receivables are amounts due from TV stations, online platforms and film distributors in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.10 **Designation of financial liabilities as at fair value through profit or loss**

The Operating Entity Group may, at initial recognition, designate a financial liability at fair value through profit or loss, when such liability is managed and its performance is evaluated on a fair value basis.

Under certain circumstances of television series and film production arrangement, the Operating Entity Group receives investments from financial investors who do not participate in the television series and film making process, and their investments are not principal guaranteed. The Operating Entity Group initially designates investments from such financial investors as financial liabilities at fair value through profit or loss, as this designation is consistent with its risk management or investment strategy. Changes in fair value of such liabilities that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income, and the remaining amount of change in the fair value of the liability shall be presented in profit or loss.

2.11 **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet where there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 **Impairment of financial assets**

The Operating Entity Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost, including trade and other receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables, the Operating Entity Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables are measured as 12-month expected credit losses, if, at the reporting date, the credit risk on these receivables has not increased significantly since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.13 **Television series and film rights**

(a) ***Adaption rights and scripts***

Cost includes all direct costs associated with the purchase of adaption rights and payments on scripts.

(b) ***Television series and film rights under production***

Television series and film rights under production are carried at cost, less any identified impairment loss.

Cost includes all direct costs associated with the production of television series and films rights, including production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of television series and films as well as rental of camera, equipment and other facilities. For the co-produced television series and films under joint operation agreement, the related production costs is recognised in relation to its interests in a joint operation.

Television series and film rights under production are transferred to “Television series and film rights complete” upon completion of production.

(c) ***Television series and film rights completed***

Television series and film rights completed are stated at cost, less accumulated amortisation and identified impairment losses, if any.

These television series and film rights are expensed in accordance with the expected consumption pattern by usage through various channels, such as television release, theatrical release or internet release, and other licensing arrangements.

2.14 **Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.15 **Share capital**

Ordinary shares are classified as equity.

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

2.16 **Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

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

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

2.17 **Trade and other payables**

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

2.18 **Contract liabilities**

For revenue generated from license of television series and film rights, a contract liability is recognised when the Operating Entity Group has received considerations from the customers before the control of the assets transferred. For revenue generated from provision of advertising services, a contract liability is recognised when the Operating Entity Group has received considerations from the customers before the services rendered.

2.19 **Current and deferred income tax**

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

(a) ***Current income tax***

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

(b) ***Deferred income tax***

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

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

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

(c) ***Offsetting***

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

(d) ***Uncertain tax positions***

In determining the amount of current and deferred income tax, the Operating Entity Group takes into account the impact of uncertain tax positions and whether additional taxes, interest or penalties may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Operating Entity Group to change its judgment regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

2.20 **Employee benefits**

(a) ***Employee leave entitlement***

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) ***Pension obligations***

The Operating Entity Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by governments or trustee-administered funds. A defined contribution plan is a pension plan under which the Operating Entity Group pays contributions on a mandatory, contractual or voluntary basis into a separate fund. The Operating Entity Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods. The Operating Entity Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contributions.

2.21 Provisions

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

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

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

2.22 Revenue recognition

The Operating Entity Group generates revenues primarily from license of television series and film rights to TV stations and online platforms, film distribution in movie theatres, and provision of advertising services.

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

(a) ***Revenue from license of television series and film rights***

Revenue from license of television series and film rights is recognised when or as the control of the asset is transferred to the customer. Control of the asset is transferred to the customers, which is the TV stations and online platforms, when an agreement has been signed with a customer, and broadcast license and master tapes and materials have been delivered in accordance with the terms of the contracts. Revenue is recognised at a point in time when the customer obtains control of the asset.

In determining the transaction price, an amount of consideration can vary because of refunds, if the consideration is variable, the Operating Entity Group estimates the amount of consideration to which it will be entitled in exchange for such licenses. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

(b) ***Revenue from film distribution in movie theatres***

Revenue from film distribution represents the Operating Entity Group's share of box office sales from films exhibited in movie theatres, after the payment of taxes and other charges by movie theatres and associates of movie theatres. Control of the asset is transferred to the customer, which is the associates of movie theatres, when (i) an agreement has been signed with a customer; (ii) master tapes and materials have been delivered in accordance with the terms of the contracts; and (iii) it is probable that the Operating Entity Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

However, film is an intellectual property exhibited in movie theatres over a period of time, therefore revenue from distribution is an usage-based royalty. The Operating Entity Group recognises revenue generated from an usage-based royalty only when (or as) the later of the following events occurs:

(i) the usage occurs; and

(ii) the performance obligation to which some or all of the usage-based royalty has been satisfied.

For film distribution in movie theatres for which the control of the asset is transferred at a point in time to the customer, since the usage occurs later than the performance obligation satisfied, revenue is recognised over the period when the films are exhibited in movie theatres.

Payments made by the Operating Entity Group to the audiences through online ticket platform for ticket discount are assessed and accounted for the same as those paid directly to the Operating Entity Group's customer, which are recorded as net of revenue.

(c) ***Revenue from advertising services***

Advertising service income is recognised in the accounting period in which the related services are rendered.

2.23 **Interest income**

Interest income is recognised using the effective interest method. When a receivable is impaired, the Operating Entity Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.24 **Leases**

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Operating Entity Group as lessee are classified as operating leases (Note 29). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.25 **Dividends distribution**

Dividend distribution to the Operating Entity's shareholders is recognised as a liability in the Operating Entity Group's financial statements in the period in which the dividends are approved by the Operating Entity's shareholders or directors, where appropriate.

2.26 **Government grants**

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

2.27 **Cost of revenues**

Cost of revenues mainly consists of production costs of television series and film rights and others.

2.28 **Sales and marketing expenses**

Sales and marketing expenses mainly consist of film distribution expense, advertising expenses, salaries and commissions for our sales and marketing personnel and intangible assets amortisation.

2.29 **General and administrative expenses**

General and administrative expenses mainly consist of salaries and benefits for management and administrative personnel, professional service expense, allowance for doubtful debts and other general corporate expenses.

2.30 **Segment reporting**

The Operating Entity Group's chief operating decision maker mainly include executive directors of the Operating Entity, who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Operating Entity Group as a whole.

For the purpose of internal reporting and management's operation review, the chief operating decision-makers and management personnel do not segregate the Operating Entity Group's business by product or service lines. Hence, the Operating Entity Group has only one operating segment. In addition, the Operating Entity Group does not distinguish between markets or segments for the purpose of internal reporting. As the Operating Entity Group's assets and liabilities are substantially located in the PRC, substantially, all revenues are earned and substantially all expense incurred in the PRC, no geographical segments are presented.

3 **Financial risk management**

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

3.1 **Financial risk factors**

The Operating Entity Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Operating Entity Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Operating Entity Group. Risk management is carried out by the senior management of the Operating Entity Group.

(a) ***Market risk***

(i) *Foreign exchange risk*

The Operating Entity Group mainly operates in Hong Kong and the PRC, and the majority of transactions are denominated in RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the relevant entity. The Operating Entity Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. The Operating Entity Group currently does not hedge transactions undertaken in foreign currencies but manages its exposure through constant monitoring to limit as much as possible the amount of its foreign currencies exposures.

	As at December 31 2015			
	HKD	**USD**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Monetary assets				
Cash and cash equivalents	50	17,172	—	17,222
Trade and notes receivables	—	1,678	180	1,858
	50	18,850	180	19,080
Monetary liabilities				
Other payables and accruals	—	22,200	—	22,200

	As at December 31 2016			
	HKD	USD	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Monetary assets				
Cash and cash equivalents	49	62,512	—	62,561
Trade and notes receivables	—	281	—	281
	49	62,793	—	62,842
Monetary liabilities				
Trade payables	—	3,674	—	3,674
Other payables and accruals	—	115,580	—	115,580
	—	119,254	—	119,254

	As at December 31 2017			
	HKD	USD	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Monetary assets				
Cash and cash equivalents	2,762	34,829	—	37,591
Prepayment, deposits and other assets	—	146,795	—	146,795
	2,762	181,624	—	184,386
Monetary liabilities				
Borrowings	—	52,274	—	52,274
Trade payables	—	166	2,315	2,481
Other payables and accruals	38,000	50,628	22,876	111,504
	38,000	103,068	25,191	166,259

	As at March 31 2018			
	HKD	**USD**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Monetary assets				
Cash and cash equivalents	1,712	16,750	—	18,462
Prepayment, deposits and other assets	—	158,954	—	158,954
	1,712	175,704	—	177,416
Monetary liabilities				
Borrowings	—	50,305	—	50,305
Trade payables	—	166	—	166
Other payables and accruals	38,000	71,556	43,106	152,662
	38,000	122,027	43,106	203,133

If USD had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax profit would have been approximately RMB167,000, RMB2,823,000 lower/higher and RMB3,928,000, RMB2,684,000 higher/lower for the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2018, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets/liabilities denominated in USD.

(ii) *Cash flow and fair value interest rate risk*

The Operating Entity Group's income and operating cash flows are substantially independent from changes in market interest rates and the Operating Entity Group has no significant interest-bearing assets except for restricted cash and cash and cash equivalents, details of which have been disclosed in Note 17.

The Operating Entity Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 24, which represents substantial portion of the Operating Entity Group's debts. Borrowings carried at floating rates expose the Operating Entity Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Operating Entity Group to fair value interest-rate risk.

As of 31 December 2015, 2016 and 2017 and 31 March 2018, if the interest rates had been 50 basis point higher/lower and all other variables were held constant, the Operating Entity Group's post-tax profit for the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2018 would have been approximately RMB180,000, RMB98,000, RMB346,000 and RMB121,000 lower/higher, mainly attributable to the Operating Entity Group's exposure to interest rates on its variable rate bank borrowings.

(b) ***Credit risk***

The Operating Entity Group is exposed to credit risk in relation to its cash and cash deposits placed with banks and financial institutions as well as accounts and other receivables. The carrying amount of each class of these financial assets represents the Operating Entity Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

For trade receivables due from TV stations, online platforms and film distributors, if the strategic relationship with TV stations, online platforms and film distributors, as well as due from related parties, is terminated or scaled-back; or if TV stations, online platforms and film distributors alter the co-operative arrangements; or if they experience financial difficulties in paying the Operating Entity Group, the Operating Entity Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Operating Entity Group maintains frequent communications with TV stations, online platforms and film distributors to ensure effective credit control.

For trade receivables due from advertising agencies or directly from advertisers, the credit period granted to the customers is usually not more than 60 days and the credit quality of these customers are assessed, which takes into account their financial position, past experience and other factors.

As at 31 December 2015, 2016, 2017 and 31 March 2018, the Operating Entity Group has concentration of credit risk as 62%, 71%, 73% and 72% of the total trade receivables were due from the five largest debtors, which mainly include TV stations and online platforms in the PRC.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Operating Entity believe that there is no material credit risk inherent in the Operating Entity Group's outstanding balance of other receivables.

The Operating Entity Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Operating Entity Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- internal credit rating
- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party borrower's ability to meet its obligations;

- actual or expected significant changes in the operating results of the third party borrower;
- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrower.

A summary of the assumptions underpinning the Operating Entity Group's expected credit loss model is as follows:

Category	Group definition of category	Basis for recognition of expected credit loss provision
Performing	Debtors have a low risk of default and a strong capacity to meet contractual cash flows	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.
Underperforming	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 60 days past due	Lifetime expected losses
Write-off	There is no reasonable expectation of recovery	Asset is written off

The Operating Entity Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Operating Entity Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

(i) *Trade receivables*

The Operating Entity Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables from third parties and related parties.

To measure the expected credit losses of all trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Meanwhile, the Operating Entity Group considered that there was evidence of impairment if any of the following indicators were present and recognised the estimated impairment losses in a separate provision:

- significant financial difficulties of the debtor;

- probability that the debtor will enter bankruptcy or financial reorganization.

The loss allowance provision as at 31 December 2015, 2016 and 2017 and 31 March 2018 is determined as follows, the expected credit losses below also incorporate forward looking information.

RMB'000	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 year to 2 years**	**2 years to 3 years**	**3 years to 4 years**	**Over 4 years**	**Total**
Trade receivables								
At 31 December 2015								
Expected loss rate on collective basis	1%	1%	1%	10%	30%	50%	100%	
Gross carrying amount	294,270	162,526	15,890	135,182	9,771	25,665	31,528	674,832
Loss allowance provision	(2,943)	(1,625)	(159)	(13,518)	(2,931)	(12,832)	(31,528)	(65,536)
At 31 December 2016								
Expected loss rate on collective basis	1%	1%	1%	10%	30%	50%	100%	
Gross carrying amount	464,244	2,098	8,249	60,096	95,180	5,572	57,193	692,632
Loss allowance provision	(4,642)	(21)	(82)	(6,010)	(28,554)	(2,786)	(57,193)	(99,288)
At 31 December 2017								
Expected loss rate on collective basis	1%	1%	1%	10%	30%	50%	100%	
Expected loss rate on individual basis	—	—	100%	—	—	—	—	
Gross carrying amount	795,456	2,370	139,228	197,300	49,353	76,062	61,010	1,320,779
Loss allowance provision on collective basis	(7,955)	(24)	(940)	(19,730)	(14,806)	(38,031)	(61,010)	(142,496)
Loss allowance provision on individual basis	—	—	(45,000)	—	—	—	—	(45,000)
At 31 March 2018								
Expected loss rate on collective basis	1%	1%	1%	10%	30%	50%	100%	
Expected loss rate on individual basis	—	—	100%	—	—	—	—	
Gross carrying amount	41,663	546,489	46,300	94,670	48,511	46,866	67,643	892,142
Loss allowance provision on collective basis	(416)	(5,465)	(13)	(9,467)	(14,553)	(23,433)	(67,643)	(120,990)
Loss allowance provision on individual basis	—	—	(45,000)	—	—	—	—	(45,000)

No significant changes to estimation techniques or assumptions were made during the Relevant Periods.

Movements in the provision for impairment of trade receivables as follows:

	Trade receivables
	RMB'000
At 1 January 2015	(40,105)
Provision for doubtful receivables	(28,910)
Collection of receivables previously impaired	3,479
At 31 December 2015	(65,536)
At 1 January 2016	(65,536)
Provision for doubtful receivables	(46,398)
Collection of receivables previously impaired	12,646
At 31 December 2016	(99,288)
At 1 January 2017	(99,288)
Provision for doubtful receivables	(88,208)
At 31 December 2017	(187,496)
At 1 January 2018	(187,496)
Provision for doubtful receivables	(633)
Collection of receivables previously impaired	22,139
At 31 March 2018	(165,990)

For the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2018, the reversal/provision for loss allowances were recognised in profit or loss in general and administrative expenses in relation to the impaired trade receivables.

As at 31 December 2015, 2016 and 2017 and 31 March 2018, the gross carrying amounts of trade receivables were RMB674,832,000, RMB692,632,000, RMB1,320,779,000 and RMB892,142,000, and thus the maximum exposure to loss was RMB609,296,000, RMB593,344,000, RMB1,133,283,000 and RMB726,152,000. The Operating Entity Group made no write-off of trade receivables during the Relevant Periods.

(ii) *Other receivables*

Management considered other receivables to be low credit risk as they have a low risk of default and the issuer has a strong capability to meet its contractual cash flow obligations in the near term, thus the impairment provision recognised during the Relevant Periods was limited to 12 months expected losses.

Movements in the provision for impairment of other receivables as follows:

	Other receivables
	RMB'000
At 1 January 2015	(661)
Provision for doubtful receivables	(39)
Collection of receivables previously impaired	263
At 31 December 2015	(437)
At 1 January 2016	(437)
Provision for doubtful receivables	(613)
Collection of receivables previously impaired	46
At 31 December 2016	(1,004)
At 1 January 2017	(1,004)
Provision for doubtful receivables	(318)
Collection of receivables previously impaired	259
At 31 December 2017	(1,063)
At 1 January 2018	(1,063)
Provision for doubtful receivables	(298)
Collection of receivables previously impaired	122
At 31 March 2018	(1,239)

For the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2018, the reversal/provision for loss allowances were recognised in profit or loss in general and administrative expenses in relation to the impaired other receivables.

As at 31 December 2015, 2016 and 2017 and 31 March 2018, the gross carrying amounts of other receivables were RMB3,555,000, RMB18,814,000, RMB23,439,000 and RMB41,830,000, and thus the maximum exposure to loss was RMB3,118,000, RMB17,810,000, RMB22,376,000 and RMB40,591,000.

(c) ***Liquidity risk***

The Operating Entity Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Operating Entity Group maintains flexibility in funding by maintaining adequate cash and cash equivalents and marketable securities.

The table below analyses the Operating Entity Group's financial liabilities by relevant maturity groupings based on the remaining period since the end of the reporting period to the contractual maturity date.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2015					
Trade payables	96,271	—	—	—	96,271
Financial liabilities at fair value through profit or loss	7,000	—	—	—	7,000
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals, and other tax payable)	296,439	—	—	—	296,439
Borrowings	252,483	66,282	—	—	318,765
	652,193	66,282	—	—	718,475
At 31 December 2016					
Trade payables	125,330	—	—	—	125,330
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals, and other tax payable)	325,915	—	—	—	325,915
Borrowings	300,927	179,982	—	—	480,909
	752,172	179,982	—	—	932,154

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2017					
Trade payables	262,881	—	—	—	262,881
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals, and other tax payable)	706,199	—	—	—	706,199
Borrowings	1,055,580	213,079	—	—	1,268,659
	2,024,660	213,079	—	—	2,237,739
At 31 March 2018					
Trade payables	211,310	—	—	—	211,310
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals, and other tax payable)	694,092	—	—	—	694,092
Borrowings	895,997	245,503	—	—	1,141,500
	1,801,399	245,503	—	—	2,046,902

3.2 **Capital risk management**

The Operating Entity Group's objectives on managing capital are to safeguard the Operating Entity Group's ability to continue as a going concern and support the sustainable growth of the Operating Entity Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

In order to maintain or adjust the capital structure, the Operating Entity Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Operating Entity Group monitors capital on basis of the gearing ratio. This ratio is calculated as debt divided by total capital. Debt represents total borrowings while total capital is calculated as "equity" as shown in the consolidated statements of financial position.

The Operating Entity Group's strategy is to maintain an operation with minimal capital risk. The Operating Entity Group's gearing ratio was 38%, 46%, 93% and 83% for the year ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2018, respectively.

The fluctuation of gearing ratio was mainly caused by movements in borrowings and earnings throughout the Relevant Periods.

3.3 **Fair value estimation**

The table below analyses the Operating Entity Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2015				
Financial liabilities at fair value through profit or loss	—	—	7,000	7,000
At 31 March 2018				
Financial assets at fair value through profit or loss	—	—	9,600	9,600

The fair value of financial instruments traded in active markets is determined based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Operating Entity Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments mainly include techniques such as discounted cash flow analysis, are used to determine fair value for financial instruments.

The following table presents the changes in level 3 instruments for each of the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2018:

	Year ended 31 December			Three months ended 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Opening balance	—	—	—	—
Additions	—	—	14,400	9,600
Settlements	—	—	(14,400)	—
Closing balance	—	—	—	9,600
Financial liabilities				
Opening balance	—	7,000	—	—
Additions	7,000	1,500	—	—
Settlements	—	(8,500)	—	—
Closing balance	7,000	—	—	—

4 Critical accounting estimates and judgments

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

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

(a) Accounting for amortisation of television series and film rights

The costs of television series and film rights are amortised based on the expected consumption pattern. Adjustment on amortisation is made when the expected changes in consumption pattern occurs. The Operating Entity Group's management determines the expected consumption pattern of each television series and film with reference to historical performance of similar television series and film.

Based on information available on the actual results of each television series and film, management reviews and revises, when necessary, the expected consumption pattern at regular intervals. Such changes may result in a change in the rate of amortisation and/or the write-down of the carrying values of the assets to recoverable amount. This could have an impact on the Operating Entity Group's results of operations. The carrying amounts of television series and film rights are disclosed in Note 14 to the consolidated financial statements.

(b) **Impairment of television series and film rights**

The management of the Operating Entity Group assesses any impairment on television series and film rights whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The management mainly considers the following factors in assessing whether there is any indication that the television series and film rights may be impaired:

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;

- Management's own forecasts of future net cash inflows or operating profits may show a significant decline from previous budgets and forecasts.

- The assessment was made on a television series-by-television series and film-by-film basis. The recoverable amount of the television series and film rights was determined by considering the current market environment to project cash flows expected to be received. If the recoverable amount is lower than the carrying amount, the carrying amount of the television series and film rights will be written down to its recoverable amount.

The key assumptions made by the management used in the cash flow forecasts mainly include license agreements entered or to be entered into by the Operating Entity Group, historical trend of similar film released and discount rate. Discount rate of 14% adopted when calculating discounted cash flows, which reflects market assessments of time value and the specific risks relating to the industry that the Operating Entity Group operates. The Operating Entity Group's estimation of recoverable amount of television series and film rights reflects the management's best estimate of future cash flows expected to be generated from the television series and film rights.

