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

If you have sold or transferred all your securities in Huayi Tencent Entertainment Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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H.BROTHERS | ENTERTAINMENT

華誼騰訊娛樂

華誼騰訊娛樂有限公司

Huayi Tencent Entertainment Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 419)

**CONTINUING CONNECTED TRANSACTIONS
COOPERATION FRAMEWORK AGREEMENT ON
INVESTMENT PROJECTS AND DISTRIBUTION PROJECTS
WITH HUAYI BROTHERS INTERNATIONAL LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



紅日資本有限公司
RED SUN CAPITAL LIMITED

A letter from the Board is set out on pages 4 to 29 of this circular. A letter from the Independent Board Committee is set out on pages 30 to 31 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 32 to 64 of this circular.

A notice of the EGM to be held at Boardroom 6, Mezzanine Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wan Chai, Hong Kong on Monday, 24 June 2019 at 3 p.m. is set out on pages 70 to 71 of this circular. A form of proxy for the use by the Shareholders at the EGM is also enclosed. If you do not intend to attend the EGM in person, please complete the form of proxy enclosed in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

4 June 2019

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DEFINITIONS

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

“30%-controlled company”	has the meaning ascribed to it under Chapter 14A of the Listing Rules
“Annual Cap Periods”	periods for the 8 months ending 31 December 2019 and each of the two financial years ending 31 December 2020 and 31 December 2021
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Associated Company”	a holding company, a subsidiary or a 30%-controlled company of a company, or a subsidiary or a 30%-controlled company of a holding company of that company
“Board”	the board of Directors
“Company”	Huayi Tencent Entertainment Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (Stock Code: 419)
“connected persons”	has the meaning as ascribed to it under the Listing Rules
“Cooperation Framework Agreement”	the cooperation framework agreement dated 2 May 2019 and entered into between the Company and Huayi Brothers in respect of the collaboration in the Investment Projects and the Distribution Projects
“Director(s)”	the director(s) of the Company
“Distribution Projects”	distribution of Media and Entertainment Projects which the Group owns or has acquired the distribution rights in the PRC
“EGM”	an extraordinary general meeting of the Company to be convened on 24 June 2019 to consider, and if thought fit, approve the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“HTEIL”	Huayi Tencent Entertainment International Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Huayi Brothers”	Huayi Brothers International Limited, a company incorporated in Hong Kong with limited liability and holding approximately 18.17% of the total issued share capital of the Company as at the Latest Practicable Date
“Huayi Brothers Group”	Huayi Brothers and its Associated Companies
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors established for the purpose of giving advice and making recommendation to the Independent Shareholders in respect of the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps
“Independent Shareholders”	Shareholders other than Huayi Brothers and its associates which are materially interested in the transactions contemplated under the Cooperation Framework Agreement
“Investment Projects”	investment in and acquisition of distribution rights of Media and Entertainment Projects in any countries, districts or areas, whereby Huayi Brothers Group will provide to the Group (i) the services of production, post-production work and/or distribution and/or (ii) the services of an intermediary in introducing and liaising with the third party production companies and procuring the business opportunities for such Media and Entertainment Projects
“Latest Practicable Date”	29 May 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Media and Entertainment Projects”	films, television dramas, television programs, internet dramas and programs, musical projects and copyrights, and other media and entertainment-related projects
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan

DEFINITIONS

“Red Sun” or “Independent Financial Adviser”	Red Sun 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	the shares of the Company
“Shareholders”	the holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“U.S.”	the United States of America
“US\$”	U.S. dollars, the lawful currency of the U.S.
“%”	per cent.

H.BROTHERS | ENTERTAINMENT

華 誼 騰 訊 娛 樂

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Huayi Tencent Entertainment Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 419)

Directors:

Mr. WANG Zhongjun¹ (*Chairman*)
Mr. CHENG Wu¹ (*Vice Chairman*)
Mr. WANG Zhonglei¹
Mr. LIN Haifeng¹
Mr. HU Junyi¹
Mr. YUEN Hoi Po¹
Dr. WONG Yau Kar, David, *GBS, JP*²
Mr. YUEN Kin²
Mr. CHU Yuguo²

¹ *Executive Director*

² *Independent Non-executive Director*

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Principal place of business
in Hong Kong:*

Suite 908, 9/F
Tower Two, Lippo Centre
89 Queensway
Hong Kong

4 June 2019

To the Shareholders

Dear Sir/Madam,

**CONTINUING CONNECTED TRANSACTIONS
COOPERATION FRAMEWORK AGREEMENT ON
INVESTMENT PROJECTS AND DISTRIBUTION PROJECTS
WITH HUAYI BROTHERS INTERNATIONAL LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

(1) INTRODUCTION

Reference is made to the announcement of the Company dated 2 May 2019 in relation to the Cooperation Framework Agreement. Pursuant to the requirements under the Listing Rules, the Company will seek the Independent Shareholders' approval in relation to the Cooperation Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps at the EGM.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with:

- (a) details of the terms of the Cooperation Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps;
- (b) a letter from the Independent Board Committee to the Independent Shareholders in respect of the Cooperation Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps;
- (c) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Cooperation Framework Agreement, the continuing connected transactions contemplated thereunder and the proposed annual caps;
- (d) a notice of the EGM; and
- (e) other information in accordance with the requirements of the Listing Rules.

(2) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE COOPERATION FRAMEWORK AGREEMENT

The Group intends to cooperate from time to time with Huayi Brothers Group to invest in media and entertainment-related projects or to acquire the distribution right of these types of projects. Besides, the Group may from time to time engage Huayi Brothers (or its Associated Company) to provide distribution services for those Media and Entertainment Projects which the Group owns or has acquired the distribution rights in the PRC.