Based on the management's assessment on the recoverability of television series and film rights, the directors of the Operating Entity determined that an impairment provision of RMB46,066,000, RMB11,857,000, RMB50,870,000 and nil were made on television series and film rights for the years ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2018, respectively.

(c) **Provision for impairment of trade receivables**

Impairment of trade receivables is made based on expected credit losses prescribed by IFRS 9, and changes in those expected credit losses requires management's judgment and estimates. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, such differences will impact the carrying value of the receivables, and the amount of doubtful debt expenses or write-back of provision for trade receivables in the period in which such estimate has been changed.

Based on the Operating Entity Group's assessment on the collectability of trade receivables, impairment provision of RMB25,431,000, RMB33,752,000, RMB88,208,000 and RMB2,707,000 were made for the years ended 31 December 2015, 2016, 2017, and the three months ended 31 March 2017, respectively. For the three months ended 31 March 2018, loss allowances of RMB21,506,000 were reversed against the gross amounts of trade receivables.

The increase of impairment provision was mainly due to incurrence of one-off expenses, including the provision made for certain receivables associated with LeTV that may not be recovered. In 2013, the Operating Entity Group entered into a sales agreement with LeTV amounting to RMB25,000,000 to license the television series The Kite (風箏) to its online platform. Considering the financial condition and solvency of LeTV, the Operating Entity Group terminated the aforesaid agreement in 2017, which results in a compensation of RMB17,500,000 as agreed with LeTV in the termination agreement.

(d) **Current and deferred income taxes**

Significant judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact current income tax and deferred income tax in the period in which such determination is made.

The Operating Entity Group has a subsidiary which is entitled to tax concession and exempt from corporate income tax for five years, commencing from the first year of profitable operation, after offsetting tax losses generated in prior years. The tax legislation in relation to the requirements of tax concession is not clear and the management of the Operating Entity Group has continuing negotiations with local tax bureau to confirm their interpretation. However in calculating the income tax expense for the Relevant Periods, the management of the Operating Entity Group has considered that it is probable for the Operating Entity Group to fulfill all requirements of tax concession and to be exempt from corporate income tax during the Relevant Periods.

5 Revenue

An analysis of the Operating Entity Group's revenue of the Relevant Periods, net of sales related tax, is as follows:

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
License of television series	252,889	676,226	1,136,412	12,906	5,502
Film distribution in movie theatres	382,939	41,457	448,350	133,273	11,372
License of film rights	34,618	28,232	70,318	32,043	28,561
Advertising services	54,486	15,572	27,838	—	81
Others	301	376	991	—	771
	725,233	761,863	1,683,909	178,222	46,287

6 Other gains/(losses), net

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Government subsidies (Note (a))	39,859	35,147	25,412	—	165
Loss on termination of a contract (Note (b))	—	—	(17,500)	—	—
Gains on disposal of certain portion of film rights	—	—	7,801	—	—
Net foreign exchange gains/(losses)	208	3,477	(2,580)	(278)	1,047
Fair value change on financial instruments	—	2,560	—	—	—
Others	410	(18)	95	48	109
	40,477	41,166	13,228	(230)	1,321

Notes:

(a) Government subsidies of RMB38,096,000, RMB29,812,000, RMB21,168,000, nil and RMB165,000 was received from governments for the purpose of preferential tax policies during the years ended 31 December 2015, 2016, 2017 and three months ended 31 March 2017 and 2018, respectively. Government grant of RMB1,763,000, RMB5,335,000, RMB4,244,000, nil and nil was received for rewards of outstanding films and television series during the years ended 31 December 2015, 2016, 2017 and three months ended 31 March 2017 and 2018, respectively. There were no conditions attached to such government grants.

(b) It represented the compensation paid to a customer as a result of termination of a contract.

7 Expenses by nature

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Production costs of television series and film rights	343,630	382,330	781,818	65,617	25,504
Promotion and advertising expenses	140,523	93,100	215,595	48,476	11,842
Impairment loss on television series and film rights	46,066	11,857	50,870	—	—
Employee benefits expenses (Note 8)	20,333	20,295	26,949	6,370	8,418
Impairment loss/(reversal) on receivables (Note 13 and 15)	25,207	34,319	88,267	2,773	(21,330)
Travelling, entertainment and general office expenses	6,843	8,028	8,683	2,589	1,993
Operating lease rentals	6,329	7,166	8,586	1,882	3,130
Professional services fees	2,577	7,793	21,386	801	2,554
Depreciation and amortisation	1,759	739	851	154	738
Others	3,234	3,648	5,760	2,497	2,027
Total cost of revenue, selling and marketing expenses and general and administrative expenses	596,501	569,275	1,208,765	131,159	34,876

8 Employee benefits expenses

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Wages, salaries and bonuses	14,454	14,405	19,041	4,613	6,231
Other social security costs, housing benefits and other employee benefits	3,393	3,501	4,753	1,034	1,295
Pension costs — defined contribution plans	2,486	2,389	3,155	723	892
	20,333	20,295	26,949	6,370	8,418

(a) ***Five highest paid individuals***

The five individuals whose emoluments were the highest in the Operating Entity Group for each of the relevant period include 1 director. Their emoluments are reflected in the analysis shown in Note 8(b). The emoluments payable to the remaining 4 individuals for each of the relevant period, are as follows:

	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Wages, salaries and bonuses	1,452	1,473	1,700	440	498
Other social security costs, housing benefits and other employee benefits	206	249	247	59	64
Pension costs — defined contribution plans	185	177	211	51	55
	1,843	1,899	2,158	550	617

The emoluments of the above 4 individuals for each of the relevant period fell within the following bands:

	Number of individuals				
	Year ended 31 December			Three months ended 31 March	
	2015	2016	2017	2017	2018
				(Unaudited)	
Emolument bands					
RMB 700,001 to RMB 800,000	—	—	1	—	—
RMB 600,001 to RMB 700,000	—	—	—	—	—
RMB 500,001 to RMB 600,000	—	—	—	—	—
RMB 400,001 to RMB 500,000	4	4	3	—	—
RMB 300,001 to RMB 400,000	—	—	—	—	—
RMB 200,001 to RMB 300,000	—	—	—	—	—
RMB 100,001 to RMB 200,000	—	—	—	4	4

(b) ***Benefits and interests of directors***

(i) *Directors' and the chief executive's emoluments*

The remuneration of each director of the Operating Entity Group for each of the relevant period is set out as below:

During the year ended 31 December 2015:

Name of director	Fees	Wages, salaries and bonuses	Pension costs - defined contribution plan	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
- Cao Huayi	—	420	46	51	517
- Gai Lili	—	—	—	—	—
- Li Xiaoping	—	—	—	—	—
- Cao Qiang	—	109	21	24	154
- Sheng Jieming	60	—	—	—	60
- Chen Xiaohang	60	—	—	—	60
- Du Qiongyang	60	—	—	—	60
- Xu Jia	—	363	46	51	460
- Chen Xiaowei	—	363	46	51	460
- Zhou Xiaojun	—	266	46	51	363
	180	1,521	205	228	2,134

During the year ended 31 December 2016:

Name of director	Fees	Wages, salaries and bonuses	Pension costs - defined contribution plan	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
- Cao Huayi	—	420	49	57	526
- Gai Lili	—	—	—	—	—
- Li Xiaoping	—	—	—	—	—
- Cao Qiang	—	120	22	25	167
- Sheng Jieming	60	—	—	—	60
- Chen Xiaohang	60	—	—	—	60
- Wang Baotong	50	—	—	—	50
- Xu Jia	—	363	49	57	469
- Chen Xiaowei	—	363	49	57	469
- Zhou Xiaojun	—	266	49	57	372
	170	1,532	218	253	2,173

During the year ended 31 December 2017:

Name of director	Fees	Wages, salaries and bonuses	Pension costs - defined contribution plan	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
- Cao Huayi	—	420	53	62	535
- Gai Lili	—	—	—	—	—
- Li Xiaoping	—	—	—	—	—
- Cao Qiang	—	122	22	26	170
- Sheng Jieming	60	—	—	—	60
- Chen Xiaohang	60	—	—	—	60
- Wang Baotong	20	—	—	—	20
- Ding Tao	40	—	—	—	40
- Xu Jia	—	365	53	62	480
- Chen Xiaowei	—	365	53	62	480
- Li Ning	—	450	40	47	537
- Zhou Xiaojun	—	69	13	15	97
	180	1,791	234	274	2,479

During the period ended 31 March 2017:

(Unaudited)

Name of director	Fees	Wages, salaries and bonuses	Pension costs - defined contribution plan	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
- Cao Huayi	—	105	13	15	133
- Gai Lili	—	—	—	—	—
- Li Xiaoping	—	—	—	—	—
- Cao Qiang	—	32	5	6	43
- Sheng Jieming	15	—	—	—	15
- Chen Xiaohang	15	—	—	—	15
- Wang Baotong	15	—	—	—	15
- Xu Jia	—	95	13	15	123
- Chen Xiaowei	—	95	13	15	123
- Zhou Xiaojun	—	69	13	15	97
	45	396	57	66	564

During the period ended 31 March 2018:

Name of director	Fees	Wages, salaries and bonuses	Pension costs - defined contribution plan	Other social security costs, housing benefits and other employee benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
- Cao Huayi	—	135	14	16	165
- Gai Lili	—	—	—	—	—
- Cao Qiang	—	33	6	7	46
- Sheng Jieming	15	—	—	—	15
- Chen Xiaohang	15	—	—	—	15
- Ding Tao	15	—	—	—	15
- Xu Jia	—	118	14	16	148
- Chen Xiaowei	—	110	14	16	140
- Li Ning	—	160	14	16	190
	45	556	62	71	734

(ii) *Directors' termination benefits*

No director's termination benefit subsisted at the end of 31 December 2015, 2016 and 2017 and 31 March 2017 and 2018 or at any time for the years ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2017 and 2018.

(iii) *Consideration provided to third parties for making available directors' services*

No consideration provided to third parties for making available directors' services subsisted at the end of 31 December 2015, 2016 and 2017 and 31 March 2017 and 2018 or at any time for the years ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2018.

(iv) *Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors*

No loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of 31 December 2015, 2016 and 2017 and 31 March 2017 and 2018 or at any time for the years ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2017 and 2018.

(v) *Directors' material interests in transactions, arrangements or contracts*

No significant transactions, arrangements and contracts in relation to the Operating Entity Group's business to which the Operating Entity was a party and in which a director of the Operating Entity had a material interest, whether directly or indirectly, subsisted at the end of 31 December 2015, 2016 and 2017 and 31 March 2017 and 2018 or at any time for the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017 and 2018.

9 Interest income

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest income on cash at bank	576	1,784	1,738	207	1,047

10 Finance costs

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest expenses related to bank borrowing	19,397	10,780	48,896	7,476	16,308
Interest expenses related to television series and film rights investment	16,567	8,752	20,223	3,064	7,863
	35,964	19,532	69,119	10,540	24,171

11 Income tax expense

(i) *Hong Kong profits tax*

Hong Kong profit tax has been provided for at the rate of 16.5% on the estimated assessable profit for the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017 and 2018.

(ii) *PRC corporate income tax ("CIT")*

CIT provision was made on the estimated assessable profits of entities within the Operating Entity Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% for the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017 and 2018.

According to the relevant tax circulars issued by the PRC tax authorities, a subsidiary of the Operating Entity is entitled to certain tax concessions and it is exempt from CIT during the period from its incorporation to 31 December 2020 (Note 4(d)).

The income tax expense of the Operating Entity Group are analysed as follows:

	Year ended 31 December			**Three months ended 31 March**	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current income tax	40,687	67,358	65,344	19,356	973
Deferred income tax (Note 21)	(4,351)	(12,777)	(22,629)	(8,635)	160
	36,336	54,581	42,715	10,721	1,133

The taxation on the Operating Entity Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017 and 2018, being the tax rate of the major subsidiaries of the Operating Entity Group before enjoying preferential tax treatments, as follows:

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit/(Loss) before income tax expense	133,821	215,664	419,387	36,109	(10,907)
Share of loss of investment in a joint venture	—	342	1,604	391	515
	133,821	216,006	420,991	36,500	(10,392)
Tax calculated at a tax rate of 25%	33,455	54,002	105,248	9,125	(2,598)
Effects of different tax rates applicable to different subsidiaries of the Operating Entity Group	690	23	(801)	32	(57)
Effects of tax concession on assessable profit of a subsidiary	10	161	(69,648)	1,276	3,432
Unrecognised deferred income tax assets	2,106	267	4,255	255	309
Expense not deductible for tax purposes	75	128	3,661	33	47
	36,336	54,581	42,715	10,721	1,133

12 **Financial instruments by category**

	Assets at amortised cost *RMB'000*	Assets at fair value through profit or loss *RMB'000*
As at 31 December 2015		
Trade and notes receivables	611,342	—
Deposits and other assets	3,118	—
Cash and cash equivalents	286,514	—
	900,974	—
As at 31 December 2016		
Trade and notes receivables	593,344	—
Deposits and other assets	17,810	—
Cash and cash equivalents	277,933	—
	889,087	—
As at 31 December 2017		
Trade and notes receivables	1,133,283	—
Deposits and other assets	22,376	—
Restricted cash	58,758	—
Cash and cash equivalents	574,718	—
	1,789,135	—
As at 31 March 2018		
Trade and notes receivables	726,152	—
Deposits and other assets	40,591	—
Financial assets at fair value through profit or loss	—	9,600
Restricted cash	58,758	—
Cash and cash equivalents	634,304	—
	1,459,805	9,600

	Liabilities at amortised cost *RMB'000*	Liabilities at fair value through profit or loss *RMB'000*
As at 31 December 2015		
Trade payables	96,271	—
Other payables and accruals (excluding prepayment received from customers, staff costs and welfare accruals, and other tax payables)	296,439	—
Financial liabilities at fair value through profit or loss	—	7,000
Borrowings	293,000	—
	685,710	7,000
As at 31 December 2016		
Trade payables	125,330	—
Other payables and accruals (excluding prepayment received from customers, staff costs and welfare accruals, and other tax payables)	325,915	—
Borrowings	425,000	—
	876,245	—
As at 31 December 2017		
Trade payables	262,881	—
Other payables and accruals (excluding prepayment received from customers, staff costs and welfare accruals, and other tax payables)	706,199	—
Financial liabilities at fair value through profit or loss	—	—
Borrowings	1,211,419	—
	2,180,499	—
As at 31 March 2018		
Trade payables	211,310	—
Other payables and accruals (excluding prepayment received from customers, staff costs and welfare accruals, and other tax payables)	694,092	—
Financial liabilities at fair value through profit or loss	—	—
Borrowings	1,064,450	—
	1,969,852	—

13 **Prepayment, deposits and other assets**

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Included in non-current assets:				
Prepayment to directors, actors and writers	47,730	177,635	192,371	192,371
Others	2,141	1,324	—	—
	49,871	178,959	192,371	192,371
Included in current assets:				
Prepayment for production of television series and films	50,537	19,999	232,384	258,729
Prepayment for an overseas licensed film right	—	—	4,654	4,654
Prepayment to directors, actors and writers	—	27,433	21,150	22,650
Receivable from co-producers and others on production of television series and films	—	8,703	17,077	34,248
Accrual and prepayment on value-added tax	32,848	58,125	62,370	66,565
Prepayment for listing-related expenses	8,571	3,039	—	—
Deposits	1,700	3,730	3,980	3,115
Staff advances	474	830	907	3,628
Others	3,259	9,890	7,213	3,951
Less: allowance for impairment of other receivables	(437)	(1,004)	(1,063)	(1,239)
	96,952	130,745	348,672	396,301

Management applies the 12-month expected credit losses method to provide loss allowances on deposits and other assets (excluding prepayments, and accrual and prepayment on value-added tax). For the year ended 31 December 2015, loss allowances of RMB224,000 was reversed against the gross amounts of these receivables; For the years ended 31 December 2016, 2017 and the three months ended 31 March 2017 and 2018, loss allowances of RMB567,000, RMB59,000, RMB66,000 and RMB176,000 were made against the gross amounts of these receivables (Note 3.1(b)).

The directors of the Operating Entity considered that the carrying amounts of these receivables approximated to their respective fair values as of 31 December 2015, 2016 and 2017 and 31 March 2018.

The Operating Entity

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Included in non-current assets:				
Prepayment to directors, actors and writers	47,730	111,392	121,188	121,188
Others	2,141	1,324	—	—
	49,871	112,716	121,188	121,188
Included in current assets:				
Amounts due from subsidiaries	26,981	315,267	474,175	536,657
Dividend receivables	30,000	30,000	—	—
Prepayment for production of television series and films	13,353	—	189,434	189,435
Prepayment to directors, actors and writers	—	22,527	21,150	22,650
Receivable from co-producers and others on production of television series and films	—	11,597	2,914	973
Accrual and prepayment on value-added tax	11,839	28,783	804	867
Prepayment for listing-related expenses	8,571	3,021	—	—
Deposits	1,173	1,493	1,938	1,743
Staff advances	215	566	538	688
Others	705	5,019	2,112	1,555
Less: allowance for impairment of other receivables	(19)	(159)	(62)	(35)
	92,818	418,114	693,003	754,533

14 **Television series and film rights**

The Operating Entity Group

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Television series and film rights				
- adaption rights and scripts	108,850	139,761	313,812	323,315
- under production	247,495	891,345	892,580	1,023,142
- completed	123,345	99,198	536,069	510,991
	479,690	1,130,304	1,742,461	1,857,448

	adaption rights and scripts	under production	completed	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2015	95,658	222,645	163,857	482,160
Additions	41,922	345,304	—	387,226
Transfer from under production to completed	—	(346,503)	346,503	—
Transfer from adaption rights and scripts to under production	(26,049)	26,049	—	—
Recognised in cost of revenue	—	—	(343,630)	(343,630)
Impaired	(2,681)	—	(43,385)	(46,066)
As at 31 December 2015	108,850	247,495	123,345	479,690
As at 1 January 2016	108,850	247,495	123,345	479,690
Additions	89,561	955,240	—	1,044,801
Transfer from under production to completed	—	(358,183)	358,183	—
Transfer from adaption rights and scripts to under production	(52,483)	52,483	—	—
Recognised in cost of revenue	—	—	(382,330)	(382,330)
Impaired	(6,167)	(5,690)	—	(11,857)
As at 31 December 2016	139,761	891,345	99,198	1,130,304
As at 1 January 2017	139,761	891,345	99,198	1,130,304
Additions	248,701	1,196,144	—	1,444,845
Transfer from under production to completed	—	(1,218,689)	1,218,689	—
Transfer from adaption rights and scripts to under production	(48,509)	48,509	—	—
Recognised in cost of revenue	—	—	(781,818)	(781,818)
Impaired	(26,141)	(24,729)	—	(50,870)
As at 31 December 2017	313,812	892,580	536,069	1,742,461

	adaption rights and scripts	under production	completed	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2018	313,812	892,580	536,069	1,742,461
Additions	29,059	111,432	—	140,491
Transfer from under production to completed	—	(426)	426	—
Transfer from adaption rights and scripts to under production	(19,556)	19,556	—	—
Recognised in cost of revenue	—	—	(25,504)	(25,504)
As at 31 March 2018	323,315	1,023,142	510,991	1,857,448

Note:

(i) The balance of television series and film rights under production represented costs associated with the production of television series and films including remuneration for the directors, casts and production crew, costumes, insurance, makeup and hairdressing, as well as rental of camera and lighting equipment and etc. Television series and film rights under production were transferred to television series and film rights completed upon completion of production.

The Operating Entity

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Television series and film rights				
- adaption rights and scripts	16,751	13,235	75,677	79,486
- under production	85,276	180,738	59,750	88,157
- completed	2,176	70,096	26,157	1,171
	104,203	264,069	161,584	168,814

15 **Trade and notes receivables**

The Operating Entity Group

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	674,832	692,632	1,320,779	892,142
Notes receivables	2,046	—	—	—
Less: allowance for impairment of trade receivables	(65,536)	(99,288)	(187,496)	(165,990)
	611,342	593,344	1,133,283	726,152

Trade receivables are mainly due from TV stations, online platforms and film distributors. The Operating Entity Group usually allows a credit period of 30 to 90 days to its customers. Aging analysis of trade and notes receivables (net of allowance for doubtful debts) based on recognition date is as follows:

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 3 months	292,148	459,602	787,501	41,247
3 to 6 months	161,426	2,077	2,346	541,024
6 months to 1 year	16,431	8,167	93,288	1,287
1 year to 2 years	121,664	54,086	177,570	85,203
Over 2 years	19,673	69,412	72,578	57,391
	611,342	593,344	1,133,283	726,152

The Operating Entity Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9. For the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017, loss allowances of RMB25,431,000, RMB33,752,000, RMB88,208,000 and RMB2,707,000 were made against the gross amounts of trade receivables, respectively (Note 3.1(b)). For the three months ended 31 March 2018, reversal of loss allowances of RMB21,506,000 were made mainly due to the collection of certain receivables, out of which were with long ageing over 2 years and partial or fully impaired in previous periods.

The directors of the Operating Entity considered that the carrying amounts of the trade and notes receivables balances approximated to their fair value as of 31 December 2015, 2016 and 2017 and 31 March 2018.

The Operating Entity

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	308,276	49,020	287,373	93,442
Notes receivables	—	—	—	—
Less: allowance for impairment of trade receivables	(5,742)	(3,254)	(6,477)	(4,539)
	302,534	45,766	280,896	88,903

16 **Financial assets at fair value through profit or loss**

The Operating Entity Group and the Operating Entity invested in a film production operated by third parties. The Operating Entity Group and the Operating Entity, acting as a financial investor, does not participate in the film making process, and the investment made by the Operating Entity Group and the Operating Entity is not principal guaranteed.

17 **Bank balances and cash**

(a) ***Cash and cash equivalents***

The Operating Entity Group

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand	286,514	277,933	574,718	634,304

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	269,292	215,372	537,127	615,842
USD	17,172	62,512	34,829	16,750
HKD	50	49	2,762	1,712
	286,514	277,933	574,718	634,304

The fair values of cash and cash equivalents approximated their carrying amounts.

The Operating Entity

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand	164,293	15,974	109,904	217,944

Cash and cash equivalents are denominated in RMB.

(b) ***Restricted cash — the Operating Entity Group and the Operating Entity***

As at 31 December 2015, 2016 and 2017 and 31 March 2018, restricted deposits amounting to nil, nil, RMB58,758,000 and RMB58,758,000 were pledged as securities for bank borrowings.

The carrying amounts of restricted cash approximated their fair values and denominated in RMB.

18 **Property, plant and equipment — the Operating Entity Group**

	Computer equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015					
Cost	1,094	3,516	2,619	1,150	8,379
Accumulated depreciation	(640)	(2,107)	(2,243)	(458)	(5,448)
Net book amount	454	1,409	376	692	2,931
Year ended 31 December 2015					
Opening net book amount	454	1,409	376	692	2,931
Additions	50	87	—	55	192
Depreciation	(190)	(701)	(246)	(582)	(1,719)
Closing net book amount	314	795	130	165	1,404
At 31 December 2015					
Cost	1,144	3,603	2,619	1,205	8,571
Accumulated depreciation	(830)	(2,808)	(2,489)	(1,040)	(7,167)
Net book amount	314	795	130	165	1,404
Year ended 31 December 2016					
Opening net book amount	314	795	130	165	1,404
Additions	152	119	4	125	400
Depreciation	(173)	(416)	—	(73)	(662)
Closing net book amount	293	498	134	217	1,142
At 31 December 2016					
Cost	1,295	3,722	2,622	1,330	8,969
Accumulated depreciation	(1,002)	(3,224)	(2,488)	(1,113)	(7,827)
Net book amount	293	498	134	217	1,142

	Computer equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2017					
Opening net book amount	293	498	134	217	1,142
Additions	955	605	684	1,007	3,251
Disposals	—	—	(24)	—	(24)
Depreciation	(172)	(330)	—	(272)	(774)
Closing net book amount	1,076	773	794	952	3,595
At 31 December 2017					
Cost	2,250	4,328	2,826	2,337	11,741
Accumulated depreciation	(1,174)	(3,555)	(2,032)	(1,385)	(8,146)
Net book amount	1,076	773	794	952	3,595
Period ended 31 March 2018					
Opening net book amount	1,076	773	794	952	3,595
Additions	—	—	—	160	160
Disposals	—	—	—	—	—
Depreciation	(441)	(140)	(41)	(97)	(719)
Closing net book amount	635	633	753	1,015	3,036
At 31 March 2018					
Cost	2,250	4,328	2,826	2,497	11,901
Accumulated depreciation	(1,615)	(3,695)	(2,073)	(1,482)	(8,865)
Net book amount	635	633	753	1,015	3,036

19 Investment in subsidiaries

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment in subsidiaries - Unlisted shares at cost	74,451	75,151	78,394	78,394

The Operating Entity's principal subsidiaries at 31 December 2015, 2016,2017 and at 31 March 2018 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly or indirectly by the Operating Entity, and the proportion of ownership interests held equals the voting rights held by the Operating Entity.

	Place of incorporation/ establishment	Principal place of operation and activities	Ownership interest held by the Operating Entity Group)	Ownership interest held by non-controlling interests	Principal activities
Directly held by the Operating Entity:					
New Classics Television Entertainment Investment Company Limited	Zhejiang, China	Beijing, China	100%	—	Television series Production
New Classics Movie (Zhejiang) Company Limited	Zhejiang, China	Beijing, China	100%	—	Television series Production
New Classics International Media Limited	Hong Kong	Beijing, China	100%	—	Film production
Indirectly held by the Operating Entity:					
New Classics Era Company Limited	Tianjin, China	Beijing, China	100%	—	Television series Production
Kuang Huan Zhe Film Production Company Limited	Xinjiang, China	Beijing, China	100%	—	Television series Production
New Classics Tian Huo Animation (Tianjin) Company Limited	Tianjin, China	Beijing, China	70%	30%	Film production

20 Investment in a joint venture

The Operating Entity Group and the Operating Entity

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	—	—	3,658	8,054
Addition	—	4,000	6,000	—
Share of loss	—	(342)	(1,604)	(515)
At the end of the year/period	—	3,658	8,054	7,539

As at 31 December 2016, 2017 and 31 March 2018, the Operating Entity Group and the Operating Entity only has one unlisted joint venture with 50% of equity interests, which is principally engaged in script adaptation and creation in the PRC.

21 Deferred income tax assets

The Operating Entity Group

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets:				
- to be recovered after more than 12 months	—	—	—	—
- to be recovered within 12 months	20,622	33,399	56,028	55,868
	20,622	33,399	56,028	55,868

The movements of the deferred income tax assets were as follows:

	Tax losses	Bad debt provision	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	2,575	10,190	3,506	16,271
(Charged)/credited to consolidated income statement (Note 11)	(2,575)	6,297	629	4,351
At 31 December 2015	—	16,487	4,135	20,622
At 1 January 2016	—	16,487	4,135	20,622
Credited/(charged) to consolidated income statement (Note 11)	4,279	8,587	(89)	12,777
At 31 December 2016	4,279	25,074	4,046	33,399
At 1 January 2017	4,279	25,074	4,046	33,399
(Charged)/credited to consolidated income statement (Note 11)	(4,279)	20,948	5,960	22,629
At 31 December 2017	—	46,022	10,006	56,028
At 1 January 2018	—	46,022	10,006	56,028
Credited/(charged) to consolidated income statement (Note 11)	5,082	(5,342)	100	(160)
At 31 March 2018	5,082	40,680	10,106	55,868

The Operating Entity Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2015, 2016 and 2017 and 31 March 2018, the Operating Entity Group did not recognise deferred income tax assets of RMB2,381,000, RMB2,666,000, RMB8,420,000 and RMB8,729,000 in respect of cumulative tax losses amounting to RMB12,493,000, RMB13,739,000, RMB36,754,000 and RMB24,251,000, respectively. These tax losses will expire from 2015 to 2022.

The Operating Entity

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets:				
- to be recovered after more than 12 months	—	—	—	—
- to be recovered within 12 months	1,440	5,207	1,710	1,218
	1,440	5,207	1,710	1,218

22 **Share capital and share premium**

	Number of ordinary shares	**Share capital**	**Share premium**
	RMB'000	*RMB'000*	
At 1 January 2015, 31 December 2015, 31 December 2016, 31 December 2017 and 31 March 2018	165,000,000	165,000	54,590

23 **Other reserves and retained earnings**

(a) ***Other reserves - The Operating Entity Group***

	Capital reserve	Statutory surplus reserve	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2015	3,530	45,648	49,178
Acquisition of non-controlling interests	(1,119)	—	(1,119)
Partial disposal of equity interests in a non-wholly owned subsidiary	7	—	7
Profit appropriations to statutory reserve	—	10,950	10,950
At 31 December 2015	2,418	56,598	59,016
At 1 January 2016	2,418	56,598	59,016
Profit appropriations to statutory reserve	—	8,586	8,586
At 31 December 2016	2,418	65,184	67,602
At 1 January 2017	2,418	65,184	67,602
Profit appropriations to statutory reserve	—	39,726	39,726
At 31 December 2017	2,418	104,910	107,328
At 1 January 2018	2,418	104,910	107,328
Profit appropriations to statutory reserve	—	115	115
At 31 March 2018	2,418	105,025	107,443
(Unaudited)			
At 1 January 2017	2,418	65,184	67,602
Profit appropriations to statutory reserve	—	5,583	5,583
At 31 March 2017	2,418	70,767	73,185

(b) ***Other reserves - The Operating Entity***

	Capital reserve	Statutory surplus reserve	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2015	2,466	13,562	16,028
Profit appropriations to statutory reserve	—	5,896	5,896
At 31 December 2015	2,466	19,458	21,924
At 1 January 2016, 31 December 2016 and 1 January 2017	2,466	19,458	21,924
Profit appropriations to statutory reserve	—	7,759	7,759
At 31 December 2017	2,466	27,217	29,683
At 1 January 2018	2,466	27,217	29,683
Profit appropriations to statutory reserve	—	346	346
At 31 March 2018	2,466	27,563	30,029

(c) ***Retained earnings - The Operating Entity***

	Total
	RMB'000
At 1 January 2015	104,255
Profit for the year	58,962
Profit appropriations to statutory reserve	(5,896)
At 31 December 2015	157,321
At 1 January 2016	157,321
Loss for the year	(11,798)
At 31 December 2016	145,523
At 1 January 2017	145,523
Profit for the year	77,593
Profit appropriations to statutory reserve	(7,759)
At 31 December 2017	215,357
At 1 January 2018	215,357
Profit for the period	3,464
Profit appropriations to statutory reserve	(346)
At 31 March 2018	218,475

24 **Borrowings**

The Operating Entity Group

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Included in non-current liabilities:				
Non-current portion of long-term RMB bank borrowings, guaranteed (Note (a))	55,000	155,000	205,145	230,145
	55,000	155,000	205,145	230,145
Included in current liabilities:				
Current portion of long-term RMB bank borrowings, guaranteed (Note (a))	76,000	—	155,000	205,000
USD bank borrowings, secured (Note (b))	—	—	52,274	50,305
RMB bank borrowings, guaranteed (Note (b))	162,000	270,000	449,000	329,000
RMB Other borrowings, guaranteed (Note (c))	—	—	350,000	250,000
	238,000	270,000	1,006,274	834,305
	293,000	425,000	1,211,419	1,064,450

Notes:

(a) As at 31 December 2015, 2016 and 2017 and 31 March 2018, applicable interest rates of long-term RMB borrowings, with principal amount of RMB131,000,000, nil, RMB139,145,000 and RMB214,145,000, are at prime rate of lending banks plus 0.2625% to 0.95%; and long-term RMB borrowings, with principal amount of nil, RMB155,000,000, RMB221,000,000 and RMB221,000,000, are at a fixed interest rate of 4.875% to 5.225% per annum. These borrowings were guaranteed by Mr.Cao Huayi, the chief executive of the Operating Entity.

The long-term bank borrowings were repayable as follows:

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	76,000	—	155,000	205,000
Between 1 and 2 years	55,000	155,000	205,145	230,145
	131,000	155,000	360,145	435,145

(b) As at 31 December 2015, 2016 and 2017 and 31 March 2018, the aggregate principle amount of short-term USD bank borrowing was nil, nil, USD8,000,000 and USD8,000,000 . Applicable interest rate is at LIBOR plus 2.5% for USD bank borrowing. These USD bank borrowing were guaranteed by Mr. Cao Huayi and pledged by restricted cash amounting to RMB 58,758,000 and RMB 58,758,000 as at 31 December 2017 and 31 March 2018.

As at 31 December 2015, 2016 and 2017 and 31 March 2018, the short-term RMB bank borrowings were carried at prime rate of lending banks plus 0.435% to 1.1375%, or a fixed interest rate of 4.875% to 12% per annum, respectively.

(c) In 2017, the Operating Entity Group entered into loan agreements of RMB350,000,000 with certain trust companies. Applicable interest rates are fixed interest rate of 7.3% or 9% per annum. These borrowings were guaranteed by Mr.Cao Huayi, the chief executive of the Operating Entity.

As at 31 December 2015, 2016 and 2017 and 31 March 2018, the carrying amounts of borrowings approximated their fair value.

The Operating Entity

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Included in non-current liabilities:				
Non-current portion of long-term RMB bank borrowings, guaranteed	55,000	155,000	166,000	186,000
	55,000	155,000	166,000	186,000
Included in current liabilities:				
Current portion of long-term RMB bank borrowings, guaranteed	76,000	—	155,000	205,000
RMB bank borrowings, guaranteed	77,000	90,000	249,000	169,000
	153,000	90,000	404,000	374,000
	208,000	245,000	570,000	560,000

25 **Deferred income**

The Operating Entity Group and the Operating Entity

Deferred income represents government grant of RMB11,000,000 and RMB300,000 received from Dongyang city government, Zhejiang Province in 2015 and 2016, respectively, for the purpose of production of a biographical film, for which the filming has not started as of 31 March 2018. The management considers that the production of the film is to be completed in early 2019.

26 **Trade payables**

Ageing analysis of the trade payables based on recognition date at the end of each year is as follows:

The Operating Entity Group

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 3 months	17,056	70,173	191,325	68,535
3 to 6 months	19,901	138	16,662	82,391
6 months to 1 year	11,576	2,171	6,923	12,682
1 to 2 years	39,735	22,507	7,617	6,809
Over 2 years	8,003	30,341	40,354	40,893
	96,271	125,330	262,881	211,310

The Operating Entity

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 3 months	12,932	51,454	55,931	1,118
3 to 6 months	19,901	—	10,072	32,628
6 months to 1 year	—	83	53	5,103
1 to 2 years	12,521	12,180	1,589	1,089
Over 2 years	468	729	3,690	3,691
	45,822	64,446	71,335	43,629

27 **Other payables and accruals**

The Operating Entity Group

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities (Note (a))	59,100	504,631	582,010	665,006
Payments received from co-producers (Note (b))	88,658	163,612	330,983	295,391
Proceeds collected from license and distribution of television series and film rights as distributor (Note (c))	91,627	151,673	306,744	329,911
Financial investors in television series and film production	81,661	9,531	64,316	64,161
Staff costs and welfare accruals	1,392	1,876	1,863	2,119
Other tax payable	3,146	699	24,461	2,053
Interests payable	1,337	790	2,497	3,903
Dividends payable	33,000	—	—	—
Others	156	309	1,659	726
	360,077	833,121	1,314,533	1,363,270

Notes:

(a) It represents the revenue-related contract liabilities, which is the prepayments received from customers, including TV stations, online platforms and advertising customers, for which master tapes have not been delivered as broadcasting license have not been obtained for these television series or films, and advertising services have not been provided.

(i) *Significant changes in contract liabilities*

Contract liabilities for prepayments received from customers have increased as primarily driven by the production of new television series.

(ii) *Revenue recognised in relation to contract liabilities*

The following table shows the amount of revenue recognised in the consolidated statements of comprehensive income for the Relevant Period relating to contract liabilities brought forward:

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue recognised that was included in the contract liabilities balance at the beginning of the year/period					
- License of television series and film rights	11,736	43,577	234,028	89,006	11,534
- Advertising services	15,859	2,829	2,689	—	113
	27,595	46,406	236,717	89,006	11,647

(iii) For the contracts related to license of film rights, license of television series and advertising services, the performance obligation is part of the contract that is generally has an original expected duration of one year or less. The Operating Entity Group has elected the practical expedient for not to disclose the remaining performance obligations for these types of contracts.

(b) It represents payments received from co-producers for the co-produced television series and films under joint operation agreement.

(c) Payables are related to the proceeds generated from television series and film rights that are collected by the Operating Entity Group as a distribution agent.

The Operating Entity

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities	6,900	30,412	10,060	1,000
Payments received from co-producers	3,090	1,395	22,000	21,805
Proceeds collected from license and distribution of television series and film rights as distributor	48,012	200,557	353,776	397,880
Financial investors in television series and film production	10,514	—	—	—
Staff costs and welfare accruals	497	661	797	890
Other tax payable	331	173	242	128
Interests payable	1,180	369	920	835
Dividends payable	33,000	—	—	—
Others	96	108	1,187	101
	103,620	233,675	388,982	422,639

28 **Financial liabilities at fair value through profit or loss**

The Operating Entity Group and the Operating Entity

It represents the investments received from the financial investors with variable return who do not participate in the television series and film making process. It is designated as fair value through profit or loss upon its initial recognition.

29 **Cash flow information**

(a) **Cash generated from operating activities**

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit/(loss) for the year/period	97,485	161,083	376,672	25,388	(12,040)
Adjustments for:					
Income tax expense	36,336	54,581	42,715	10,721	1,133
Depreciation of property, plant and equipment	1,719	662	774	135	719
Amortisation of intangible assets	40	77	77	19	19
Amortisation of long-term prepaid expense	3,854	7,759	4,060	204	—
Gain on disposals of property, plant and equipment	—	—	(79)	—	—
Provision/(reversal) for doubtful receivables	25,207	34,319	88,267	2,773	(21,330)
Provision for television series and film rights	46,066	11,857	50,870	—	—
Interest income on bank deposits	(576)	(1,784)	(1,738)	(207)	(1,047)
Interest expenses	35,964	19,532	69,119	10,540	24,171
Share of loss of a joint venture	—	342	1,604	391	515
Foreign exchange (gains)/losses, net	(208)	(3,477)	2,580	278	(1,047)
Change in operating assets and liabilities:					
Trade and notes receivables	(67,293)	(15,753)	(627,605)	(91,171)	428,636
Television series and film rights	(42,096)	(662,471)	(661,894)	(220,941)	(114,987)
Prepayments, deposits and other assets	49,598	(173,584)	(239,313)	(11,904)	(49,984)
Trade payables	13,025	29,059	137,551	8,613	(51,571)
Deferred income	11,000	300	—	—	—
Other payables and accruals	93,346	390,014	295,660	75,274	41,652
Financial assets at fair value through profit or loss	—	—	—	—	(9,600)
Net cash provided by operating activities	303,467	(147,484)	(460,680)	(189,887)	235,239

(b) ***Non-cash investing and financing activities***

During the years ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2017 and 2018, there are no material non-cash investing and financing transactions.

(c) ***Debt reconciliation***

The reconciliation of liabilities arising from financing activities is as follows:

	Borrowings (non-current)	Borrowings (current)	Television series and film financial investors	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	42,464	298,541	70,000	411,005
Cash flows	27,995	(76,000)	(19,000)	(67,005)
Other non-cash movements	(15,459)	15,459	—	—
At 31 December 2015	55,000	238,000	51,000	344,000
At 1 January 2016	55,000	238,000	51,000	344,000
Cash flows	24,000	108,000	107,900	239,900
Other non-cash movements	76,000	(76,000)	—	—
At 31 December 2016	155,000	270,000	158,900	583,900
At 1 January 2017	155,000	270,000	158,900	583,900
Cash flows	205,145	582,718	194,000	981,863
Exchange impacts	—	(1,444)	—	(1,444)
Other non-cash movements	(155,000)	155,000	—	—
At 31 December 2017	205,145	1,006,274	352,900	1,564,319
At 1 January 2018	205,145	1,006,274	352,900	1,564,319
Cash flows	75,000	(220,000)	—	(145,000)
Exchange impacts	—	(1,969)	—	(1,969)
Other non-cash movements	(50,000)	50,000	—	—
At 31 March 2018	230,145	834,305	352,900	1,417,350
(Unaudited)				
At 1 January 2017	155,000	270,000	158,900	583,900
Cash flows	50,000	220,000	(30,000)	240,000
Other non-cash movements	—	—	—	—
At 31 March 2017	205,000	490,000	128,900	823,900

30 **Commitments**

The Operating Entity Group

The Operating Entity Group leases office buildings under non-cancellable operating lease agreements. The majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
No later than 1 year	5,707	6,048	11,675	11,042
Later than 1 year and no later than 5 years	4,119	2,709	9,561	7,803
Later than 5 years	458	344	713	468
	10,284	9,101	21,949	19,313

31 **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Operating Entity Group are also considered as related parties.