On 2 May 2019, the Company entered into the Cooperation Framework Agreement with Huayi Brothers, pursuant to which the parties have agreed to cooperate in (i) the Investment Projects and (ii) the Distribution Projects, for a term from 2 May 2019 to 31 December 2021 (both dates inclusive), subject to the fulfillment of the condition precedent of the Cooperation Framework Agreement.

(i) Principal terms of the Cooperation Framework Agreement

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

Date : 2 May 2019

Parties : (1) The Company

(2) Huayi Brothers

Term : From 2 May 2019 to 31 December 2021 (both dates inclusive), subject to the fulfillment of the condition precedent of the Cooperation Framework Agreement

LETTER FROM THE BOARD

Subject matters : (i) Collaboration between the Group and Huayi Brothers (or its Associated Company) on Investment Projects and (ii) engagement of Huayi Brothers (or its Associated Company) by the Group for Distribution Projects.

In relation to the Investment Projects

Members of the Group may from time to time enter into definitive agreement with Huayi Brothers (or its Associated Companies) on specific Investment Projects in accordance with the terms of the Cooperation Framework Agreement. Such cooperation definitive agreement will be in the form of Huayi Brothers (or its Associated Company) procuring (for Media and Entertainment Projects that are produced by third party production companies) or allowing (for Media and Entertainment Projects that are produced by Huayi Brothers Group) the members of the Group to share part of an Investment Project.

The Investment Projects that will be carried out under the Cooperation Framework Agreement may involve (i) the Group investing in Media and Entertainment Projects that are produced by Huayi Brothers Group, where Huayi Brothers Group will provide to the Group the services of production, post-production work and/or distribution in respect of the Media and Entertainment Projects concerned; and (ii) the Group and Huayi Brothers Group together investing in Media and Entertainment Projects that are produced by third party production companies, where Huayi Brothers Group will provide to the Group the services of an intermediary in introducing and liaising with the third party production companies and procuring the business opportunities for those Media and Entertainment Projects.

LETTER FROM THE BOARD

In relation to the Distribution Projects

Members of the Group may from time to time enter into definitive agreement with Huayi Brothers (or its Associated Companies) on specific Distribution Projects in accordance with the terms of the Cooperation Framework Agreement, pursuant to which members of the Group engage Huayi Brothers (or its Associated Company) to provide distribution services in relation to Distribution Projects.

Consideration : In relation to the Investment Projects

The investment amount of the Group for each single transaction of the Investment Projects shall be set out in the relevant definitive agreement to be entered into between the relevant member of the Group and Huayi Brothers (or its Associated Company).

The basis of determining the investment amount under the Investment Projects is set out in the sub-section titled “Basis for determining the terms of definitive agreements” below.

The investment amount will be paid in full within certain days of signing of a definitive agreement, or in instalments after (i) signing of a definitive agreement and (ii) certain milestone(s) is/are reached (including but not limited to obtaining the necessary approval of relevant authority(ies) in relation to the Investment Project, commencement of shooting, etc.). For those Media and Entertainment Projects that are produced by third party production companies in which the Group and Huayi Brothers Group are together investing, the investment amount may be payable by the Group to the third party production companies directly, or payable by the Group to Huayi Brothers Group which will in turn pay the investment amount to the third party production companies (with no premium to be charged by Huayi Brothers Group).

LETTER FROM THE BOARD

Given that Huayi Brothers Group is a substantial shareholder of the Company and its associates, other than the amount to be invested by the Group in each Investment Project, no additional fees will be charged by the Huayi Brothers Group in respect of its provision of services of production, post-production work and/or distribution, provision of services of an intermediary in introducing and liaising with the third party production companies and procuring the business opportunities for those Media and Entertainment Projects.

In relation to the Distribution Projects

The formula of distribution fee payable by the Group for each single transaction of the Distribution Projects based on the gross profit of a Distribution Project will be set out in the relevant definitive agreement to be entered into between the relevant member of the Group and Huayi Brothers (or its Associated Company).

All revenues generated from box office receipts, sales to satellite TV, sales to cable TV, sale of DVD and sale of ancillary products, etc. arising from distribution of a Media and Entertainment Project in the PRC within a specified distribution period of not more than 10 years from the first day of distribution after deducting the cost of sales, national film project fund, tax, cinema branch shared revenue, imported movies shared revenue, import and export fee, etc. (if applicable), will constitute the gross profit of a Distribution Project (“**Distribution Gross Profit**”).

The distribution fee under the definitive agreement for each Distribution Project to which Huayi Brothers (or its Associated Company) is entitled shall not exceed 20% of the Distribution Gross Profit of the Media and Entertainment Project.

LETTER FROM THE BOARD

The basis of determining the formula of the distribution fee under the Distribution Projects is set out in the subsection titled “Basis for determining the terms of definitive agreements” below.

The distribution fee will be deducted from the Distribution Gross Profit received by Huayi Brothers (or its Associated Company) on behalf of the relevant member of the Group. The balance of the Distribution Gross Profit (after deducting the distribution fee and reimbursement of promotion and advertising expenses (the budget for which is subject to approval by the Group), if applicable) (if any) will be paid by Huayi Brothers (or its Associated Company) to the relevant member of the Group. The Company is entitled to conduct independent audit on the documents or records of the Distribution Projects.

In line with industry practice, the first batch of settlement of the balance of the Distribution Gross Profit normally occurs within four to six months from the first day of distribution of the relevant Media and Entertainment Project, and subsequent settlements will be made along the period of distribution of the relevant Media and Entertainment Project on a regular basis.

Basis for determining the terms of definitive agreements : In relation to the Investment Projects

The Company and Huayi Brothers agree that each transaction of the Investment Projects shall be on normal commercial terms which are no less favourable than terms offered by independent third parties to the Group or which can be obtained by the Group from independent third parties.

LETTER FROM THE BOARD

Detailed terms of each Investment Project shall be negotiated with reference to the respective business scopes, applicable laws and regulations, general commercial terms and collaboration practice of Media and Entertainment Projects of the Company and Huayi Brothers, in accordance with the principles set out in the Cooperation Framework Agreement and on the basis of fairness. Such detailed terms to be contained in a definitive agreement for an Investment Project include the subject work (setting out the title, production company, format, director (if confirmed), main cast (if confirmed), draft script, expected date of release, estimated budget of the subject Media and Entertainment Project), investment amount, settlement terms, investment proportion, revenue split arrangement, film copyright issues, distribution rights, management fees (if any), consequences of actual costs exceeding or falling short of budget, and other general clauses including confidentiality, governing law and assignability.

A member of the Group and Huayi Brothers (or its Associated Companies) shall negotiate and conclude the terms of a definitive agreement taking into account relevant factors including (but not limited to) the financial strength of the parties involved, the scale and content of the Media and Entertainment Project, the major artistes/creation teams involved, and the relevant parties' ability on distribution and on obtaining government and regulatory approvals. As a general practice, the sharing of revenue/profit or loss of a Media and Entertainment Project (after deduction of expenses, costs, remuneration or bonus to relevant participants in the project) among investors of the Investment Project shall be pro rata to (or in such proportions as close as practicable to) their corresponding investment amount in the Investment Project.

LETTER FROM THE BOARD

In relation to the Distribution Projects

The Company and Huayi Brothers agree that each transaction of the Distribution Projects shall be on normal commercial terms which are no less favourable than terms offered by independent third parties to the Group or which can be obtained by the Group from independent third parties.

Detailed terms of each Distribution Project shall be negotiated with reference to the respective business scopes, applicable laws and regulations, general commercial terms and collaboration practice of Media and Entertainment Projects of the Company and Huayi Brothers, in accordance with the principles set out in the Cooperation Framework Agreement and on the basis of fairness. Such detailed terms include, without limitation to, the length of distribution period, the formula of distribution fee based on certain percentages of Distribution Gross Profit of the Media and Entertainment Project, etc.

A member of the Group and Huayi Brothers (or its Associated Companies) shall negotiate and conclude the terms of a definitive agreement taking into account relevant factors including (but not limited to) the scale and content of the project, the major artistes/creation teams involved, the expected timing of theatrical release and estimates of box office receipts, the amount and proportion of promotion and advertising budgets that will be paid in advance by the relevant parties, and the relevant parties' ability on distribution and on obtaining government and regulatory approvals.

Condition precedent : The Cooperation Framework Agreement and the transactions contemplated thereunder are conditional upon the Company having complied with and fulfilled the relevant requirements of the Stock Exchange and under the Listing Rules, including but not limited to announcement, circular and/or Independent Shareholders' approval requirement (if required).

LETTER FROM THE BOARD

(ii) Proposed annual caps

The maximum annual investment amount to be invested by the Group in the Investment Projects and the maximum annual consideration amount for the agreements in respect of the Distribution Projects to be entered into by the Group with Huayi Brothers (or its Associated Companies) for the Annual Cap Periods shall not exceed the following respective proposed annual cap:

	Proposed annual caps		
	For the 8 months ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
Investment Projects (in HK\$) <i>(Note)</i>	162,000,000	264,000,000	279,000,000
Distribution Projects (in RMB)	165,000,000	196,000,000	206,000,000

Note:

The proposed annual caps for the Investment Projects for the Annual Cap Periods, breaking down into (i) estimated amounts for the Group investing in Media and Entertainment Projects to be produced by Huayi Brothers Group and (ii) estimated amounts for the Group and Huayi Brothers Group together investing in Media and Entertainment Projects to be produced by third party production companies, are as follows:

	For the 8 months ending 31 December 2019 <i>(in HK\$)</i>	For the year ending 31 December 2020 <i>(in HK\$)</i>	For the year ending 31 December 2021 <i>(in HK\$)</i>
(i) For the Group investing in Media and Entertainment Projects to be produced by Huayi Brothers Group	115,000,000	215,000,000	227,000,000
(ii) For the Group and Huayi Brothers Group together investing in Media and Entertainment Projects to be produced by third party production companies	47,000,000	49,000,000	52,000,000
	162,000,000	264,000,000	279,000,000

LETTER FROM THE BOARD

(iii) Basis of the proposed annual caps

In relation to the Investment Projects

The aforesaid proposed annual caps in respect of the Investment Projects in the relevant Annual Cap Periods are determined with reference to investment amounts and investment ratios of the Group's historical investment in and acquisition of distribution rights of Media and Entertainment Projects with independent third parties, the Media and Entertainment Projects in the pipeline of Huayi Brothers or its Associated Companies currently available to the Group, and the estimated amounts proposed to be invested by the Group in Media and Entertainment Projects during the Annual Cap Periods.