Name of the major related parties	**Nature of relationship**
Dongyang Hengdian Early Bird Studio ("Early Bird Studio")	Controlled by core technical staff of the Operating Entity Group
Beijing Zeus Interactive Technology Company Limited ("Beijing Zeus")	Subsidiary of a significant shareholder
Tianjin Maoyan Media Company Limited ("Tianjin Maoyan")	Subsidiary of a significant shareholder
Tencent Pictures (Shanghai) Company Limited ("Tencent Pictures")	Subsidiary of a significant shareholder
Shenzhen Tencent Computer Systems Company Limited ("Tencent Computer")	Subsidiary of a significant shareholder

Name of the major related parties	Nature of relationship
Tencent Penguin Pictures (Shanghai) Company Limited ("Tencent Penguin Pictures")	Subsidiary of a significant shareholder
Shanghai Yuewen Pictures Company Limited ("Yuewen Pictures")	Subsidiary of a significant shareholder
Shenzhen Tencent Video Culture Communication Company Limited ("Tencent Video Culture")	Subsidiary of a significant shareholder
Mr. Cao Huayi	Chief executive of the Operating Entity

The following transactions were carried out with related parties:

(a) ***Transactions with related parties***

Apart from those related party transactions disclosed elsewhere in this report, the Operating Entity Group had the following significant transactions with related parties during the Record Period:

	Year ended 31 December			Three months ended 31 March	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
(i) Provision of film distribution services					
Tianjin Maoyan	—	—	197,552	100,000	—
(ii) Payments related to television series and film production received from co-producers					
Yuewen Pictures	—	—	—	—	27,638
Tencent Penguin Pictures	—	—	—	—	5,000
(iii) Cost of revenue					
Distribution and promotion costs to Tianjin Maoyan	—	6,000	—	—	—
Production costs to Early Bird Studio	1,618	976	3,678	228	—

The prices for the above transactions were determined in accordance with the terms agreed by the relevant contracting parties.

(b) **Balances with related parties**

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
Tianjin Maoyan	—	37,024	—	—

	As at 31 December			As at 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
Tianjin Maoyan	—	6,000	—	—
Early Bird Studio	—	—	3,678	3,450
	—	6,000	3,678	3,450
Other payables and accruals				
Tencent Computer	—	—	—	383,774
Tencent Penguin Pictures	—	—	—	4,717
Yuewen Pictures	—	—	—	1,992
Tencent Pictures	—	—	—	849
Beijing Zeus	1,500	18	18	18
Tencent Video Culture	—	—	—	18
	1,500	18	18	391,368
Borrowings				
Guaranteed by Mr. Cao Huayi	293,000	425,000	1,211,419	1,064,450

32 **Subsequent events**

In 2016, the Operating Entity Group entered into two sales agreements, each with contract value of RMB270 million and totalling RMB540 million ("Aggregate TV Contract Value"), relating to the licensing of first broadcasting right on all media platforms of a television series to two China TV stations in prime time. In addition, the Operating Entity Group entered into another sales agreement of contract value of RMB810 million with an online platform of Tencent Holdings Limited ("Relevant Online Platform") which allows the broadcasting of this television series on the Relevant Online Platform after the broadcasting is made by the two TV stations (the "Online Platform Broadcasting Agreement"). The Operating Entity Group recognised RMB540 million as revenue in 2017 when all the revenue recognition criteria including the transfer of broadcast license and master tape to the two TV stations were met, while the revenue from the Online Platform Broadcasting Agreement was not recognized in 2017 and the three months ended 31 March 2018 as the revenue recognition criteria was not met during such period.

Even though the broadcasting license has been officially granted, the two TV stations delayed the broadcasting of this television series due to their own business consideration. Subsequent to the end of the reporting period, in order to optimize the economic returns for the Operating Entity Group, the Operating Entity Group had discussed with the two TV stations to obtain the right to grant the first broadcasting rights to the Relevant Online Platform. Subsequent to 31 March 2018 and up to the approval date of the Historical Financial Statements:

- the Operating Entity Group and one TV station had officially entered into a written amendment to the sales agreement (the "Amendment Agreements"). Pursuant to the Amendment Agreement, the Operating Entity Group modified the contract amount from RMB270 million to no greater than RMB17.4 million ("New TV Contract Value") for the first broadcasting right on TV platform and the Operating Entity Group will pay cash consideration of RMB53 million ("First Broadcasting Right Consideration") to such TV station so as to allow the Operating Entity Group to obtain the right to grant the first broadcasting rights to the Relevant Online Platform;

- based on the communication between the management of the Operating Entity Group with the other TV station, the other TV station has agreed to enter into an agreement to allow the Operating Entity Group to obtain the right to grant the first broadcasting rights to the Relevant Online Platform. Such written amendment agreement will be entered into subject to internal procedures of the TV station, and the terms of such amendment agreement is not expected to be materially different from the terms of the Amendment Agreement; and

- the Operating Entity Group and the Relevant Online Platform had revised the Online Platform Broadcasting Agreement (the "Revised Online Platform Broadcasting Agreement") with a contract value of RMB1,270 million ("Revised Platform Contract Value").

As a result of the above arrangements and circumstances, in the period subsequent to 31 March 2018:

(i) an amount equivalent to the sum of the following shall be recognised as deduction of revenue in the period subsequent to 31 March 2018 (together as "Deduction of Revenue"):

  (a) the Aggregate TV Contract Value amounting to RMB540 million;

  (b) the First Broadcasting Right Consideration amounting to RMB53 million; and

  (c) the payment of consideration to obtain from the other TV station the right to grant the first broadcasting right to the Relevant Online Platform amounting to RMB50 million based on the communication with the other TV station as described above;

(ii) the revenue generated from the New TV Contract Value of RMB17.4 million and the new contract value to be entered with the other TV station would be recognised in the period when all the revenue recognition criteria are met; and

(iii) the Operating Entity Group recognized the revenue amounting to RMB1,270 million according to the Revised Online Platform Broadcasting Agreement and the Revised Platform Contract Value is greater than the total amount of the Deduction of Revenue, so as to optimize the economic returns for the Operating Entity Group. The above television series has begun to broadcast on the online platform from August 2018.

This non-adjusting subsequent event has no impact on the financial statements for the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2018.

Save as disclosed above and in Note 1, there was no other significant subsequent event.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Operating Entity or its subsidiary in respect of any period subsequent to 31 March 2018 up to the date of this report. No dividend or distribution has been declared or made by the Operating Entity or its subsidiary in respect of any period subsequent to 31 March 2018.

Set out below is the management discussion and analysis of the Target for each of the three financial years ended 31 December 2015, 2016, 2017 and the three months ended 31 March 2018.

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

	For the year ended 31 December			For three months ended 31 March
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	725,233	761,863	1,683,909	46,287
Cost of revenue	(389,696)	(394,187)	(832,688)	(25,504)
Gross profit	335,537	367,676	851,221	20,783
Selling and marketing expenses	(160,624)	(113,633)	(244,833)	(22,739)
General and administrative expenses	(46,181)	(61,455)	(131,244)	13,367
Finance income	576	1,784	1,738	1,047
Other gains/(losses), net	40,477	41,166	13,228	1,321
Operating profit	169,785	235,538	490,110	13,779
Finance costs	(35,964)	(19,532)	(69,119)	(24,171)
Share of loss of a joint venture	—	(342)	(1,604)	(515)
Profit/(loss) before income Tax	133,821	215,664	419,387	(10,907)
Profit/(loss) and total comprehensive income/(loss) for the year/period	97,485	161,083	376,672	(12,040)

REVENUES

The revenue of the Operating Entity Group primarily comes from production, distribution and associated income from of television series, web series and films. Revenue from license of television series and web series to television stations or video platforms is recognized at a point in time when television stations or video platforms obtains control of the asset, which is usually close to the time of premier, while revenue from film distribution is recognized over the period when the films are exhibited in movie theatres.

The Operating Entity Group recorded revenue for each of the financial year ended 31 December 2015, 2016, 2017 and for the three months ended 31 March 2018 of approximately RMB725.2 million, RMB761.9 million, RMB1,683.9 million and RMB46.3 million respectively. Revenue increased by 5.1% between the year 2015 and 2016, primarily driven by a higher number of television series and web series that were successfully premiered and revenue recognized in 2016. Revenue increased by 121.0% between the year 2016 and 2017, primarily driven by a higher number of television series, web series and films that were successfully premiered during the year. As a result, most of the associated revenue was recognized in the year ended 31 December 2017.

Table set out below summarizes the television series, web series and films for which the Operating Entity Group obtained distribution licenses or premier between 2015 and 2017.

Type	Name	Number of Episodes	Time of Premier	Time of License
TV Series	The Kite (風箏)	46	December 2017	April 2014
	Detective Justice Bao (神探包青天)	41	April 2015	October 2014
	Tiger Mom (虎媽貓爸)	45	May 2015	December 2014
	The Imperial Doctress (女醫明妃傳)	50	February 2016	June 2015
	Running after the Love (大貓兒追愛記)	58	September 2015	August 2015
	May December Love 2 (小丈夫)	43	May 2016	April 2016
	Rookie Agent Rouge (胭脂)	45	September 2016	June 2016
	Razor (剃刀邊緣)	48	March 2017	December 2016
	White Deer Plain (白鹿原)	77	April 2017	April 2017
	The First Half of My Life (我的前半生)	42	July 2017	June 2017
	Ruyi's Royal Love in the Palace (如懿傳)	87	August 2018	November 2017
Web Series	Yu Zui (餘罪)	24	May 2016	N/A
Films	Monk Comes Down the Mountain (道士下山)	N/A	July 2015	June 2015
	Jian Bing Man (煎餅俠)	N/A	July 2015	June 2015
	Goodbye Mr. Loser (夏洛特煩惱)	N/A	September 2015	August 2015
	Go Lala Go (杜拉拉追婚記)	N/A	December 2015	November 2015
	Chongqing Hot Pot (火鍋英雄)	N/A	April 2016	March 2016
	Some Like It Hot (情聖)	N/A	December 2016	December 2016
	Wu Kong (悟空傳)	N/A	July 2017	June 2017
	Legend of The Demon Cat (妖貓傳)	N/A	December 2017	November 2017
	Never Say Die (羞羞的鐵拳)	N/A	September 2017	September 2017

For the three months ended 31 March 2018, only Ruyi's Royal Love in the Palace (如懿傳) was delayed in terms of planned premier timing due to scheduling arrangement, all the other pipeline televisions series and web series were either under production or in the process of obtaining license, therefore no television series and web series were distributed during this time period.

Also, in China, a majority of public holidays are scheduled in the second half of the year, including the summer break for schools and universities. The television series, web series and film produced by the Operating Entity Group target mainly the young and mid-aged audience, as such the summer period is the key focus of television stations and online video platforms, which normally contributes a large portion of the viewership. To maximize the outreach and viewership of the television series and web series, the Operating Entity Group as well as industry peers tend to schedule key television and web series during summer break and major holiday periods.

For film business, the key scheduling periods throughout the year are the Spring Festival, Summer Break, National Holiday, Christmas and New Year, as revenue recognition of film business is directly linked to box office, such seasonality is primarily a result of scheduling of films.

Due to the seasonality nature of the business, broadcasting of most of the television series and web series in 2018 are targeted to be in the second half of the year. The revenue for the three months ended 31 March 2017 is higher than the same period of 2018 due to most of the revenue for *Some like it Hot* (情聖) is recognized in 1st quarter of 2017 although the film was released in late 2016. Revenue from film distribution represents the Operating Entity Group's share of box office, which is recognized over the period when the films are on show in theatres on a daily basis.

As of the Latest Practicable Date, the Operating Entity Group has broadcasted television series and web series of Ruyi's Royal Love in the Palace (如懿傳), The Revolution of Our Love (愛情進化論) and Battle through the Heavens (鬥破蒼穹) and premiered films of Hello Mr. Billionaire (西虹市首富) since 31 March 2018. The Operating Entity Group also plans to broadcast or premier a number of television series, web series and films in 2018, including but not limited to The Wolf (狼殿下), City of Desires (慾望之城), the Rookies (素人特工) and Hello, Mrs. Money (李茶的姑媽). Abovementioned television series, web series and films will generate revenue and profit for the Operating Entity Group, to be recognized for the year ended 31 December 2018. The revenue and profits of these television series, web series and films have not been reflected in the operating results for the three months ended 31 March 2018 of the Operating Entity Group.

In order to provide more comprehensive information on the latest operation performance of the Operating Entity Group, the table below sets forth the number of television series and films that 1) have been premiered in 2018 as at the Latest Practicable Date, 2) had been premiered in 2017 as at 30 September 2017, 3) are expected to premier in 2018 as at the Latest Practicable Date, and 4) were premiered during the last quarter of 2017.

(Number of television series or films)	**2018 as at the Latest Practicable Date**	**2017 as at 30 September 2017**
Television series		
Premiered	3	3
Expected to premier by end of year	2	1
Films		
Premiered	1	2
Expected to premier by end of year	2	1

The inventory breakdown of the television series and films rights mentioned in the table above are included in the two tables on page IV-9 under the Section of "**Balance of Television Series and Film**" which set forth the carrying value of the television series and films under production and completed, however, the two tables therein do not include co-production projects.

Based on the relevant licensing contracts, the total contract value of the three television series and web series that had premiered from 1 January 2018 up to the Latest Practicable Date has exceeded RMB1.4 billion, out-performing that of the same period in 2017.

The table below sets forth the list of television series, web series and films that have been premiered in 2018 as at the Latest Practicable Date.

Type	Name	Number of Episodes	Time of Premier
TV series and web series	The Revolution of Our Love (愛情進化論)	40	August 2018
	Ruyi's Royal Love in the Palace (如懿傳)	87	August 2018
	Battle Through the Heaven (鬥破蒼穹)	45	September 2018
Films	Hello, Mr. Billionaire (西虹市首富)	N/A	July 2018

The table below sets forth the list of television series, web series and films that had been premiered in 2017 as at 30 September 2017.

Type	Name	Number of Episodes	Time of Premier
TV series and web series	Razor (剃刀邊緣)	48	March 2017
	White Deer Plain (白鹿原)	77	April 2017
	The First Half of My Life (我的前半生)	42	July 2017
Films	Wu Kong (悟空傳)	N/A	July 2017
	Never Say Die (羞羞的鐵拳)	N/A	September 2017

The table below sets forth the list of television series, web series and films that are expected to premier in 2018 as at the Latest Practicable Date.

Type	Name	Number of Episodes	Time of Premier
TV series and web series	City of Desire (慾望之城)	45	Expected to premier in fourth quarter of 2018
	The Wolf (狼殿下)	48	Expected to premier in fourth quarter of 2018
Films	Hello, Mrs. Money (李茶的姑媽)	N/A	Expected to premier in third quarter of 2018
	The Rookies (素人特工)	N/A	Expected to premier in fourth quarter of 2018

The table below sets forth the list of television series, web series and films that were premiered during the last quarter of 2017.

Type	Name	Number of Episodes	Time of Premier
TV series and web series	The Kite (風箏)	46	December 2017
Films	Legend of The Demon Cat (妖貓傳)	N/A	December 2017

COST OF REVENUES

Cost of revenue mainly consists of production costs of television series, web series and films. Operating Entity Group recorded cost of revenue for each of the financial year ended 31 December 2015, 2016, 2017 and for the three months ended 31 March 2018 of approximately RMB389.7 million, RMB394.2 million, RMB832.7 million and RMB25.5 million, respectively. Cost of revenue remains stable between the year 2015 and 2016, and increased considerably by 111.2% between the year 2016 and 2017. The increase was mainly due to the recognition of production costs associated with a higher number of television series, web series, and films premiered during that year.

GROSS PROFIT AND GROSS MARGIN

The gross profit of the Operating Entity Group amounted to approximately RMB335.5 million, RMB367.7 million, RMB851.2 million and RMB20.8 million for the years ended 31 December 2015, 2016, 2017 and for the three months ended 31 March 2018, respectively. Gross margin increased steadily from 46.3% for the year ended 31 December 2015 to 50.6% for the year ended 31 December 2017, as a result of a combination of stronger revenue performance and robust cost controls. Gross margin for the three months ended 31 March 2018 declined to 44.9% as no television series or web series were distributed during the period.

For the years ended 31 December 2015, 2016 and 2017 and three months ended 31 March 2018, based on revenue and cost recognized during such periods, the gross margins related to television series and web series are 49.2%, 50.5%, 51.7% and 94.5%, and the gross margins related to films are 55.2%, 46.7%, 58.3% and 37.7%, respectively. Gross margin is calculated by dividing revenue by cost of revenue which excludes impairment loss on television series and film rights. For the three months ended 31 March 2018, the revenue from television series and web series was mostly generated from sporadic advertising and licensing for television series and web series premiered in previous years. The majority of corresponding costs of these television series and web series have been recognized in earlier years when they first premiered. Therefore, the 94.5% gross margin for television series and web series for the first three months ended 31 March 2018 was not representative and was particularly high compared to historical levels from 2015 to 2017.

SELLING AND MARKETING EXPENSES

The selling and marketing expenses of the Operating Entity Group mainly consist of promotion and advertising expenses for television series, web series and films. The selling and marketing expenses decreased by 29.3% from approximately RMB160.6 million to approximately RMB113.6 million between the year 2015 and 2016. The decrease was due to the fluctuation of promotion expense associated with films distributed in each financial year, which tend to incur higher promotion and advertising expenses compared to television series and web series. The selling and marketing expense increased by 115.5% to approximately RMB244.8 million for the year 2017. The increase was mainly due to the increasing number of film distributed between the year 2016 and 2017. The selling and marketing expenses were approximately RMB22.7 million for the three months ended 31 March 2018.

GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses mainly consist of employee benefits expenses, impairment loss / reversal on receivables, professional services fees and other general expenses. The general and administrative expenses increased from approximately RMB46.2 million for the year 2015 to approximately RMB61.5 million for the year 2016, and further increased to approximately RMB131.2 million for the year 2017. Such increase was mainly due to incurrence of one-off expenses, including professional fees associated with the Operating Entity Group's A-share listing application in June 2017 and the provision made for certain receivables associated with LeTV that may not be recovered. The general and administrative expenses for the three months ended 2018 was a negative amount of approximately RMB13.4 million due to the reversal of the impaired receivables from previous periods.

The Operating Entity Group submitted the first listing application to the China Securities Regulatory Commission ("**CSRC**") in 2012 and such application was withdrawn by the Operating Entity Group in April 2017. Subsequently the Operating Entity Group submitted the second listing application in June 2017 and eventually decided to cease the A-share listing application and the CSRC review process was formally terminated on 22 March 2018 upon the receiving of termination notice (中國證監會行政許可申請終止審查通知書).

The reasons for not proceeding with the listing applications are as follows: based on the confirmations by the Operating Entity Group which in turn sought the same from the sponsor appointed for the previous listing applications on the PRC securities exchange, (i) during the track record periods under the respective previous listing applications and the vetting of the previous listing applications, the Operating Entity Group had been in compliance with laws and regulations in all material respects and complied with all requirements prescribed by the PRC laws and regulations for companies seeking for initial public offerings; and (ii) during the vetting of the first listing application, there was a change in the shareholding structure of the Operating Entity which was not compliant with the then vetting policy. To comply with the regulatory requirements, the Operating Entity withdrew its listing application in 2017 and re-submitted its listing application in the same year, and the listing application had been in normal vetting process. In 2018, due to change in the strategy of the Operating Entity, the Operating Entity subsequently withdrew its listing application.

According to the management of the Operating Entity Group, the Management Vendors (namely the Founders, Ms. Qu and Xishi Investment) and the management of the Operating Entity started to meet with investors towards the end of 2017 and had begun to consider alternative development directions other than listing of its A share. In March 2018, the management had independently decided to change the strategy of the Operating Entity and would not pursue the A-share listing application.

On the basis of the facts as set out above, the Company was of view that the previous listing attempts of the Operating Entity Group did not have any impact in considering the Acquisition and the basis thereof.

In 2013, the Operating Entity Group entered into a sales agreement with LeTV amounting to RMB25 million to license the television series *The Kite* (風箏) to its online platform. Considering the financial condition and solvency of LeTV, the Operating Entity Group terminated the aforesaid agreement in 2017, which results in a compensation of RMB17.5 million as agreed with LeTV in the termination agreement.

OTHER GAINS

The other gains mainly consist of government grants, net foreign exchange gains and other one-off items. The Operating Entity Group recorded other gains for each of the financial year ended 31 December 2015, 2016, 2017 and for the three months ended 31 March 2018 of approximately RMB40.5 million, RMB41.2 million, RMB13.2 million and RMB1.3 million for the years ended 31 December 2015, 2016, 2017 and for the three months ended 31 March 2018, respectively, primarily from government grants relating to preferential tax policies and monetary rewards relating to outstanding television series, films during the respective periods. A deferral in the payment of governments grants and termination of a contract in the year ended 31 December 2017 have led to a corresponding decrease in the level of other gains for that particular year.

OPERATING PROFIT

The operating profit of the Operating Entity Group increased by 38.7% from approximately RMB169.8 million for the year 2015 to approximately RMB235.5 million for the year 2016 and further increased by 108.1% to approximately RMB490.1 million for the year 2017, mainly due to successful distribution of the television series, web series and films in the year 2017. Operating margins were 23.4%, 30.9% and 29.1% for the years ended 31 December 2015, 2016 and 2017. Operating margin improved considerably from 2015 to 2017 as a result of a decrease of selling and advertising expenses as a percentage of revenues. Operating margins increased slightly to 29.8% for the three months ended 31 March 2018 as a result the reversal of the impaired receivables from the previous periods.