The Group expects to invest in four, eight and six Media and Entertainment Projects under the Cooperation Framework Agreement for the 8 months ending 31 December 2019 and each of the two years ending 31 December 2020 and 2021 respectively. The Group's investment ratio is expected to be in the range of 12.5% to 25% (but not exceeding 25%) (which is subject to change due to factors including implementation of the relevant business plan of the Group and the prevailing market conditions) for each Media and Entertainment Project. The Group's amount of investment in each Media and Entertainment Project is expected to be in the range of HK\$14.7 million to HK\$88.3 million. The investment amounts of the Group for each Investment Projects under the Cooperation Framework Agreement are determined with reference to a certain percentage (i.e. the investment ratio) of the total budget of an Investment Project. The investment ratio and the total budget for each Investment Project are estimated with reference to the historical investment projects of the Company with independent third parties, the script/synopsis, production budget, the proposed director/producer and the proposed cast of the particular Investment Project, and an estimated budget annual growth rate of 5%. The investment amounts for Investment Projects for the 8 months ending 31 December 2019 are intended to be mostly financed by the Group's existing internal resources. The investment amounts for Investment Projects for the two years ending 31 December 2020 and 2021 are intended to be financed by the Group's existing internal resources and the profits to be generated from the release of currently ongoing projects and future projects (including those under the Cooperation Framework Agreement and others involving independent third parties only). The anticipated largest investment would be an investment in a tentpole movie project targeting American and international markets to be produced by a Hollywood-based studio managed by renowned directors and writers in Hollywood. The expected investment amount to be committed by Huayi Brothers (or its Associated Companies) for the Media and Entertainment Projects under the Cooperation Framework Agreement will be at about the same level as or higher than that of the Group, and any remaining portion of the total investment amount of the Media and Entertainment Projects will be committed by other third parties, and if such other third parties constitute connected persons of the Company, the Company will re-comply with the applicable requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Details of the anticipated Investment Projects under the Cooperation Framework Agreement for the Annual Cap Periods (all under discussion without contracts signed) are as follows (which are subject to change due to factors including implementation of the relevant business plan of the Group and the prevailing market conditions):

Year	Project	To be produced by	Expected date of entering into contracts	Nature/theme/genre	Targeted market	Status of the project (Expected date of release)	Expected box office receipts (in US\$)	Expected budget (in US\$)	Expected investment amount of the Group (in US\$) (investment ratio)
2019	Project 1	Third party production company	Second half of 2019	Crime	Korea & international	Production to be commenced in second half of 2019 (2020)	N/A (Note: This project is a television drama)	9,373,882	1,874,776 (20%)
	Project 2	Third party production company	Second half of 2019	Action	Korea & international	Production in progress (2020)	40 to 80 million	20,600,000	4,120,000 (20%)
	Sub-total of investment amount of the Group:								5,994,776
	Average investment amount of the Group:								2,997,388
	Project 3	Huayi Brothers Group	Second half of 2019	Animation	U.S., PRC & international	Currently in pre-production (2020 to 2021)	87 to 174 million	35,000,000	5,250,000 (15%)
	Project 4	Huayi Brothers Group	Second half of 2019	Family tentpole	Global distribution	Production in progress (End of 2019 to Early 2020)	300 to 700 million	75,000,000	9,375,000 (12.5%)
Sub-total of investment amount of the Group:								14,625,000	
Average investment amount of the Group:								7,312,500	
Total estimated investment amount of the Group for 2019:								20,619,776	
								(Equivalent to approximately <u>HK\$161,865,245</u>)	
2020	Project 1	Third party production company	2020	Romance	Korea & international	Production to be commenced in 2020 (2021)	N/A (Note: This project is a television drama)	9,842,576	1,968,515 (20%)
	Project 2	Third party production company	2020	Sci-fiction	Korea & international	Production expected to commence by 2020 (2021)	42 to 84 million	21,630,000	4,326,000 (20%)
Sub-total of investment amount of the Group:								6,294,515	
Average investment amount of the Group:								3,147,258	

LETTER FROM THE BOARD

Year	Project	To be produced by	Expected date of entering into contracts	Nature/theme/genre	Targeted market	Status of the project		Expected budget (in US\$)	Expected investment amount of the Group (in US\$) (investment ratio)
						(Expected date of release)	Expected box office receipts (in US\$)		
	Project 3	Huayi Brothers Group	2020	Animation	U.S., PRC & international	Currently in concept creation, production expected to be commenced by 2020 (2021 to 2022)	91 to 178 million	36,750,000	5,512,500 (15%)
	Project 4	Huayi Brothers Group	2020	Family tentpole	Global distribution	Production expected to be commenced by 2020 (2021 to 2022)	300 to 700 million	80,000,000	10,000,000 (12.5%)
	Project 5	Huayi Brothers Group	2020	Drama	Global distribution	Production in progress (2020 to 2021)	50 to 100 million	15,000,000	3,750,000 (25%)
	Project 6	Huayi Brothers Group	2020	Thriller/Suspense	U.S., & international	Production in progress (2020 to 2021)	65 to 120 million	20,000,000	2,500,000 (12.5%)
	Project 7	Huayi Brothers Group	2020	Legal/Crime	U.S. & international	Production to be commenced in 2020 (2021 to 2022)	50 to 100 million	15,000,000	3,750,000 (25%)
	Project 8	Huayi Brothers Group	2020	Mystery/Family	Global distribution	Production to be commenced in 2020 (2021 to 2022)	50 to 100 million	15,000,000	1,875,000 (12.5%)
Sub-total of investment amount of the Group:									27,387,500
Average investment amount of the Group:									4,564,583
Total estimated investment amount of the Group for 2020:									33,682,015 (Equivalent to approximately HK\$264,403,819) (Note)
2021	Project 1	Third party production company	2021	Fantasy romance	Korea & international	Production to be commenced in 2021 (End of 2021 to Early 2022)	N/A (Note: This project is a television drama)	10,334,705	2,066,941 (20%)
	Project 2	Third party production company	2021	Action/War	Korea & international	Production expected to commence by 2021 (2022)	43 to 85 million	22,711,500	4,542,300 (20%)
Sub-total of investment amount of the Group:									6,609,241
Average investment amount of the Group:									3,304,620
	Project 3	Huayi Brothers Group	2021	Animation	U.S., PRC & international	Production expected to be commenced by 2021 (2022 to 2023)	93 to 180 million	38,587,500	5,788,125 (15%)
	Project 4	Huayi Brothers Group	2021	Sci-fiction	Global distribution	Production expected to be commenced by late 2020/2021 (2022)	350 to 800 million	90,000,000	11,250,000 (12.5%)

LETTER FROM THE BOARD

Year	Project	To be produced by	Expected date of entering into contracts	Nature/ theme/ genre	Targeted market	Status of the project		Expected budget (in US\$)	Expected investment amount of the Group (in US\$) (investment ratio)
						(Expected date of release)	Expected box office receipts (in US\$)		
	Project 5	Huayi Brothers Group	2021	Horror	Global distribution	Production expected to be commenced by late 2020/2021 (2022)	300 to 700 million	75,000,000	9,375,000 (12.5%)
	Project 6	Huayi Brothers Group	First half of 2021	Drama	U.S. & international	Production expected to be commenced by late 2021 (2022 to 2023)	65 to 120 million	10,000,000	2,500,000 (25%)
<i>Sub-total of investment amount of the Group</i>									28,913,125
<i>Average investment amount of the Group:</i>									<u>7,228,281</u>
<i>Total estimated investment amount of the Group for 2021:</i>									35,522,366 (Equivalent to approximately <u>HK\$278,850,573</u>)

Note: Although the estimated investment amount of the Group for the Investment Projects under the Cooperation Framework Agreement for the year ending 31 December 2020 (i.e. HK\$264,403,819) exceeds the proposed annual cap for the year ending 31 December 2020 (i.e. HK\$264,000,000), such estimation is calculated based on the upper range of investment ratio of the Group in the relevant Investment Projects and the actual investment amounts to be committed by the Group may be less. Accordingly, the Company considers that the proposed annual cap will be sufficient to cover the actual amount to be invested by the Group under the Cooperation Framework Agreement for the year ending 31 December 2020. The Company will monitor the annual cap usage and will ensure that the proposed annual cap will not be exceeded.

The estimated amount for the Group investing in Media and Entertainment Projects that are produced by Huayi Brothers Group is higher than the estimated amount for the Group and Huayi Brothers Group together investing in Media and Entertainment Projects that are produced by third parties. This is mainly because the anticipated largest investment in Media and Entertainment Projects would be the Group's potential investments in high-budget tentpole movie projects targeting American and international markets to be produced by a Hollywood-based studio managed by renowned directors and writers, which is an Associated Company of Huayi Brothers. As disclosed under the sub-section titled "Basis for determining the terms of definitive agreements" above, detailed terms (which include the investment amount) of each Investment Project shall be negotiated with reference to the respective business scopes, applicable laws and regulations, general commercial terms and collaboration practice of Media and Entertainment Projects of the Company and Huayi Brothers, in accordance with the principles set out in the Cooperation Framework Agreement and on the basis of fairness. Each Investment Project shall be subject to the unanimous approval of the Green Light Committee, details of which are set out in the sub-section below titled "Green Light Committee", to ensure that the investment amount of each Investment Projects would be fair and reasonable and on normal commercial terms or better.

LETTER FROM THE BOARD

The above information on investment amounts by the Group is estimated by the Company for the purpose of arriving at the annual cap amounts for the Media and Entertainment Projects for the Annual Cap Periods, which is subject to change due to factors including implementation of the relevant business plan of the Group and the prevailing market conditions.

In relation to the Distribution Projects

The aforesaid proposed annual caps in respect of the Distribution Projects in the relevant Annual Cap Periods are determined with reference to (i) the estimated amount of Distribution Projects that the Group may engage Huayi Brothers (or its Associated Companies) to provide distribution services in the PRC during the Annual Cap Periods (based on the estimated amount of PRC distribution rights to be acquired by the Group separately or along with investments in Media and Entertainment Projects), (ii) the estimated percentage of distribution fees in terms of Distribution Gross Profit to be payable to Huayi Brothers (or its Associated Companies) (the estimated range of the percentage of distribution fees is based on the Group's experience and knowledge obtained through investments in prior and current Media and Entertainment Projects with independent third parties), and (iii) the estimated box office receipts for the Distribution Projects during the Annual Cap Periods (based on historical box office records of comparable imported movies in the PRC from 2016 to 2018).

The Group expects to have three, four and four Distribution Projects for the 8 months ending 31 December 2019 and each of the two years ending 31 December 2020 and 2021 respectively. With reference to the historical box office records of comparable imported movies ("**Comparable Movies**") in the PRC during 2016 to 2018 (details of which are set out below), the estimated box office receipts generated by each of these Distribution Projects from the PRC is expected to be in the range of RMB0.25 billion to RMB2.23 billion. The distribution fee payable by the Group to Huayi Brothers (or its Associated Companies) will be calculated based on a certain percentage of the Distribution Gross Profits (not more than 20% in accordance with the Cooperation Framework Agreement), while all revenues generated from box office receipts, sales to satellite TV, sales to cable TV, sale of DVD and sale of ancillary products, etc. arising from distribution of a Media and Entertainment Project in the PRC within a specified distribution period, after deducting the cost of sales, national film project fund, tax, cinema branch shared revenue, imported movies shared revenue, import and export fee, etc. (if applicable), will constitute the Distribution Gross Profit.