FINANCE COSTS

The finance costs of the Operating Entity Group decreased from approximately RMB36.0 million to RMB19.5 million from the year 2015 to the year 2016. The decrease was mainly due to the lower borrowing base rate reduced by the People's Bank of China. The finance costs increased from the year 2016 to the year 2017 to reach RMB69.1 million and was mainly attributable to an increase outstanding amount of bank borrowings to support production of television series and films in the year 2017. The finance costs for the three months ended 31 March 2018 increased by 129.3% compared with the same period for the year 2017, to approximately RMB24.2 million because of the same reason mentioned above.

PROFIT AND COMPREHENSIVE INCOME

The profit and total comprehensive income for the year period of the Operating Entity Group were approximately RMB97.5 million, RMB161.1 million, RMB376.7 million and was a negative RMB12.0 million for the years ended 31 December 2015, 2016, 2017 and for the three months ended 31 March 2018, respectively. Net margin for the year ended 31 December 2015, 31 December 2016 and 31 December 2017 are 13.4%, 21.1% and 22.4% with a steady improvement of the net margin in line with the improvement of operating margin over the same period. The small net loss for the three months ended 31 March 2018 is due to the scheduling arrangements of 2018's television series, web series and films which resulted in an absence of programmes being distributed in the period and the increased finance costs due to continuous efforts to support production of television series, web series and films in 2018.

BALANCE OF TELEVISION SERIES AND FILM RIGHTS

The balance of television series and film rights under production represented costs associated with the production of television series and films including remuneration for the directors, casts and production crew, costumes, insurance, makeup and hairdressing, as well as rental of camera and lighting equipment and etc. television series and film rights under production were transferred to television series and film rights completed upon completion of production.

The following table sets forth the breakdown of television series and films rights as at 31 March 2018.

	Amount
	RMB
Under production	1,023,141,597
Completed	510,991,156
Adaption rights and scripts	323,314,854
Total	1,857,447,607

The following table sets forth a list of major television series and films rights under production as at 31 March 2018.

Under production	Description	Amount *RMB*	Premier Status
Battle through the Heavens (鬥破蒼穹)	Television series (Fantasy)	288,465,583	Premiered in September 2018
The Wolf (狼殿下)	Television series (Costume)	220,363,698	Expected to premier in fourth quarter of 2018
City of Desires (欲望之城)	Television series (Cosmopolitan)	110,774,025	Expected to premier in fourth quarter of 2018
The Revolution of Our Love (愛情進化論)	Television series (Cosmopolitan)	196,435,478	Premiered in August 2018
Television Series A	Television series (Costume)	66,284,461	Expected to premier in 2019 or onwards
The Rookies (素人特工)	Film (Action)	52,638,672	Expected to premier in fourth quarter of 2018
Television Series B	Television series (Cosmopolitan)	26,528,459	Expected to premier in 2019 or onwards
Television Series C	Television series (Fantasy)	24,197,369	Expected to premier in 2019 or onwards
Others	N/A	37,453,854	N/A
Total		1,023,141,597	

The following table sets forth the list of television series and films rights which are completed as at 31 March 2018. The following television series and films had premiered as at the Latest Practicable Date.

Completed	Description	Amount *RMB*	Premier Status
Ruyi's Royal Love in the Palace (如懿傳)	Television series (Costume)	509,046,194	Premiered in August 2018
Legend of The Demon Cat (妖貓傳)	Film (Fantasy)	1,171,066	Premiered in December 2017
The First Half of My Life (我的前半生)	Television series (Cosmopolitan)	773,896	Premiered in July 2017
Total		510,991,156	

The list of television series and films rights which are under production or completed in the two tables above does not include co-production projects.

The following table sets forth the breakdown of adaptation rights and scripts as at 31 March 2018.

Adaptation rights and scripts	**Amount**
	RMB
Full copyright	16,023,864
Script in development	144,107,065
Novel adaptation right	154,190,122
Completed script	3,398,092
Script development	967,161
Reproduction right	4,628,550
Total	323,314,854

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Operating Entity Group recorded total assets of approximately RMB3,941.9 million as at 31 March 2018. This mainly included television series, web series and film rights, which include adaptation rights and scripts, completed and under production television series, web series and films, of approximately RMB1,857.4 million, trade and notes receivables, which are mainly consists of amounts due from television stations, online platforms and film distributors, of approximately RMB726.2 million, prepayment, deposits and other assets, consists primarily of prepayment for production of television series, web series and films of approximately RMB396.3 million as recorded in current assets, and cash and cash equivalents of approximately RMB634.3 million.

As at March 31, 2018, of the total of RMB1,857 million television series and film rights, RMB1,023 million is television series and film under production, RMB511 million is completed television series and film and rest is the adaption rights and scripts. Major television series and films under production as at March 31, 2018, are Battle through the Heavens (鬥破蒼穹), The Wolf (狼殿下) and The Revolution of Our Love (愛情進化論). The total liabilities of the Operating Entity Group as at 31 March 2018 were approximately RMB2,654.7 million, which mainly include borrowings in non-current liabilities, borrowings in current liabilities, trade payables, other payables and accruals, deferred income in current liabilities, current income tax liabilities of approximately RMB230.1 million, RMB834.3 million, RMB211.3 million, RMB1,363.3 million, RMB11.3 million, RMB4.3 million respectively.

The Operating Entity Group's operations were financed mainly by its working capital and bank borrowings. As of March 31, 2018, the Operating Entity Group has current borrowings of RMB834.3 million and non-current borrowings of RMB230.1 million, totaling to RMB1,064.4 million.

The Operating Entity Group's gearing ratio was 38%, 46%, 93% and 83% for the year ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2018, respectively. This ratio is calculated as debt divided by total capital. Debt represents total borrowings while total capital iscalculated as "equity" as shown in the consolidated statements of financial position. The increase of gearing ratio throughout these periods was mainly due to increasing investment in script development and increasing numbers of pipeline projects.

The Operating Entity Group is the lead producer of most of the pipeline projects and will be involved from the early stage of the production. The terms of each project contract differ from case to case. The Operating Entity Group and the other investors of the television series, web series and films shall fund the production cost at an agreed proportion and will share the profits based on an agreed proportion. Given the cash cycle of the business, the Operating Entity Group needs external funding, which results in an increasing gearing ratio.

PLEDGE OF ASSETS

As at 31 December 2015, 2016 and 2017 and 31 March 2018, restricted deposits amounting to nil, nil, RMB58.8 million and RMB58.8 million were pledged as security for bank borrowings. The carrying amounts of restricted cash approximated their fair values and denominated in RMB.

COMMITMENTS

The Operating Entity Group leases office buildings under non-cancellable operating lease agreements. The majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December			As at 31 March
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
No later than 1 year	5,707	6,048	11,675	11,042
Later than 1 year and no later than 5 years	4,119	2,709	9,561	7,803
Later than 5 years	458	344	713	468
Total	**10,284**	**9,101**	**21,949**	**19,313**

DIVIDEND

For the years ended 31 December 2015, 31 December 2016, 31 December 2017 and the three months ended 31 March 2018 the Operating Entity Group did not declare the payment of dividends. For the year ended 31 December 2014, the Operating Entity Group declared the payment of dividends of approximately RMB33.0 million and paid in the year ended 31 December 2016.

FOREIGN EXCHANGE RISK

The Operating Entity Group mainly operates in Hong Kong and the PRC, and the majority of transactions are denominated in RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the relevant entity. The Operating Entity Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. The Operating Entity Group currently does not hedge transactions undertaken in foreign currencies but manages its exposure through constant monitoring to limit as much as possible the amount of its foreign currencies exposures.

If USD had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax profit would have been approximately RMB0.2 million, RMB2.8 million, lower/higher and RMB3.9 million and RMB2.7 million higher/lower for the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2018, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD.

The Operating Entity Group had not used any financial instrument to hedge against the exposure in foreign exchange.

INTEREST RATE RISK

Since the loans of the Operating Entity Group were mainly sourced from bank borrowings, the benchmark lending rate announced by the People’s Bank of China had a direct impact on the Target’s cost of debt. Future changes in interest rate would also have certain impact on the Operating Entity Group’s cost of debt. The Operating Entity Group’s will strive to reduce the finance cost by actively monitoring the changes in credit policies, taking pro-active actions, strengthening capital management and expanding financing channels.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2015, 31 December 2016, 31 December 2017 and the three months ended 31 March 2018, the Operating Entity Group employed a total of about full time 122, 147, 146 and 151 employees respectively. The Operating Entity Group’s staff recruitment and promotion are primarily based on individuals’ merits, relevant experiences, development potentials for the positions offered and performance. Staff remuneration and benefit policies are formulated with reference to the competitive market conditions, and individual performance.

For the years ended 31 December 2015, 31 December 2016, 31 December 2017 and the three months ended 31 March 2018, the staff cost of the Operating Entity Group amounted to approximately RMB20.3 million, RMB20.3 million, RMB26.9 million and RMB8.4 million respectively, including basic salaries, year-end bonus and staff benefits such as social security costs, housing benefits, pension costs and other employee benefits.

PROSPECTS

The Operating Entity Group will continue to implement its quality focused strategy on the production of premium content, which is a competitive advantage in the television series, web series and film production markets.

The business prospects of the Operating Entity Group will be mainly driven by the number of television series, web series and films distributed in a particular year. Compared with television series and web series, which are sold to television stations and online video streaming platforms prior to broadcast, film distribution revenue will depend more on the audience reception and box office results after release.

If integrated with the Company's vast content library, the Operating Entity Group is expected to have greater control on the adaptation process in conjunction with the Company and also have a better control of costs. The Company's content library also provides an enduring runway of literary content for adaptation into various media formats. Such integration allows the Operating Entity Group to adapt more high quality literary content into popular television series, web series and films leveraging the Operating Entity Group 's leading expertise of script development and production as well as proven track record of literary content adaptation.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Pursuant to the Share Purchase Agreement, China Literature Limited (the "Company") and its subsidiaries (together the "Group") has conditionally agreed to acquire 100% equity interest in the Target Group (being Qiandao Lake Holdings Limited and its subsidiaries (the "Target SPV Group"), together with New Classics Media Corporation and its subsidiaries (the "Operating Entity Group") which are expected to be controlled by the Target SPV Group through a series of agreements upon their effectiveness) (the "Acquisition"). Details of the Acquisition are set out in the section headed "Letter from the Board" contained in this circular. The Target Group is principally engaged in production and distribution of television series, web series and films. The Target Group has produced a number of popular television series and films across difference genres. Upon Completion, the Target Company will become a wholly owned subsidiary of the Company and a member of the Group.

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of the Enlarged Group (being the Group together with the Target Group) as if the Acquisition had been completed on 30 June 2018. The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition pursuant to the terms of the Share Purchase Agreement. It has been prepared on the basis of the notes set out below and is consistent with the accounting policies adopted by the Group.

The Unaudited Pro Forma Financial Information is based upon:

(a) the unaudited consolidated statement of financial position of the Group as at 30 June 2018 as set out in the Group's published interim financial information for the six months then ended;

(b) the consolidated statements of financial position of the Target SPV Group as at 31 July 2018 which has been extracted from Appendix II to this circular;

(c) the consolidated statements of financial position of the Operating Entity Group as at 31 March 2018 which has been extracted from Appendix III to this circular; and

(d) after taking into account of the unaudited pro forma adjustments as described in the notes thereto to demonstrate how the Acquisition might have affected the historical financial information in respect of the Enlarged Group as if the Acquisition had been completed on 30 June 2018.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and is based on certain assumptions, estimates, uncertainties and other currently available information. Accordingly, as a result of these assumptions, estimates and uncertainties, it may not give a true picture of the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on the dates indicated herein. Furthermore, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical information of the Group as set out in the published interim financial information of the Group for the six months ended 30 June 2018 and other financial information included elsewhere in this circular.

(A) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2018	Audited consolidated statements of financial position of the Target SPV Group as at 31 July 2018	Audited consolidated statements of financial position of the Operating Entity Group as at 31 March 2018	Unaudited Pro forma adjustments			Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
ASSETS AND LIABILITIES							
Non-current assets							
Property, plant and equipment	34,592	—	3,036	—	543	—	38,171
Intangible assets	4,467,482	—	529	12,887,918	—	—	17,355,929
Investments in associates and joint ventures	556,298	—	7,539	—	(12,807)	—	551,030
Deferred income tax assets	15,500	—	55,868	—	—	—	71,368
Financial assets at fair value through profit or loss	293,000	—	—	—	—	—	293,000
Prepayments, deposits and other assets	22,593	—	192,371	—	—	—	214,964
	5,389,465	—	259,343	12,887,918	(12,264)	—	18,524,462
Current assets							
Inventories	338,950	—	—	—	—	—	338,950
TV programs and film rights	—	—	1,857,448	220,252	—	—	2,077,700
Trade and notes receivables	606,336	—	726,152	—	—	—	1,332,488
Prepayments, deposits and other assets	252,195	8	396,301	—	754	—	649,258
Financial assets at fair value through profit or loss	37,823	—	9,600	—	—	—	47,423
Other investments at amortised cost	26,209	—	—	—	—	—	26,209
Term deposits	456,545	—	—	—	—	—	456,545
Restricted cash	—	—	58,758	—	—	—	58,758
Cash and cash equivalents	8,509,577	—	634,304	(1,531,587)	9,339	(48,000)	7,573,633
	10,227,635	8	3,682,563	(1,311,335)	10,093	(48,000)	12,560,964

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2018	Audited consolidated statements of financial position of the Target SPV Group as at 31 July 2018	Unaudited Pro forma adjustments Audited consolidated statements of financial position of the Operating Entity Group as at 31 March 2018				Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Non-current liabilities							
Borrowings	—	—	230,145	—	—	—	230,145
Deferred income tax liabilities	217,278	—	—	283,431	—	—	500,709
Deferred revenue	40,431	—	—	—	—	—	40,431
Financial liabilities at fair value through profit or loss	—	—	—	3,138,823	—	—	3,138,823
Other non-current liabilities	-	—	—	—	—	—	—
	257,709	—	230,145	3,422,254	—	—	3,910,108
Current liabilities							
Borrowings	475,000	—	834,305	—	—	—	1,309,305
Trade payables	863,217	—	211,310	—	—	—	1,074,527
Other payables and accruals	352,889	2	1,363,270	—	102	(24,000)	1,692,263
Deferred revenue	342,239	—	11,300	—	—	—	353,539
Current income tax liabilities	46,243	—	4,348	—	—	—	50,591
Financial liabilities at fair value through profit or loss	500	—	—	1,921,449	—	—	1,921,949
	2,080,088	2	2,424,533	1,921,449	102	(24,000)	6,402,174
Net current assets	8,147,547	6	1,258,030	(3,232,784)	9,991	(24,000)	6,158,790
Total assets less current liabilities	13,537,012	6	1,517,373	9,655,134	(2,273)	(24,000)	24,683,252
Net assets	13,279,303	6	1,287,228	6,232,880	(2,273)	(24,000)	20,773,144

(B) NOTES TO UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

1. The balances are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2018 as set out in the Group's published interim financial information for the period ended 30 June 2018.

2. The balances are extracted from the audited consolidated statements of financial position of the Target SPV Group as at 31 July 2018 and the audited consolidated statements of financial position of the Operating Entity Group as at 31 March 2018 as set out in Appendix II and Appendix III, respectively, to this circular.

3. Pursuant to the Share Purchase Agreement, the aggregate nominal consideration for the Acquisition is approximately RMB15.5 billion and will be subject to the Earn-out Mechanism that set out in the Share Purchase Agreement. The consideration will be settled by a combination of cash and new shares based on the terms and subject to the conditions set forth in the Share Purchase Agreement. In addition, the increase in amount of share capital and the reserve of the Group at actual completion date may be substantially different from the amount stated herein due to the difference between the fair value of the consideration shares at the valuation date and the actual Completion Date. The credit of cash and cash equivalents in the amount of approximately RMB1,531,587,000 represented the cash consideration that shall be settled upon the completion of this Acquisition.

For the purpose of this Unaudited Pro Forma Financial Information, the share consideration that shall be paid to one of the selling shareholders, Tencent Mobility Limited, was translated into Renminbi at the approximately exchange rate of RMB1 to HK$1.1847 and the shares of the Company to be issued to the selling shareholders upon completion of the Acquisition was translated into Renminbi at the approximately exchange rate of RMB1 to US$0.1471, and such translation does not constitute a representation that any amount has been, could have been, or may otherwise be exchanged or converted at the above rate.

Out of the total nominal consideration of RMB15.5 billion, RMB500 million is a contingent payment. According to B55(a) of International Financial Reporting Standard 3 (Revised) "Business Combinations" ("IFRS 3 (Revised)"), a contingent payment arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Since the Share Purchase Agreement specifically sets out that if any of the Management Vendors (as defined in this circular) ceases or terminates his/her employment relationship(s) with the Group before 31 March 2023, they will give up their respective amount under the Controlled Account (as defined in this circular). As such, RMB500 million will not be included as the consideration for the Acquisition, but a transaction that remunerates employees or former owners of the acquiree for future services, it will be considered as remuneration for post-combination services under IAS 19 "Employee Benefits" and has no impact to the asset and liability of the Enlarged Group as at 30 June 2018 for the purpose of the Unaudited Pro Forma Financial Information.

Upon the completion of the Acquisition, the net identifiable assets of the Target Group will be accounted for in the unaudited pro forma statement of assets and liabilities of the Enlarged Group at their fair values under the acquisition method in accordance with IFRS 3 (Revised).

For the purpose of the Unaudited Pro Forma Financial Information and for illustrative purpose only, the Group has carried out an illustrative consideration allocation exercise following the guidance of IFRS 3 (Revised). The identifiable assets and liabilities of the net identifiable assets are recorded in the unaudited pro forma statement of assets and liabilities of Enlarged Group at their fair values estimated by the directors of the Company with reference to the valuation performed by Duff & Phelps, an independent professional qualified valuer, as at 31 March 2018 for the purpose of purchase price allocation. Certain valuation techniques have been adopted by Duff & Phelps in performing the valuation of the Target Group's intangible assets (i.e. television series and film rights, trademark and non-compete agreement).

In this exercise, the fair value of the television series and film rights was developed through the application of the valuation technique known as the comparative sales method. Using this technique, the expected selling price of television series and film rights to customers in the ordinary course of business as the base amount that must be adjusted for factors that are generally relevant in determining the fair value of the television series and film rights, including: (1) the expected costs required to complete; (2) the expected time that would be required to dispose; (3) the expenses that would be expected to be incurred in the disposition; and (4) a profit commensurate with the amount of investment in the assets and the degree of risk.

In this exercise, the fair value of the trademark was developed through the application of the valuation technique known as the relief from royalty method. Using this technique, the royalty income contributed by the trademark was first estimated. These nominal income streams directly or indirectly derived from such intangible asset are then capitalized at a rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the trademark.

In this exercise, the fair value of the non-complete agreement was developed through the application of the valuation technique known as the profit differential method. Using this technique, the value of the non-compete agreement equals the difference in the values of the business with and without the non-compete agreement in place. Three factors are considered in estimating the value of a non-compete agreement: the ability to compete, the desire to compete if the agreement were not in place, and the amount of economic impact to the business that would occur from competition by the covenanter.

The principal assumptions used in the valuation are set out as below,

1. WACC 14%

2. Royalty Rate of trademark 2.0%

3. Income Tax Rate 25.0%

4. Exchange Rate 6.2755 RMB/USD 7.8488 HKD/USD

The recognition of the goodwill of approximately RMB12.0 billion which represents the excess of the consideration for the Acquisition over the fair value of the net identifiable assets of the Target Group is set out below. The goodwill is associated with a highly skilled workforce, established reputation of the Target Group and synergies derived from the Group and the Target Group.

Details of the net identifiable assets of the Target Group and the calculation of goodwill are as follows:

	Carrying amount	**Fair value**
	RMB'000	*RMB'000*
Property, plant and equipment	3,036	3,036
Intangible assets *(Note a)*	529	914,000
Investments in associates and joint ventures	7,539	7,539
Deferred income tax assets	55,868	55,868
Prepayments, deposits and other assets	192,371	192,371
Television series and film rights *(Note b)*	1,857,448	2,077,700
Trade and notes receivables	726,152	726,152
Prepayments, deposits and other assets	396,309	396,309
Financial assets at fair value through profit or loss	9,600	9,600
Restricted cash	58,758	58,758
Cash and cash equivalents	634,304	634,304
Deferred income tax liabilities *(Note c)*	—	(283,431)
Borrowings	(1,064,450)	(1,064,450)
Trade payables	(211,310)	(211,310)
Other payables and accruals	(1,363,272)	(1,363,272)
Deferred revenue	(11,300)	(11,300)
Current income tax liabilities	(4,348)	(4,348)
	1,287,234	2,137,526
Non-controlling interests	4,796	4,796
Net identifiable assets	1,292,030	2,142,322

	RMB'000
Aggregate consideration *(Note d)*	14,116,769
Less: Fair value of net identifiable assets	(2,142,322)
Pro forma adjustments on Goodwill	11,974,447

Note a; Intangible assets represent trademark of approximately RMB892,100,000 and non-compete agreement of approximately RMB21,900,000.