LETTER FROM THE BOARD

Details of Comparable Movies (based on publicly available information) and the formulation of the proposed annual caps for Distribution Projects are as follows:

English title (year of release)	Description	Genre	Approximate box office in the PRC (in RMB)	Estimated Distribution	Estimated amount of	Estimated distribution fees		
				Gross Profit for imported movies based on its	distribution fees (based on a	(in RMB)		
				approximate box office (in RMB) (Note 1)	maximum distribution fee percentage of 20% (in RMB)	For the 8 months ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
Ready Player One (2018)	Large-scale U.S. movie	Adventure/Sci-fiction	1,396,680,000					
Fast and Furious 8 (2018)		Action	2,670,880,000					
Aquaman (2018)		Adventure/Fantasy/ Action	2,012,250,000					
<i>Average approximate box office in the PRC (in RMB)</i>			2,026,603,333	547,182,900	109,436,580	109,436,580	114,908,409 (Note 2)	120,653,829 (Note 2)
Dangal (2017)	Non-Hollywood	Comedy/Action	1,299,190,000					
Bad Genius (2017)		Drama/Crime	271,318,000					
<i>Average approximate box office in the PRC (in RMB)</i>			785,254,000	212,018,580	42,403,716	42,403,716	44,523,902 (Note 2)	46,750,097 (Note 2)
La La Land (2017)	Small/Medium- scale U.S. movie	Drama/Musical	247,251,000	66,757,770	13,351,554	13,351,554	14,019,132 (Note 2)	14,720,088 (Note 2)
Hacksaw Ridge (2016)		Drama/War	425,779,000	114,960,330	22,992,066	—	22,992,066	24,141,669 (Note 2)
Total						165,191,850 (Note 3)	196,443,509 (Note 3)	206,265,683 (Note 3)

Note:

- As a general practice for imported movies in the PRC, the estimated ratio of Distribution Gross Profit to box office for imported movie is about 27%, which is calculated by deducting the contribution to national film project fund, taxes, cinema branch shared revenue, import and export fee, charges by the national film digital program administration center and copyrights and imported movies shared revenue from the box office receipts.
- Taking into account an estimated box office annual growth rate of 5%.
- Although the estimated distribution fees to be payable by the Group for the Distribution Projects under the Cooperation Framework Agreement for the Annual Cap Periods exceeds the proposed annual caps for the Annual Cap Periods, the estimation is calculated using 20% as the percentage of distribution fees while the range of the actual percentage of distribution fees would be between 15% and 20%. Accordingly, the Company considers that the proposed annual caps will be sufficient to cover the actual distribution fees to be payable by the Group under the Cooperation Framework Agreement for the Annual Cap Periods. The Company will monitor the annual caps usage and will ensure that the proposed annual caps will not be exceeded.

LETTER FROM THE BOARD

Details of the anticipated Distribution Projects under the Cooperation Framework Agreement for the Annual Cap Periods (all under discussion without contracts signed) are as follows (which are subject to change due to factors including implementation of the relevant business plan of the Group and the prevailing market conditions):

Year	Project	Description	Nature/theme/genre	Distribution period
2019	Project 1	Non-Hollywood movie	Action	Within 10 years (not yet fixed)
	Project 2	Large-scale U.S.-based movie	Family	Within 10 years (not yet fixed)
	Project 3	Small/Medium-scale U.S. movie	Mystery/Comedy	Within 10 years (not yet fixed)
2020	Project 1	Non-Hollywood movie	Sci-fiction	Within 10 years (not yet fixed)
	Project 2	Large-scale U.S.-based movie	Fantasy	Within 10 years (not yet fixed)
	Project 3	Small/Medium-scale U.S. movie	Drama	Within 10 years (not yet fixed)
	Project 4	Small/Medium-scale U.S. movie	Thriller/Suspense	Within 10 years (not yet fixed)
2021	Project 1	Non-Hollywood movie	Fantasy romance	Within 10 years (not yet fixed)
	Project 2	Large-scale U.S.-based movie	Sci-fiction/Action	Within 10 years (not yet fixed)
	Project 3	Small/Medium-scale U.S. movie	Legal/Crime	Within 10 years (not yet fixed)
	Project 4	Small/Medium-scale U.S. movie	Mystery/Family	Within 10 years (not yet fixed)

Subject to change due to factors including implementation for the relevant business plan of the Group and the prevailing market conditions, the expected range of the percentage of distribution fees to be charged by Huayi Brothers for the Annual Cap Periods would be between 15% and 20%. The distribution fees to be charged by Huayi Brothers pursuant to the Cooperation Framework Agreement is in line with the distribution arrangements which the Group previously entered or intends to enter into with other independent distributors, under which the distribution fees charged or to be charged by those independent distributors are also within the range of 15% to 20%. Taking into account that (i) the Group does not have distribution capabilities in the PRC, while Huayi Brothers is one of the major distributors of Media and Entertainment Projects in the PRC with long history and proven track records; (ii) the distribution fees under the Cooperation Framework Agreement are in line with distribution fees charged by independent distributors; and (iii) the distribution fees under the Cooperation Framework Agreement are determined with reference to the estimated box office of the relevant Media and Entertainment Projects which is in line with the industry practice, the Company considers that the distribution fee is fair and reasonable and on normal commercial terms or better.

The above information is estimated by the Company for the purpose of arriving at the annual cap amounts for the Distribution Projects for the Annual Cap Periods, which is subject to change due to factors including implementation of the relevant business plan of the Group and the prevailing market conditions.

LETTER FROM THE BOARD

(iv) Reasons for and benefits of entering into the Cooperation Framework Agreement

For the entertainment and media business operation of the Group, the Group undertakes investments in as well as collaboration with other parties in Media and Entertainment Projects. In the PRC, market players which have considerable scale, long track record, and capabilities in the production and distribution of Media and Entertainment Projects tend to be few. In terms of the manner of collaboration, co-development and co-investment in Media and Entertainment Projects by several investors and operators is a common market practice. Huayi Brothers, a substantial shareholder of the Company, belongs to a prominent group with strong capabilities in the media and entertainment field. To endeavour to be successful in the Media and Entertainment Projects that the Group participates in, it is necessary to avail itself of opportunities to co-operate with prominent investors and operators in the media and entertainment industry with the financial strength and capabilities to develop films, drama series and other media projects that can bring decent commercial returns.

Currently the Group does not have distribution capabilities in the PRC, while Huayi Brothers is one of the major distributors of Media and Entertainment Projects in the PRC with long history and proven track records. There is a genuine business need for the Group to engage distributor(s) to handle the distribution of Media and Entertainment Projects in the PRC acquired or owned by the Group, which is also a common market practice.

It would be advantageous for the Group to carry out the Investment Projects and the Distribution Projects by partnering with Huayi Brothers Group since it is a major investor and operator in the media and entertainment industry and a major distributor of Media and Entertainment Projects in the PRC. Huayi Brothers Group is strong in capital, connections and marketing, and is experienced in market connection, promotion and advertising as well as in dealing with government authorities. Besides, the Company considers that Huayi Brothers Group would duly take the interest of the Group into account in such transactions given the shareholding relationship of Huayi Brothers with the Company.

In view of the above reasons and benefits, and that there are no restrictions under the Cooperation Framework Agreement on the Group's cooperation and collaboration with other parties, the Directors are not aware of any disadvantage to the Group of entering into the Cooperation Framework Agreement by the Company.

(v) Revenue nature of the Investment Projects under the Cooperation Framework Agreement

The carrying out of or participation in the Investment Projects by the Group constitutes transactions of a revenue nature in its ordinary and usual course of business. In undertaking or participating in the Investment Projects, the Group pays an investment amount to cooperate with other parties in the Media and Entertainment Projects. The investment amounts paid by the Group for the Media and Entertainment Projects are recorded in the Group's financial statements as its costs of investment classified under "Film rights and Film production in progress". Upon the release of the Media and Entertainment Projects, film rights are amortized

LETTER FROM THE BOARD

as cost of sales in the Group's financial statements using diminishing balance method at rates calculated to write off the costs over their estimated useful lives, and the Group's share of the income (e.g. box office, advertising and/or other income after deduction of necessary costs incurred) to be received from and the Group's share of sales and marketing expenses to be incurred for the release of the Media and Entertainment Projects are recorded in the Group's financial statements as the Group's revenue and sales & marketing expenses respectively. The above accounting treatments adopted by the Company for Media and Entertainment Projects are in accordance with Hong Kong Financial Reporting Standards, the generally acceptable accounting standards in Hong Kong, and apply to all of the Group's transactions in relation to Media and Entertainment Projects. The profit or loss to the Group generated from the Media and Entertainment Projects it participates in are assessable to profits tax. Previous transactions or recurring transactions of the Group of the same nature were treated as revenue nature transaction as well, and had not been treated as notifiable transactions of the Company under Chapter 14 of the Listing Rules.

(vi) Green Light Committee

The Group has formed an investment committee (the "**Green Light Committee**") which currently comprises two executive Directors, namely Mr. Wang Zhonglei (currently the vice-chairman and general manager of Huayi Brothers Media Corporation) and Mr. Cheng Wu (currently the chief executive officer of Tencent Pictures), and the Chief Financial Officer of the Company, who are with experience in producing Media and Entertainment Projects as well as in accounting and finance and possess the necessary qualification and expertise, with responsibility to analyse and vet all investment decisions in relation to Media and Entertainment Projects, including those involving Huayi Brothers and/or their Associated Companies and those involving independent third parties.

Every Media and Entertainment Project is subject to the unanimous approval of the Green Light Committee, which is empowered to review and approve a Media and Entertainment Project taking into account factors including, without limitation, the script/synopsis, production budget, the proposed director/producer and the proposed cast of the Media and Entertainment Project, and production analysis and profitability analysis to be performed for the Media and Entertainment Project in order to assess its commercial viability. The Green Light Committee may engage legal advisers, financial advisers and/or other professional advisers to conduct due diligence and/or give advice on a Media and Entertainment Project. Along the execution of an approved Media and Entertainment Project, if (a) the production budget is increased by a specific percentage or above as compared to the initial budget provided to the Green Light Committee for approval; (b) the director or main cast is changed; or (c) there is any change that would result in material adverse implication on the Company's expected investment return, the Media and Entertainment Project that has been approved by the Green Light Committee will be subject to re-approval of the Green Light Committee.