The recognition of trademark as part of the Acquisition arose mainly from the cost savings by owing the trademark rather than licensing it. The fair value of trademark was developed through the application of the valuation technique which has taken into account the estimated royalty income contributed by the trademark.

The recognition of non-compete agreement as part of the Acquisition arouse mainly from the avoidance of potential damage caused by the competition. The fair value of the non-compete agreement was developed through the application of the valuation technique which has taken into account of the difference in projected cash flows for the Target Group in the scenarios with and without the non-compete agreement in place and the estimated probability of competition.

Note b; Television series and film rights represent the total amount for adaption rights and scripts, television series and film rights under production and television series and film rights completed of approximately RMB2,077,700,000.

The recognition of television series and film rights as part of the proposed acquisition arose mainly from the revaluation of television series and film rights which are expected to bring economic benefit to the Target Group in the ordinary course of business. The fair value of television series and Film rights was developed through the application of the valuation technique which has taken into account the estimated selling price of television series and films right adjusted by relevant costs and a profit commensurate with the amount of investment in the assets and the degree of risk.

Note c; Deferred tax liability arose from the difference between the tax base and fair value of intangible assets as well as film and TV. Tax rate of 25% was used to calculate deferred tax liability as it is the tax rate expected to apply in the period when the liability is settled.

Note d; Pursuant to the Share Purchase Agreement, the consideration will be settled by a combination of cash and shares. "Monte Carlo Simulation Method" was used to in this exercise to measure the value of the contingent consideration. The future net profit of Target Group was simulated in numerous scenarios based on the assumptions of growth rate and volatility of net profit of Target Group. For each scenario, the consideration to be paid in the form of cash and shares would be determined in accordance with the Earn-out Mechanism that set out in the Share Purchase Agreement. Such consideration was then discounted at a rate that reflects the associated risk of the payment to arrive the present value of consideration in a scenario. In this exercise, 5,000 scenarios were performed. The value of contingent consideration was obtained by the average of the present value of considerations in these scenarios. The payable of contingent consideration was presented as "Financial liabilities at fair value through profit or loss" in the unaudited pro forma consolidated statement of assets and liabilities

Since the fair values of the net identifiable assets of the Target Group as at the Completion Date may be substantially different from the fair values used in the preparation of the Unaudited Pro Forma Financial Information, the final amount of the goodwill may be different from the amounts presented above.

The Directors confirm that consistent policies and assumptions have been applied for the purpose of assessing impairment of goodwill and other intangible assets under International Accounting Standard 36 "Impairment of Assets", and the Directors are not aware of any indications that an impairment of the Target Group's goodwill and other intangible assets is required after considering the nature, prospects, financial condition and business risks of the Target Group.

Upon the completion of the Acquisition and at the end of each reporting period, the Group will perform a review for impairment on the Enlarged Group's goodwill annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the Group's accounting policies and principal assumptions.

The actual amounts of these adjustments were determined on the completion dates of the Acquisition, which may be different from the amounts presented in this Unaudited Pro Forma Financial Information and such differences may be material.

4. On 31 October 2016, the Group and the Operating Entities jointly set up Tianjin Yuexin Culture & Media Co., Ltd. ("Tianjin Yuexin"), held 50% equity interest of Tianjin Yuexin, respectively, and accounted for the investments in Tianjin Yuexin by using equity method. For the purpose of the Unaudited Pro Forma Financial Information, the assets and liabilities of Tianjin Yuexin as at 30 June 2018 were consolidated in the Unaudited Pro Forma Financial Information, while the Group's investment in joint venture of Tianin Yuexin balance as at 30 June 2018 and Operating Entities' investment in joint venture of Tianin Yuexin balance as at 31 March 2018 were de-recognised.

5. For the purpose of the Unaudited Pro Forma Financial Information, the direct expenses and other professional services related to the Acquisitions are estimated to be approximately RMB48,000,000 according to respective quotations from the professional parties, which should be charged to the profit or loss.

6. No adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group subsequent to 30 June 2018, of the Target SPV Group subsequent to 31 July 2018 and of the Operating Entity Group subsequent to 31 March 2018.

B. LETTER FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

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

To the Directors of China Literature Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Literature Limited (the "Company") and its subsidiaries (collectively the "Group") and the Target Group (being Qiandao Lake Holdings Limited (the "Target Company") and its subsidiaries (collectively the "Target SPV Group"), and New Classics Media Corporation (the "Operating Entity") and its subsidiaries (collectively the "Operating Entity Group") which are expected to be controlled by the Target SPV Group through a series of agreements upon their effectiveness)) (collectively the "Enlarged Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities of the Group as at 30 June 2018, those of the Target SPV Group as at 31 July 2018, those of the Operating Entity Group as at 31 March 2018 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages V-1 to V-9 of the Company's circular dated September 28, 2018, in connection with the acquisition of the Target Group (the "Acquisition") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages V-10 to V-12.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's financial position as 30 June 2018 as if the Transaction had taken place at 30 June 2018. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the year ended 30 June 2018, on which a review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

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

Our Independence and Quality Control

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

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

Reporting Accountant's Responsibilities

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

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

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

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

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

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

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

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

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

Opinion

In our opinion:

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

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

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, September 28, 2018

September 28, 2018

The Directors
China Literature Limited
No.6 Building, 690 BiBo Road
Pudong New Area, Shanghai, China
Our Ref.: 89315

Dear Sirs,

VALUATION REPORT ON MARKET VALUE OF 100% EQUITY INTEREST IN NEW CLASSICS MEDIA CORPORATION

Pursuant to the terms, conditions and purpose of an engagement agreement dated June 25, 2018 ("Engagement Agreement") between China Literature Limited ("CLL", "Client" or "Company") and D&P China (HK) Limited ("Duff & Phelps China"), we have performed an analysis of the market value ("Valuation") of 100% equity interest of New Classics Media Corporation ("NCM" or "Operating Entity") and its subsidiaries (collectively referred to as "Operating Entity Group") as of March 31, 2018 ("Valuation Date").

We understand that the Company contemplates the acquisition of the Operating Entity Group ("Proposed Transaction") and the Valuation is prepared based on the underlying assumptions and information provided by the management of the Company and the Operating Entity Group (together "Management").

We understand that this letter will be adopted by the Company for public disclosure purpose in compliance with the Rules Governing the Listing of Securities on Stock Exchange ("Listing Rules") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). No third party shall have the right of reliance on this letter and neither receipt nor possession of this letter by any third party shall create any express or implied third-party beneficiary rights.

This letter identifies the asset appraised, describes the scope of work, states the basis of value, specifies key inputs and assumptions, explains the valuation methodology utilized, and presents our conclusion of value. In preparing this letter, we aim to largely comply with the reporting standards recommended by the International Valuation Standards ("IVS"). The depth of discussion contained in this letter is specific to the needs of the Client and for the intended use of inclusion in the public filing in relation to the Proposed Transaction. Supporting documentation and schedules concerning confidential commercial matters has been retained in our work papers and by the Client.

PURPOSE OF VALUATION

The Client intends to acquire 100% equity interest in the Operating Entity Group for an aggregate consideration of approximately RMB15.5 billion that will be subject to an earn out mechanism, i.e. a downward-only adjustment mechanism if the net profit of the Operating Entity Group in the next three years falls below a certain benchmarked level. With the Client's approval and as stipulated in the Engagement Agreement in formulating our opinion on the market value of equity interest in the Operating Entity Group, we relied upon the completeness and accuracy of operational and financial information provided by the Management. To the extent that any of these assumptions or facts changed, the result of our market value conclusion should be different.

The intended use of the Valuation is to serve as the basis for compliance with the Listing Rules. The ultimate transaction, if happens, and the corresponding acquisition prices would be the results of negotiations between the transacting parties. The responsibility for determining the agreed acquisition price of the Operating Entity Group rests solely with the Company. The results of our analysis should not be construed to be a fairness opinion, a solvency opinion, or an investment recommendation. It is inappropriate to use our valuation report for purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of the financial projections and underlying assumptions.

STANDARD AND BASIS OF VALUE

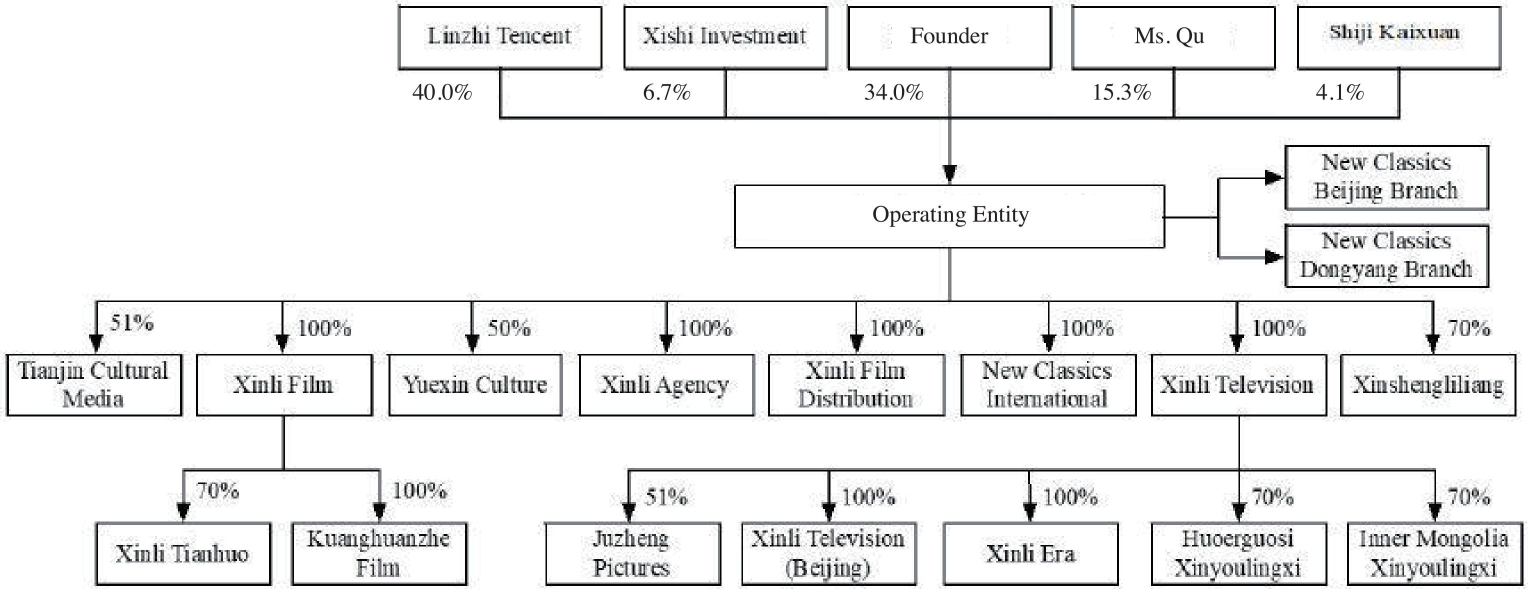
The Valuation was prepared on the basis of market value. Market value is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Business enterprise value is defined for this appraisal as the total invested capital, that is, equivalent to the combination of all interest-bearing debts, shareholders' loans and shareholders' equity. Alternatively, the business enterprise value is equivalent to the combination of all tangible assets (buildings, machinery and equipment), long-term investment, net operating working capital and intangible assets of a continuing business. Equity interest is equivalent to business enterprise value less interest-bearing debts.

DESCRIPTION OF THE OPERATING ENTITY GROUP

The Operating Entity Group is principally engaged in production and distribution of television series, web series and films. The Operating Entity Group has produced a number of popular television series and films across difference genres.

The group structure of the Operating Entity Group is shown as below:



FINANCIAL REVIEW OF THE OPERATING ENTITY GROUP

We have reviewed the audited financial statements of the Operating Entity Group for the financial years ended December 31, 2015, December 31, 2016 and December 31, 2017 and three-month period ended March 31, 2018 provided by the Management without further verification.

Revenue of the Operating Entity Group increased from RMB 725 million in FY2015 and RMB 762 million in FY2016 to RMB 1,684 million in FY2017, mainly due to the rapid growth in license and distribution of television series rights. In the past few years, over 90% of revenue came from license and distribution of television series and film rights and the profit margins were improving. Operating profits were RMB 170 million, RMB 236 million and RMB 490 million in FY2015, FY2016 and FY2017 respectively, representing operating margin improving from 23.4% in FY2015 to 30.9% in FY2016 and 29.1% in FY2017 because of better control in production costs of television series and film rights and promotion and advertising expenses, the two key cost items of the Operating Entity Group. Net profits in the past few years followed the trend of operating profits. With respective net profit of RMB 97 million, RMB 161 million and RMB 377 million in FY2015, FY2016 and FY2017, the net profit margin the Operating Entity Group increased from 13.4% in FY2015 to 21.1% in FY2016 and 22.4% in FY2017.

As of March 31, 2018, the total assets of the Operating Entity Group were RMB 3,942 million, of which 47.1% was television series and film rights, 18.4% was accounts receivable and 16.1% was cash. On the liability side, the Operating Entity Group had total borrowing of RMB 1,064 million and other payables of RMB 1,363 million, which were mainly prepayments received from customers and co-producers and television series and film rights investment payable.

Profit & Loss Account

In RMB Mn				**YTD**
Period Ending	**31-Dec-15**	**31-Dec-16**	**31-Dec-17**	**31-Mar-18**
Revenue	725.233	761.863	1,683.909	46.287
Cost of Sales	-389.696	-394.187	-832.688	-25.504
Operating Expenses	-206.805	-175.088	-376.077	-9.372
Interest income	0.576	1.784	1.738	1.047
Other gains/(losses), net	40.477	41.166	13.228	1.321
Operating profit	169.785	235.538	490.110	13.779
Finance costs	-35.964	-19.532	-69.119	-24.171
Share of loss of investment in a joint venture	0.000	-0.342	-1.604	-0.515
Pre-tax Profit	133.821	215.664	419.387	-10.907
Taxes	-36.336	-54.581	-42.715	-1.133
Net Profit	97.485	161.083	376.672	-12.040

Balance Sheet

In RMB Mn				**YTD**
Period Ending	**31-Dec-15**	**31-Dec-16**	**31-Dec-17**	**31-Mar-18**
Total Cash	286.514	277.933	574.718	634.304
Other Current Assets	1,187.984	1,854.393	3,283.174	3,048.259
Intangible Assets	0.703	0.625	0.548	0.529
Fixed Assets	1.404	1.142	3.595	3.036
Long term Investments	0.000	3.658	8.054	7.539
Other Assets	70.493	212.358	248.399	248.239
Total Assets	1,547.098	2,350.109	4,118.488	3,941.906
Net Worth	762.455	923.838	1,299.268	1,287.228
Total Borrowings	293.000	425.000	1,211.419	1,064.450
Other Liabilities/Provisions	491.643	1,001.271	1,607.801	1,590.228
Total Liabilities	784.643	1,426.271	2,819.220	2,654.678

ECONOMIC OUTLOOK

A sound appraisal of a business or business interest must consider current and prospective economic conditions of the national economy. The major variables reviewed in order to evaluate the overall state of the national economy include the current level of and changes in the gross domestic product (GDP), exchange rate, and the inflation rate. An overview of the national economies of China was essential to develop this outlook. The following economic discussion was extracted from Economist Intelligence Unit ("EIU") issued in March 2018.

ECONOMIC GROWTH: The pace of economic growth is forecast to moderate from 6.9% in 2017 to 6.4% in 2018, with tighter credit conditions in 2017 having a lagged impact on investment, and consumption growth set to soften as regulators tighten controls over household loans. Positive external demand conditions will support robust export growth of 4.8% in 2018, although the strength of the renminbi will act as a dampener on the pace of export expansion. A US-China trade war, although not the core forecast, represents a sizeable downside risk to China's growth forecast for 2018.

EXCHANGE RATES: The resilience in the renminbi that was evident last year will extend into 2018, but EIU still expects the local currency to depreciate against the US dollar over the forecast period as a whole. Downward pressure on the renminbi is likely to become more apparent later in 2018, owing to the effect of interest-rate increases and tax reforms in the US. The impact of these factors in weakening the renminbi will be even clearer in 2019. EIU forecasts that the renminbi will weaken to RMB6.64:USD1 on average in 2019, from RMB6.44:USD1 in 2018. The People's Bank of China (PBC, the central bank) may draw on its ample foreign-exchange reserves to slow the pace of depreciation, but will not try to reverse it.

INFLATION: EIU expects consumer prices to rise by 2.7% a year on average in 2018-22. In 2018 the pace of inflation will quicken to 2.2%, with food price inflation accelerating from the low levels seen in 2017. A relatively fast pace of economic growth and still fairly loose monetary policy will push the inflation rate up to 3.2% in 2019. However, an easing in inflationary pressure is expected thereafter, amid a slowdown in domestic economic growth and weaker global oil price pressures.

INDUSTRY OVERVIEW

The discussion below was extracted from the annual report 2017 of Huanxi Media Group Limited, which is principally engaged in media and entertainment and related business.

Positive changes were seen in the film industry of China in 2017. The "Film Industry Promotion Law of the People's Republic of China" was announced and implemented, which will not only foster development of the film industry, but also is proof of the weight the film industry carries for the Central Government and that the government is keen at supporting and encouraging the healthy growth and prosperity of the industry. At the Chinese government's effort to crackdown on online content piracy, audiences have started to go back to the cinema. According to statistics of the Film Bureau of the State Administration of Press, Publication, Radio, Film and Television ("SAPPRFT"), the total box office receipt in the country in 2017 was RMB 55.911 billion, up by 13.5% year-on-year, another double-digit climb since two years ago and an above RM B50 billion new record. The gap between box office receipt in China and North America is narrowing, meaning it will not be too long for China to become the largest film market in the world.

At the same time as their number increases, movie goers are having more and more sophisticated preferences. This phenomenon has prompted film makers to cover a wide range of topics in their works. A blockbuster with an international perspective about the Chinese military, which grossed the highest box office receipt during the national day holiday, and a film about the life of members of an art troupe, all win the heart of audience. On top of Hollywood films, small and medium productions from India, Thailand and Spain also recorded satisfactory box office numbers and won acclaims, showing that audience are drawn to a film more by its quality and word-of-mouth, which means there is a growing market for quality productions.

Moreover, the number of viewers of videos on online platforms is growing rapidly. According to a China Internet Network Information Center report, as at the end of December 2017, there were 772 million internet users in China, and the country's internet penetration rate was 55.8%. According to the "2017 Consolidated Report on Information Dispatch" published by iResearch, China's online video platform market was worth over RMB 90 billion, representing a 48.5% leap year-on-year, and online drama series managed particularly impressive growth. According to the "2017 Analysis Report of Development of Online Original Programs" (2017網絡原創節目發展分析報告) by the SAPPRFT, 206 online drama series were launched on the internet during the year, all together broadcasted 83.3 billion times, and 176 of them, or 85%, were Transactional Video on Demand ("TVOD"), and their video views made up 96% of the total. Supported by a rich supply of video content and advanced internet technology, TVOD is growingly popular among internet users in China, a trend that has kept boosting the price of online drama series, and high quality ones have a price tag of close to RMB10 million an episode.

SCOPE OF WORK AND KEY ASSUMPTIONS

Our investigation included discussions with the Management with regard to the history, operations and prospects of the Operating Entity Group, an overview of certain financial data, an analysis of the industry and competitive environment, an analysis of comparable companies/transactions, and a review of transactions, operating statistics and other relevant documents. For this appraisal, we made reference to or reviewed the following major documents and data:

- Articles of association of the Operating Entity Group.
- Organizational chart of the Operating Entity Group
- Audit reports of the Operating Entity Group for the three fiscal years at December 31, 2015, 2016 and 2017 and three-month period ended March 31, 2018
- Breakdown of historical revenue, cost of revenue and operating expenses
- Prospective financial information ("PFI") and project pipeline prepared by the Operating Entity Group
- Summary of outstanding debts and corresponding interest rate
- Industry research reports cited in the section of the report where referenced
- Other relevant documents

We assumed that the data we obtained in the course of the valuation, along with the opinions and representations provided to us by the Management, are true and accurate and accepted them without independent verification except as expressly described herein. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading. In arriving at our opinion of value, we have considered the following principal factors:

- the stage of development of the Operating Entity Group
- the historical costs of the Operating Entity Group
- the economic outlook for China and specific competitive environments affecting the movie and television series production industry
- the legal and regulatory issues of the movie and television series production industry in general and other specific legal opinions relevant to the Operating Entity Group
- the transaction prices of the comparable companies / transactions properties
- the risks associated with the Operating Entity Group
- the experience of the Operating Entity Group's management team.

Due to the changing environments in which the Operating Entity Group is operating, a number of assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation are:

- no major changes are expected in political, legal and economic conditions in China;
- regulatory environment and market conditions for the movie and television series production industry will be developing according to prevailing market expectations;
- there will be no major changes in the current taxation law applicable to the Operating Entity Group;
- The Operating Entity Group will not be constrained by the availability of finance;
- the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations; and
- The Operating Entity Group will retain competent management, key personnel and technical staff to support their ongoing operations.

VALUATION METHODOLOGY OVERVIEW

In the appraisal of the equity, or the net assets, of a business, regardless of their diversity, location, or technological complexity, there are three basic approaches to perform a valuation. The descriptive titles typically attached to these approaches are cost, income, and market. In normal circumstances, the appraiser is obliged to consider all three approaches, as any, or perhaps all, may provide reliable measures of value.

Cost approach established value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk.

Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach.

To develop our opinion of value, the three generally accepted approaches to value are considered: cost, market and income. While useful for certain purposes, the cost approach is generally not considered applicable to the valuation of a going concern, as it does not capture future earning potential of the business. Thus, it is not utilized in the Valuation. In forming our opinion, we solely rely upon the market approach to prepare a business enterprise value analysis of the Operating Entity Group. Given the uncertainty in forecasting, the income approach is not used.

MARKET APPROACH — GUIDELINE COMPANY METHOD

One methodology employed in the market approach is the Guideline Company Method (GCM), where financial ratios of comparable companies were analyzed to determine a value for the subject company. This method employs market price data of stocks of corporations engaged in the same or a similar line of business as that of the subject company and is appropriate valuation method for established business. Stocks of these corporations are actively traded in a public, free, and open market, either on an exchange or over-the-coun—ter.

Our selection criteria of comparable companies include:

- Engages in similar businesses: Major business in movie and television series production, which contributes over half of the revenue for at least two years
- Market capitalization of at least USD 100 million

- Located in China
- Profit making
- Excludes those companies whose shares have been suspended for trading for more than 6 months in recent two years

We have identified and described below seven comparable companies whose business natures are similar to that of the Operating Entity Group:

1. Huayi Brothers Media Corporation (300027 CH) operates film and television production and distribution businesses. It designs and produces variety shows, animations, radio dramas, television dramas, and other contents. Huayi Brothers Media also operates corporate image planning, entertainment project investment management, and other businesses.

2. Zhejiang Huace Film & TV Co., Ltd. (300133 CH) specializes in entertainment media production. Its products include Mandarin films, television series and advertisements.

3. Ciwen Media Co Ltd (002343 CH) invests, produces and distributes films and television programs.

4. H&R Century Union Corp. (000892 CH) is a media producer. It designs and produces online games, films, television series and programs. H&R Century Union also provides agency services in the media industry.

5. Zhejiang Talent Television & Film Co., Ltd. (300426 CH) partakes in the investment, production, promotion, and distribution of both Chinese domestic and imported films.

6. Omnijoi Media Corporation (300528 CH) produces, releases, and markets TV shows and movies. It also operates and invests in movie theaters and related business.

7. Beijing Enlight Media Company Limited (300251 CH) invests in, produces, and distributes television programs, films, and teleplays. Its major products include TV shows, TV entertainment programs, films, and drama series.

We calculated enterprise value ("EV") to earnings before interest and tax ("EBIT") and price to earnings ("P/E") multiples of the above seven comparable companies. The time period for those earnings denominator of price multiples is the latest financial year ("LFY") annual results in 2017.

	(In RMB million) Comparable Company	EV (Note 1)	EBIT (Note 2)	EV / EBIT	Market Capitalization (Note 3)	Net Income	P/E
1	Huayi Brothers Media Corp	28,876	540	53.5	26,524	828	32.0
2	Zhejiang Huace Film & TV Co Ltd	22,332	692	32.3	21,307	634	33.6
3	Ciwen Media Co Ltd	13,756	454	30.3	13,687	408	33.5
4	H&R Century Union Corp	6,767	412	16.4	6,767	422	16.0
5	Zhejiang Talent Television & Film Co Ltd	8,290	284	29.2	7,556	193	39.2
6	Omnijoi Media Corp	4,078	70	58.4	3,996	112	35.5
7	Beijing Enlight Media Co Ltd	39,889	658	60.7	37,726	815	46.3
			Selected	32.3		Selected	33.6

Note 1: Enterprise Value ("EV") refers to the sum of market capitalization extracted from Bloomberg as of the Valuation Date and book value of net debt and minority interest as of the latest available interim closing

Note 2: Earnings before interest and tax ("EBIT") is sourced from Bloomberg or annual reports of the comparable companies and adjusted by excluding non-recurring items

Note 3: Market capitalization shown has been deducted by negative net debt, if any

A comparison was made between the Operating Entity Group and the comparable companies on the basis of revenue size, historical growth rate and profitability. Selected financial figures and ratios are as follows:

	Comparable Companies			**Operating Entity Group**
	High	**Low**	**Median**	
Revenue in 2017 (RMB Mil)	5,224	1,175	1,655	1,684
Average EBIT margin (2015-2017)	36%	6%	28%	24%
Average revenue growth (2015-2017)	84%	15%	41%	63%

The Operating Entity Group is closed to the median of the comparable companies in term of revenue size and profitability while its revenue growth rate is between the median and high end of the comparable companies.

Given the size and profitability of Operating Entity Group are comparable to the comparable companies above, the median of the price multiples is selected. We considered that the median of price multiples would be more appropriate compared to the average because it is not skewed so much by the extreme multiples, given the range of price multiples of the comparable companies is quite wide in this case.

Then, we multiplied the selected price multiples by FY 2017 EBIT (adjusted by excluding non-recurring items) and net income of the Operating Entity Group to arrive at business enterprise value and equity value of the Operating Entity Group on a marketable and non-control basis. To arrive at business enterprise value and equity value of the Operating Entity Group on a control basis, a control premium and discount for lack of marketability (please refer to later sections) are applied.

MARKET APPROACH — GUIDELINE TRANSACTION METHOD

The Guideline Transaction Method ("GTM") under the market approach was adopted. GTM employs the transaction price of corporations engaged in the same or a similar line of business as that of the subject company. Both the transaction consideration and the financial data of the transactions were analyzed to determine a value applicable to the subject company.

We identified 16 transactions which were completed in the past five years in the television series and film production industry in China and collected transaction price and financial information disclosed in public filing and announcements of relevant companies or observed and sourced from Mergermarket.

Key information of comparable transactions is summarized below:

	(USD million) Subject Company	Completion Date	Transaction Amount	% sought	Implied EV (Note 2)	EBIT	EV/EBIT	Implied Equity (Note 3)	Net Income	P/E
1	Beijing Hualubaina Film and TV Co., Ltd.	5/28/2018	286.83	17.55%	1,892.02	19.92	95.0	1,892.02	17.56	107.7
2	Yantai Jinhui Cultural Media Co., Ltd.	01/04/2017	36.00	30.78%	152.05	N/A	N/A	152.05	4.13	36.8
3	Dream Factory Culture & Media (Tianjin) Co., Ltd.	07/03/2017	127.00	70.00%	181.43	N/A	N/A	181.43	5.35	33.9
4	Beijing Bi'an Chuntian Film and TV Co., Ltd.	27/06/2016	58.00	100.00%	58.00	1.44	40.3	58.00	1.08	53.7
5	Nanjing Hongying etc (Note 1)	21/07/2016	18.00	78.64%	22.89	N/A	N/A	22.89	1.16	19.7
6	Bona Film Group Limited	08/04/2016	330.00	37.20%	1,184.14	15.02	78.8	1,153.23	6.40	180.2
7	Beijing Haohai Golden Bridge Media Co Ltd	28/12/2015	20.00	70.00%	28.61	2.12	13.5	28.57	1.52	18.8
8	Zhejiang Dream Stardom Film & TV Culture Co. Ltd	31/10/2015	194.00	100.00%	199.24	2.27	87.9	194.00	2.01	96.7
9	Ciwen Media Group Co Ltd	24/07/2015	384.03	100.00%	404.58	23.65	17.1	384.03	19.36	19.8
10	Beijing CCTV Splendid TV and Film Corp	18/06/2015	149.00	100.00%	143.51	1.59	90.0	143.51	1.17	122.7
11	Huayi Brothers Media Corporation	31/03/2015	556.61	10.18%	7,195.09	141.01	51.0	7,107.97	142.88	49.7
12	Perfect Pictures and Media Group Inc	13/12/2014	442.00	100.00%	424.67	42.63	10.0	424.67	29.88	14.2
13	Beijing Sun Shine Cultural Communication Co Ltd	01/08/2015	125.00	100.00%	125.00	6.78	18.4	125.00	N/A	N/A
14	Alibaba Pictures Group Limited	25/06/2014	804.00	60.00%	1,320.00	40.50	32.6	1,320.00	27.62	47.8
15	Great Wall Movie and Television Co., Ltd.	08/04/2014	365.00	100.00%	355.34	26.26	13.5	365.00	18.57	19.1
16	Croton Media Group Co Ltd	28/03/2014	267.00	100.00%	260.31	16.79	15.5	260.31	12.83	20.3
						Selected:	32.5		Selected:	37.0

Note 1: Subject companies include Nanjing Hongying; Dragon Animation Limited; Yulang Film and Animation Culture Limited

Note 2: Enterprise Value ("EV") refers to the sum of market capitalization implied by the transaction and book value of net debt, if information is available. For transactions in which the percentage sought were less than 50%, a control premium of 30%, as described in the later section, is applied to the consideration.

Note 3: Market capitalization shown above has been deducted by negative net debt, if any from the available information. Similar to EV, control premium has also been considered.

The ratio of implied total enterprise value to EBIT and the price to earnings ratio were calculated for each of the transactions. Though public information available would not be sufficient for a comparison between the Operating Entity Group and the target companies in the comparable transactions, the median of the price multiples is selected to reflect how much an investor would pay for a company that engaged in the same or a similar line of business as that of the Operating Entity Group. We considered that the median of price multiples is appropriate to the valuation because it has excluded the extreme multiples which could be caused by specific considerations of the acquirers in the comparable transactions that cannot reliably be discerned.

Then, we multiplied the selected price multiples by FY 2017 EBIT (adjusted by excluding non-recurring items) and net income of the Operating Entity Group to arrive at business enterprise value and equity value of the Operating Entity Group on a control basis.

PREMIUM FOR CONTROL

Premium for control is the additional value inherent in the controlling interest, as contrasted to a minority interest that reflects the power of control. The thousands of daily transactions on stock exchanges are, of course, minority interest transactions. Each year, a controlling interest in a few hundred of these public companies is purchased at a price that is substantially higher than the published market price of the securities. The public markets provide information on control premiums through acquisition transactions. When a controlling interest in a publicly traded firm is acquired and taken private, the purchaser normally pays a premium above the freely traded, minority interest share price. The difference between the published price of the shares before their acquisition and the purchase price of the controlling interest is referred to as the control premium.

When valuing the Operating Entity Group based on guideline companies' multiples, the level of value is presented on freely traded and non-controlling basis. A premium for control reflects the degree of control associated with a 100% interest in the shares of the Operating Entity Group. To estimate the control premium applicable to the Operating Entity Group, we relied on indications of control premiums from data on acquisition transactions in the media industry and premium offered in the transactions extracted from Mergermarket and industry premium extracted from Mergerstats in 2017. As indicated by market data, a 30% control premium on enterprise value level was considered to be appropriate.

DISCOUNT FOR LACK OF MARKETABILITY ("DLOM")

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

In this appraisal, the discount for lack of marketability was considered to be 5%, which represents transaction costs involved in the sale of the business, like legal and other professional fees. Given the fact that the Operating Entity Group has applied for IPO in China before and it was previously an associate of a listed company, we believe the magnitude of discount for lack of marketability should not be substantial.

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above, it is our opinion that the market value of 100% equity interest of the Operating Entity Group as of the Valuation Date is reasonably represented in the range of approximately RENMINBI THIRTEEN BILLION NINE HUNDRED AND THIRTY SEVEN MILLION (RMB 13,937,000,000) AND RENMINBI EIGHTEEN BILLION FOUR HUNDRED AND THIRTY THREE MILLION (RMB 18,433,000,000).

(RMB million)	Guideine Company Method		Guideine Transaction Method	
Financial Year	FY2017	FY2017	FY2017	FY2017
Economic Measure	EBIT (Note 1)	Net income	EBIT (Note 1)	Net income
Financail Result of Target Company	475	377	475	377
Applicable Ratio (EV/EBIT or P/E)	32.3	33.6	32.5	37.0
	15,347	12,656	15,442	13,937
Add: Net Debt (Note 2)	N/A	521	N/A	521
Indicated Value	15,347	13,177	15,442	14,458
Control Premium	30%	30%	N/A	N/A
	19,951	17,131	15,442	14,458
Discount for Lack of Marketability	5%	5%	N/A	N/A
	18,954	16,274	15,442	14,458
Add: Excess Cash/ Asset (Note 3)	543	543	543	543
Business Enterprise Value (Rounded)	**19,497**	**16,817**	**15,985**	**15,001**
Less: Debt (Note 4)	(1,064)	(1,064)	(1,064)	(1,064)
Equity Value (Rounded)	18,433	**15,753**	**14,921**	**13,937**
Market value of 100% equity interest (RMB million):		13,937	to	18,433

Note 1: Adjusted by excluding non-recurring items

Note 2: Total borrowings as of the Valuation Date minus excess cash and assets.

Note 3: Excess cash and assets is determined by cash balance excluding the amount required for operation and the book value of financial assets as of the Valuation Date.

Note 4: Total borrowings as of the Valuation Date

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the Company or the value reported.

Respectfully submitted,
For and on behalf of
D&P China (HK) Limited

Patrick Wu	**Ricky Lee**
Regional Managing Director	*Managing Director*

Note: This valuation was prepared under the direct supervision of Mr. Ricky Lee as project-leader-in-charge with substantial professional assistance from Mr. Kenneth Kei and Ms. Anita Kong and concurring technical review by Mr. Kevin Leung, another Managing Director based in Beijing. The final conclusion was approved by Mr. Patrick Wu as Regional Managing Director and practice leader of the firm's Greater China valuation advisory services.

Mr. Ricky Lee has been involved in business valuation for the purpose of joint venture, merger and acquisition and public listing for over 15 years. Mr. Lee has prior experience in conducting equity interest valuation to Hong Kong listed China based hospital companies. He is a charter holder of the Charterred Finanical Analyst and is a current member of the Financial Reporting Valuation Panel which acts in an advisory capacity to the Financial Reporting Standards Committee ("FRSC") of the Hong Kong Institute of Certified Public Accountants ("HKICPA") on financial reporting related valuation and present Secretary (and former President) of the American Society of Appraisers Hong Kong Chapter

Mr. Patrick Wu is responsible for the management and strategic development of the firm's Greater China operation which has offices in Hong Kong, Beijing, Shanghai, Guangzhou, and Shenzhen and Taipei. Mr. Wu was qualified as a lawyer and has served as an independence Non-Executive Director on the board of directors of a Hong Kong listed company. He is extensively involved in providing professional consulting services for a wide range of public organizations and business sectors, such as banking, business acquisitions, public listings, real estate and investment in Hong Kong and the PRC, professional development, quality assurance and business development.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Acquisition:

Authorized Share Capital

Number of Shares	**Aggregate nominal value of Shares** *(US$)*
10,000,000,000	1,000,000

Issued Share Capital

The issued share capital of our Company immediately following the completion of the Acquisition will be as follows:

Number of Shares	**Description of Shares**	**Aggregate nominal value of Shares** *(US$)*
906,417,239	Shares in issue as at the Latest Practicable Date	90,641.7239
116,137,007	Shares to be issued due to the Acquisition (excluding the Consideration Share to be issued under the Earn Out Mechanism when Reference Net Profit of the years 2018, 2019 and 2020 are met and without any adjustment under the Share Purchase Agreement)	11,613.7007
153,936,541	The maximum Shares to be issued due to the Earn Out Mechanism (assuming that the Reference Net Profit of the years 2018, 2019 and 2020 are met and without any adjustment under the Share Purchase Agreement)	15,393.6541
1,060,353,780	Shares in total	106,035.3780

All the Shares in issue and the consideration Shares to be issued under the Share Purchase Agreement (including all the consideration Shares to be issued due to the earn out mechanism under the Share Purchase Agreement) will (when allotted and fully paid or credited as fully paid) rank pari passu in all respects with each other as regards dividends, voting rights and return of capital. The holders of all the consideration Shares to be issued under the Share Purchase Agreement will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the consideration Shares.

Since 31 December 2017 (being the end of the last financial year of the Company) and up to and including the Latest Practicable Date, no new Shares had been issued by the Company and as at the Latest Practicable Date, the Company did not have any outstanding options, warrants or securities which will be convertible or exchangeable into Shares.

3. EXPERT AND CONSENTS

The following are the qualification of the experts who have given opinions and advice contained in this circular:

Name	Qualification
Somerley	a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Han Kun Law Offices	Qualified PRC Lawyers
PricewaterhouseCoopers	Certified public accountants

As at the Latest Practicable Date, Somerley, Han Kun Law Offices and PricewaterhouseCoopers:

(a) have given and have not withdrawn their respective written consent to the issue of this circular with the inclusion of their respective letter and references to their respective name, in the form and context in which they appear.

(b) neither had any shareholding in any member of the Group nor had any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group.

(c) did not have any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to any member of the Group since December 31, 2017, being the date to which the latest published audited consolidated financial statements of the Company were made up.

4. NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since December 31, 2017, being the date to which the latest published audited annual financial statements of the Company were made up.

5. SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company on June 23, 2017 for an initial term of three years with effect from the date the appointment approved by the Board until the third annual general meeting of the Company since November 8, 2017 (whichever is sooner), subject to termination as provided in the service contract.

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years on October 19, 2017 commencing from October 26, 2017 until the third annual general meeting of the Company since the November 8, 2017, whichever ends earlier.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been 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 taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section

352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

Interests of Directors and Chief Executives of the Company

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company(1) (%)
Mr. Wu Wenhui(2)	Interest in controlled corporations	27,100,626	Long position	2.99%
Mr. Liang Xiaodong(3)	Beneficiary of a trust	1,600,000	Long position	0.18%
	Interest in controlled corporations	2,400,000	Long position	0.26%
Mr. James Gordon Mitchell	Beneficial owner	1,352	Long position	0.00%
Ms. Li Ming	Beneficial owner	8	Long position	0.00%

Interests of Directors and Chief Executives in associated corporations of the Company

Name	Name of associated corporations (%)	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding in the associated corporation(1)
Mr. James Gordon Mitchell(4)	Tencent Holdings Limited	Beneficial owner	5,626,960	0.06%
Mr. Lin Haifeng(5)	Tencent Holdings Limited	Beneficial owner	238,135	0.00%
Ms. Li Ming(6)	Tencent Holdings Limited	Beneficial owner	46,474	0.00%
		Interest of spouse	9,100	0.00%
Mr. Wu Wenhui(7)	Shanghai Hongwen Networking Technology Co., Ltd.	Interest of controlled corporation	3,462,000	34.62%
Mr. Wu Wenhui(7)	Shanghai Yuewen Information Technology Co., Ltd.	Interest of controlled corporation	3,462,000	34.62%

Notes:

(1) The calculation is based on the total number of shares in issue of associated corporations as of the Latest Practicable Date.

(2) Mr. Wu Wenhui holds the entire share capital of Grand Profits Worldwide Limited. Hence, Mr. Wu Wenhui is deemed to be interested in the 27,100,626 Shares held by Grand Profits Worldwide Limited.

(3) Mr. Liang Xiaodong is entitled to RSUs equivalent to 1,600,000 Shares (subject to vesting conditions), which are held under a trust.

(4) These interests comprise (i) 1,660,700 shares of Tencent, (ii) 267,600 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 3,698,660 shares underlying Tencent in respect of the options granted to Mr. James Gordon Mitchell under share option schemes of Tencent.

(5) These interests comprise (i) 88,085 shares of Tencent and (ii) 150,050 shares underlying Tencent in respect of the awarded shares granted to Mr. Lin Haifeng under share award schemes of Tencent.

(6) These interests comprise (i) 15,876 shares of Tencent, (ii) 12,205 shares underlying Tencent in respect of the awarded shares granted to Ms. Li Ming under share award schemes of Tencent, (iii) 5,320 shares underlying Tencent in respect of the options granted to Ms. Li Ming under share option schemes of Tencent.

(7) Each of Shanghai Hongwen and Shanghai Yuewen are owned as to 34.62% by Ningbo Meishan Yuebao, which in turn is held as to 83.88% by Mr. Wu Wenhui. Under the SFO, Shanghai Hongwen and Shanghai Yuewen are associated corporations of the Company.

Save as disclosed above, As at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was 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 taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed herein, none of the Directors, directly or indirectly, has had any interest in any assets which had since 31 December 2017 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Save as disclosed in this circular, there was no contract or arrangement subsisting as at the Latest Practicable Date, in which any of the Directors was materially interested and which was significant in relation to the businesses of the Group.

Interests and Short Positions in Shares of Substantial Shareholders of the Company

Name	Capacity/Nature of Interest (%)	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company[8]
Tencent Holdings Limited[9]	Interest of controlled corporations	600,643,104	Long position	66.27%
THL A13 Limited[9][10]	Beneficial owner	246,600,000	Long position	27.21%
	Interest of controlled corporations	45,000,000		4.96%
Qinghai Lake Investment Limited[9]	Beneficial owner	230,705,634	Long position	25.45%
Tencent Mobility Limited[9]	Beneficial owner	78,337,470	Long position	8.64%
CAP IV, L.L.C.[11]	Interest of controlled corporations	68,141,592	Long position	7.52%
Carlyle Holdings II GP L.L.C.[11]	Interest of controlled corporations	68,141,592	Long position	7.52%
The Carlyle Group L.P.[11]	Interest of controlled corporations	68,141,592	Long position	7.52%
Luxun Investment Limited[11]	Beneficial owner	49,713,624	Long position	5.48%
Li Shujun[12]	Interest of controlled corporations	78,731,958	Long position	8.69%
TB Partners GP5 Limited[12]	Interest of controlled corporations	78,731,958	Long position	8.69%
TB Partners GP5, L.P.[12]	Interest of controlled corporations	78,731,958	Long position	8.69%
Trustbridge Partners V, L.P.[12]	Beneficial owner	33,731,958	Long position	3.72%
	Interest of controlled corporations	45,000,000		4.96%
CAO Huayi[13]	Interest of controlled corporations	54,962,927	Long position	6.06%

Notes:

(8) The calculation is based on the total number of 906,417,239 shares in issue of the Company as of the Latest Practicable Date.

(9) THL A13, Qinghai Lake and Tencent Mobility Limited are wholly-owned subsidiaries of Tencent. Under the SFO, Tencent is deemed to be interested in (i) the 477,305,634 Shares directly held by THL A13 and Qinghai Lake in aggregate, (ii) the 45,000,000 Shares held by Deal Plus Global Limited, a British Virgin Islands organised company owned as to 48.9% by THL A13 which in turn is a wholly-owned subsidiary of Tencent, (iii) the 78,337,470 Shares Tencent Mobility Limited is interested in under the Share Purchase Agreement.

(10) Under the SFO, THL A13 is deemed to be interested in the 45,000,000 Shares held by Deal Plus Global Limited, a British Virgin Islands organised company owned as to 48.9% by THL A13.

(11) Each of Laoshe Investment Limited (holding 18,427,968 Shares) and Luxun Investment Limited (holding 49,713,624 Shares) is owned by Carlyle Asia Partners IV, L.P. as to 93.66%. CAP IV General Partner, L.P. is the general partner of Carlyle Asia Partners IV, L.P., while CAP IV, L.L.C. is the general partner of CAP IV General Partner, L.P.. Carlyle Asia Partners IV, L.P. and CAP IV General Partner, L.P. are limited partnerships established in the Cayman Islands. CAP IV, L.L.C. is a limited liability corporation established in the State of Delaware, the United States. CAP IV, L.L.C. is wholly-owned by TC Group Cayman Investment Holdings Sub, L.P.. TC Group Cayman Investment Holdings, L.P. is the general partner of TC Group Cayman Investment Holdings Sub, L.P.. Carlyle Holdings II L.P. is the general partner of TC Group Cayman Investment Holdings, L.P.. Carlyle Holdings II GP L.L.C. is in turn the general partner of Carlyle Holdings II L.P.. Carlyle Holdings II GP L.L.C. acts in accordance with the instructions of its managing member, The Carlyle Group L.P., which is a publicly traded entity listed on the NASDAQ Stock Exchange. Under the SFO, Carlyle Asia Partners IV, L.P., CAP IV General Partner, L.P., CAP IV, L.L.C., TC Group Cayman Investment Holdings Sub, L.P., TC Group Cayman Investment Holdings, L.P., Carlyle Holdings II L.P., Carlyle Holdings II GP L.L.C. and The Carlyle Group L.P. are deemed to be interested in the 68,141,592 Shares held by Laoshe Investment Limited and Luxun Investment Limited.

(12) Deal Plus Global Limited is owned by Trustbridge Partners V, L.P., which is a U.S.-dollar denominated Cayman Islands limited partnership fund managed by Trustbridge Partners and its affiliates, as to 36.11%. Trustbridge Partners V, L.P. is whollyowned by TB Partners GP5, L.P., which in turn is wholly-owned by TB Partners GP5 Limited. TB Partners GP5 Limited is wholly-owned by Li Shujun. Under the SFO, Trustbridge Partners V, L.P., TB Partners GP5, L.P., TB Partners GP5 Limited and Li Shujun are deemed to be interested in the 45,000,000 Shares held by Deal Plus Global Limited and TB Partners GP5, L.P., TB Partners GP5 Limited and Li Shujun are deemed to be interested in the 33,731,958 Shares held by Trustbridge Partners V, L.P..

(13) Mr. Cao Huayi is interested in 100% and 43.63% of C-Hero Limited and X-Poem Limited respectively and is therefore deemed to be interested in the 45,911,762 Shares and 9,051,165 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the Share Purchase Agreement, respectively.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and any of their close associate(s) had interest in a business which competes or may compete with the business of the Group, or may have any conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

8. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance.

9. OTHER INFORMATION

The company secretaries of the Company are Mr. Zhao Jincheng and Ms. Lai Siu Kuen. Ms. Lai Siu Kuen is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom.

10. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date which are, or may be material:

(a) a share subscription agreement dated January 16, 2017 entered into among our Company, Qinghai Lake, Luxun and TB Partners, pursuant to which Qinghai Lake, Luxun and TB Partners agreed to subscribe for a total of 30,201,818 shares in our Company for a total consideration of US$100,000,000;

(b) a shareholders' agreement dated January 16, 2017 entered into among our Company, THL A13, Tencent Growthfund, Qinghai Lake, Luxun, Laoshe, Deal Plus, TB Partners, Mr. Wu Wenhui (吳文輝), Mr. Shang Xuesong (商學松), Mr. Lin Tingfeng (林庭鋒), Mr. Hou Qingchen (侯慶辰) and Mr. Luo Li (羅立) relating to the transfer of shares in our Company and the management and operation of our Company and its subsidiaries;

(c) an equity transfer agreement dated May 8, 2017 entered into between Mr. Luo Li (羅 立) and Shanghai Yuewen, pursuant to which Mr. Luo Li agreed to transfer all of his equity interests in Shanghai Qiwen to Shanghai Yuewen for a total consideration of RMB10,209,723;

(d) an equity transfer agreement dated April 26, 2017 entered into among Ms. Li Huimin (李慧敏), Mr. Huang Qiuhua (黃秋華), Litong, Ningbo Meishan Yuebao and Shanghai Hongwen, pursuant to which Ms. Li Huimin and Mr. Huang Qiuhua agreed to transfer all of their equity interests in Shanghai Hongwen to Litong and Ningbo Meishan Yuebao for a total consideration of RMB12,131,083.46;

(e) an equity transfer agreement dated April 26, 2017 entered into among Mr. Pan Chunyu (潘春雨), Litong, Ningbo Meishan Yuebao and Shanghai Yuewen, pursuant to which Mr. Pan Chunyu agreed to transfer his 45% equity interests in Shanghai Yuewen to Litong and Ningbo Meishan Yuebao for a total consideration of RMB4,912,391.65;

(f) an equity pledge agreement dated June 27, 2017 entered into among Shanghai Shengting, Litong and Shanghai Hongwen, pursuant to which Litong agreed to pledge all of its existing and future equity interests in Shanghai Hongwen to Shanghai Shengting;

(g) an equity pledge agreement dated June 27, 2017 entered into among Shanghai Shengting, Ningbo Meishan Yuebao and Shanghai Hongwen, pursuant to which Ningbo Meishan Yuebao agreed to pledge all of its existing and future equity interests in Shanghai Hongwen to Shanghai Shengting;

(h) an exclusive call option agreement dated June 26, 2017 entered into among Shanghai Shengting, Litong and Shanghai Hongwen, pursuant to which Litong agreed to grant Shanghai Shengting an exclusive and irrevocable option to purchase from Litong all or part of its equity interests in Shanghai Hongwen for a total consideration of RMB7,931,302.36;

(i) an exclusive call option agreement dated June 26, 2017 entered into among Shanghai Shengting, Ningbo Meishan Yuebao and Shanghai Hongwen, pursuant to which Ningbo Meishan Yuebao agreed to grant Shanghai Shengting an exclusive and irrevocable option to purchase from Ningbo Meishan Yuebao all or part of its equity interests in Shanghai Hongwen for a total consideration of RMB4,199,781.1;

(j) an exclusive business cooperation agreement dated June 26, 2017 entered into between Shanghai Shengting and Shanghai Hongwen, pursuant to which Shanghai Hongwen agreed to engage Shanghai Shengting as the exclusive service provider to provide Shanghai Hongwen with technical support, consultation and other services in return for service fees;

(k) an equity pledge agreement dated June 27, 2017 entered into among Shanghai Yuechao, Litong and Shanghai Yuewen, pursuant to which Litong agreed to pledge all of its existing and future equity interests in Shanghai Yuewen to Shanghai Yuechao;

(l) an equity pledge agreement dated June 27, 2017 entered into among Shanghai Yuechao, Ningbo Meishan Yuebao and Shanghai Yuewen, pursuant to which Ningbo Meishan Yuebao agreed to pledge all of its existing and future equity interests in Shanghai Yuewen to Shanghai Yuechao;

(m) an exclusive call option agreement dated June 26, 2017 entered into among Shanghai Yuechao, Litong and Shanghai Yuewen, pursuant to which Litong agreed to grant Shanghai Yuechao an exclusive and irrevocable option to purchase from Litong all or part of its equity interests in Shanghai Yuewen for a total consideration of RMB6,633,125.01;

(n) an exclusive call option agreement dated June 26, 2017 entered into among Shanghai Yuechao, Ningbo Meishan Yuebao and Shanghai Yuewen, pursuant to which Ningbo Meishan Yuebao agreed to grant Shanghai Yuechao an exclusive and irrevocable option to purchase from Ningbo Meishan Yuebao all or part of its equity interests in Shanghai Yuewen for a total consideration of RMB3,779,266.64;

(o) an exclusive business cooperation agreement dated June 26, 2017 entered into between Shanghai Yuechao and Shanghai Yuewen, pursuant to which Shanghai Yuewen agreed to engage Shanghai Yuechao as the exclusive service provider to provide Shanghai Yuewen with technical support, consultation and other services in return for service fees;

(p) a power of attorney dated June 27, 2017 executed by Litong in favor of Shanghai Shengting and acknowledged by Shanghai Hongwen, pursuant to which Litong agreed to, among other things, exclusively authorize Shanghai Shengting or Shanghai Shengting's designated person(s) to exercise all of its rights as shareholder of Shanghai Hongwen;

(q) a power of attorney dated June 27, 2017 executed by Ningbo Meishan Yuebao in favor of Shanghai Shengting and acknowledged by Shanghai Hongwen, pursuant to which Ningbo Meishan Yuebao agreed to, among other things, exclusively authorize Shanghai Shengting or Shanghai Shengting's designated person(s) to exercise all of its rights as shareholder of Shanghai Hongwen;

(r) a power of attorney dated June 27, 2017 executed by Litong in favor of Shanghai Yuechao and acknowledged by Shanghai Yuewen, pursuant to which Litong agreed to, among other things, exclusively authorize Shanghai Yuechao or Shanghai Yuechao's designated person(s) to exercise all of its rights as shareholder of Shanghai Yuewen;

(s) a power of attorney dated June 27, 2017 executed by Ningbo Meishan Yuebao in favor of Shanghai Yuechao and acknowledged by Shanghai Yuewen, pursuant to which Ningbo Meishan Yuebao agreed to, among other things, exclusively authorize Shanghai Yuechao or Shanghai Yuechao's designated person(s) to exercise all of its rights as shareholder of Shanghai Yuewen;

(t) the Hong Kong underwriting agreement dated October 25, 2017 entered into among the Company, Morgan Stanley Asia Limited, Merrill Lynch Far East Limited, Merrill Lynch International, Credit Suisse (Hong Kong) Limited, J.P. Morgan Securities (Asia Pacific) Limited, China International Capital Corporation Hong Kong Securities Limited, China Securities (International) Corporate Finance Company Limited China Renaissance Securities (Hong Kong) Limited China Merchants Securities (HK) Co., Limited CMB International Capital Limited BOCI Asia Limited The Hongkong and Shanghai Banking Corporation Limited Futu Securities International (Hong Kong) Limited;

(u) the International Underwriting Agreement dated November 1, 2017 entered into among Morgan Stanley Asia Limited, Merrill Lynch Far East Limited, Credit Suisse (Hong Kong) Limited, Merrill Lynch International, J.P. Morgan Securities (Asia Pacific) Limited, China International Capital Corporation Hong Kong Securities Limited, Morgan Stanley & Co. International plc and J.P. Morgan Securities plc;

(v) a Share Purchase Agreement dated August 13, 2018 entered into among the Company, Tencent Mobility, Founder, Founder SPV, Qu, Qu SPV and Executive SPV, pursuant to which the Company agreed to purchase all the issued shares of the Target, representing 100% of the issued share capital in the Target, for a total Consideration of not exceeding RMB15.5 billion subject to the payment terms and earn out mechanism as set out in the share purchase agreement;

(w) an exclusive business cooperation agreement dated August 13, 2018 entered into by and between the WFOE and the Operating Entity, pursuant to which the Operating Entity agrees to engage the WFOE as the exclusive service provider to provide the Operating Entity with technical support, consultation and other services in return for service fees;

(x) exclusive option agreements dated August 13, 2018 entered into by and among the Operating Entity, the WFOE, and each of the Registered Shareholders, pursuant to which each Registered Shareholder agrees to grant the WFOE an exclusive and irrevocable option to purchase from such Registered Shareholder all or part of its equity interests in the Operating Entity at the lowest price permitted by PRC laws;

(y) equity pledge agreements dated August 13, 2018 entered into by and among the Operating Entity, the WFOE, and each of the Registered Shareholders, pursuant to which each Registered Shareholder agrees to pledge all of its existing and future equity interests in the Operating Entity to WFOE;

(z) powers of attorney dated August 13, 2018 executed by each Registered Shareholder in favor of the WFOE and acknowledged by the Operating Entity, pursuant to which each Registered Shareholder agrees to, among other things, exclusively authorize WFOE or WFOE's designated person(s) to exercise all of its rights as shareholders of the Operating Entity; and

(aa) spouse consent letters dated August 13, 2018 executed by the spouse of each Relevant Individual Shareholder, and acknowledged by the respective Relevant Individual Shareholder, the Operating Entity, and the WFOE, pursuant to which such spouse agrees that (i) the respective Relevant Individual Shareholder's interests in the Operating Entity (together with any other interests therein) do not fall within the scope of communal properties, and (ii) he/she has no right to or control over such interests of the respective Relevant Individual Shareholder and will not have any claim on such interests.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Clifford Chance at 27/F, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours from the date of this circular up to October 18, 2018 (both days inclusive):

(a) Share Purchase Agreement;

(b) Distribution Framework Agreement;

(c) Letter from the Independent Board Committee;

(d) Letter from the Independent Financial Adviser;

(e) Letter of consent from Somerley;

(f) Letter of consent from PricewaterhouseCoopers;

(g) Letter of consent from Duff & Phelps;

(h) The memorandum and articles of the Company;

(i) The service contracts of the Directors;

(j) The material contracts of the Company as disclosed above;

(k) The reports prepared by PricewaterhouseCoopers as disclosed in this circular;

(l) The report prepared by Duff & Phelps as disclosed in this circular;

(m) The written statement signed by PricewaterhouseCoopers setting out the adjustments made by them in arriving at the figures shown in their report and giving the reasons therefor;

(n) The extracts from the annual report of the Company for the year ended December 31, 2017 and the global offering prospectus which set out the audited accounts of the Company for the three years ended December 31, 2017; and

(o) A copy of the circular issued pursuant to the requirements set out in Chapter 14 and/or 14A which has been issued since the date of the latest published audited accounts of the Company.

CHINA LITERATURE LIMITED
阅文集团

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 772)

NOTICE OF EXTRAODINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting of China Literature Limited (the "**Company**") will be held at Salon 1-4, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, October 19, 2018 at 9:30 a.m. for the purposes of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions.

Unless otherwise specified, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated September 28, 2018 (the "**Circular**").

Ordinary Resolutions

1. To consider and, if thought fit, pass with or without modification the following resolution as an ordinary resolution:

"**That**:

(a) the Share Purchase Agreement (including the Control Agreements to be entered into before Completion of the Acquisition) and the transactions contemplated thereunder, details of which are more particularly described in the Circular, be and is hereby approved, ratified and confirmed;

(b) any one executive Director (if execution under the common seal of the Company or by deed is required, two executive Directors or one executive Director and the Secretary of the Company) be and are hereby authorized for and on behalf of the Company to execute, and where required, to affix the common seal of the Company to, any documents, instruments or agreements, and to do any acts and things deemed by him or her to be necessary, expedient or appropriate in order to give effect to and implement the transactions contemplated under the Share Purchase Agreement and the Control Agreements.

(c) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in 153,936,541 shares of the Company ("**Consideration Shares**") at the issue price of HK$80.00 per Consideration Shares (the "**Issue Price**"), the directors of the Company be and are hereby granted a Specific Mandate (as defined in this circular) to allot and issue the Consideration Shares at the Issue Price pursuant to the terms and conditions of the Share Purchase Agreement and the articles of association of the Company, provided that this Specific Mandate shall be in addition to, and shall not prejudice or revoke any existing or such other general or special mandates which may from time to time be granted to the directors of the Company prior to the passing of this resolution."

2. To consider and, if thought fit, pass with or without modification the following resolution as an ordinary resolution:

"**That**:

(a) the Distribution Framework Agreement and the transactions contemplated thereunder, details of which are more particularly described in the Circular, be and is hereby approved, ratified and confirmed;

(b) the proposed annual caps for the continuing connected transactions contemplated under the Distribution Framework Agreement for the three years ending December 31, 2020 as set out in the Circular be and are hereby approved, ratified and confirmed; and

(c) any one executive Director (if execution under the common seal of the Company or by deed is required, two executive Directors or one executive Director and the Secretary of the Company) be and are hereby authorized for and on behalf of the Company to execute, and where required, to affix the common seal of the Company to, any documents, instruments or agreements, and to do any acts and things deemed y him or her to be necessary, expedient or appropriate in order to give effect to and implement the transactions contemplated under the Distribution Framework Agreement (including the proposed annual caps thereunder for the three years ending December 31, 2020)."

By order of the Board
CHINA LITERATURE LIMITED
Mr. James Gordon Mitchell
Chairman of the Board and Non-executive Director

Hong Kong, September 28, 2018

Registered office:
The offices of Maples Corporate
Services Limited
PO Box 309, Ugland House
Grand Cayman KY1-1104
Cayman Islands

Head office and principal place of business in China:
Block 6, No. 690 Bi Bo Road
Pudong XinQu, Shanghai
People's Republic of China

Principal place of business in Hong Kong:
31/F, Tower Two, Times Square
1 Matheson Street, Causeway Bay
Hong Kong

Notes:

(i) A shareholder entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. The proxy does not need to be a shareholder of the Company.

(ii) Where there are joint registered holders of any shares, any one of such persons may vote at the above meeting (or at any adjournment of it), either personally or by proxy, in respect of such shares as if he/she were solely entitled thereto but the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

(iii) In order to be valid, the completed form of proxy, must be deposited at the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority (such certification to be made by either a notary public or a solicitor qualified to practice in Hong Kong), at least 48 hours before the time appointed for holding the above meeting or any adjournment thereof (as the case may be). The completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the above meeting (or any adjourned meeting thereof) if they so wish.

(iv) The register of members of the Company will be closed from Monday, October 15, 2018 to Friday, October 19, 2018, both days inclusive, in order to determine the eligibility of shareholders to attend the above meeting, during which period no share transfers will be registered. To be eligible to attend the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Friday, October 12, 2018.

(v) Pursuant to Rule 13.39(4) of the Listing Rules, voting for all the resolutions set out in this notice will be taken by poll at the above meeting.