LETTER FROM THE BOARD

Such policy applies to cooperation in Media and Entertainment Projects with connected persons as well as independent third parties. Although Mr. Wang Zhonglei, a member of the Green Light Committee, is the vice-chairman and general manager of Huayi Brothers Media Corporation, unanimous approval by all members of the Green Light Committee would be required for every Media and Entertainment Project (whether with connected persons or independent third parties). Accordingly, no single member of the Green Light Committee would have control on any investment decision. With the implementation of the above green light policy, in particular, the unanimous approval requirement, and after taking into consideration the factors as set out in the paragraph above to assess the commercial viability of a Media and Entertainment Project from the Group's perspective and comparing the terms of the subject Media and Entertainment Project with the terms of other comparable Media and Entertainment Projects of the Group with Huayi Brothers Group and with independent third parties in the Group's previous transactions and transactions under discussion, the Green Light Committee will ensure that the terms of Investment Projects would be fair and reasonable and on normal commercial terms or better to the Group and no less favourable than the terms offered by independent third parties to the Group or which can be obtained by the Group from independent third parties.

(vii) Internal control

The company secretary department of the Company (the “**Company Secretary Department**”) is primarily responsible for reviewing and monitoring the continuing connected transactions of the Company to ensure that the annual caps of the relevant continuing connected transactions are not exceeded and that the continuing connected transactions have been conducted in accordance with the pricing policies or mechanisms under the framework agreements relating to such continuing connected transactions. The person-in-charge of the business of the Media and Entertainment Projects of the Group will report to the Company Secretary Department and the Company Secretary Department will keep record of the amount and annual cap usage of continuing connected transactions of the Company. The Company Secretary Department will compare the actual figures with the approved annual caps of continuing connected transactions of the Company, and consult with the Group's internal audit function and external legal advisers on continuing connected transaction compliance issues and regularly report to the Chief Financial Officer of the Company. When the accumulated amounts exceed 50% of the approved annual caps of continuing connected transactions of the Company, the Company Secretary Department will make a specific notification to the Chief Financial Officer of the Company. The Chief Financial Officer of the Company will in turn report to the audit committee of the Company and appropriate action (including reviewing the pipeline of the Media and Entertainment Projects of the Group and/or reducing or controlling the volume of the actual continuing connected transactions of the Company to be carried out under the Cooperation Framework Agreement and/or revising the relevant annual caps in accordance with the requirements of the Listing Rules) will be taken. On a regular basis, the Chief Financial Officer also provides a confirmation and relevant supporting evidence to the audit committee of the Company that the continuing connected transactions of the Company which are subject to the annual review and disclosure

LETTER FROM THE BOARD

requirements under the Listing Rules 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) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and the audit committee of the Company will be in a position to check that the Group's internal control procedures applicable to continuing connected transactions are adequate and effective to ensure that such transactions were so conducted.

In accordance with Rule 14A.55 of the Listing Rules, the independent non-executive Directors will conduct annual review of the continuing connected transactions carried out under the Cooperation Framework Agreement and will provide an annual confirmation on whether the 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 Cooperation Framework Agreement on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

In accordance with Rule 14A.56 of the Listing Rules, the Company will engage its auditors to report on the continuing connected transactions conducted under the Cooperation Framework Agreement annually confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions conducted under the Cooperation Framework Agreement (i) have not been approved by the Directors; (ii) were not entered into, in all material respects, in accordance with the Cooperation Framework Agreement; and (iii) have exceed the proposed annual caps.

(viii) Transactions with connected persons or substantial shareholders of the Company and independent third parties

HTEIL (a wholly-owned subsidiary of the Company) and Huayi Brothers entered into agreements on 12 December 2018 pursuant to which Huayi Brothers agreed to transfer 50% of the profit sharing right corresponding to its distribution rights in certain films to HTEIL at an aggregated consideration equivalent to approximately HK\$41,594,000. Apart from the aforesaid, the Group had not entered into any agreements with Huayi Brothers in respect of the Investment Projects or the Distribution Projects prior to the date of the Cooperation Framework Agreement.

There was no revenue contribution of the entertainment and media business generated from projects involving connected persons of the Company (including Huayi Brothers Group) for the three years ended 31 December 2016, 2017 and 2018 respectively.

LETTER FROM THE BOARD

Subject to change due to factors including implementation for the relevant business plan of the Group and the prevailing market conditions, the estimated revenue contribution of the entertainment and media business generated from projects involving connected persons of the Company (including Huayi Brothers Group) and that from projects with independent third parties without involvement of the Company's connected persons or substantial shareholders for the three years ending 31 December 2019, 2020 and 2021 are as follows.

	For the year ending		
	31 December 2019	31 December 2020	31 December 2021
	<i>(Approximately)</i>	<i>(Approximately)</i>	<i>(Approximately)</i>
Estimated revenue contribution of the entertainment and media business generated from projects involving connected persons of the Company (including Huayi Brothers Group)	HK\$37 million (54.4%)	HK\$295 million (52.1%)	HK\$335 million (47.2%)
Estimated revenue contribution of the entertainment and media business generated from projects with independent third parties without involvement of the Company's connected persons or substantial shareholders	HK\$31 million (45.6%)	HK\$271 million (47.9%)	HK\$375 million (52.8%)
Total:	HK\$68 million <u>(100%)</u>	HK\$566 million <u>(100%)</u>	HK\$710 million <u>(100%)</u>

LETTER FROM THE BOARD

Details of the Group's plan to invest in Media and Entertainment Projects with independent third parties without involvement of the Company's connected persons or substantial shareholders for the three years ending 31 December 2019, 2020 and 2021 are as follows (which are subject to change due to factors including implementation of the relevant business plan of the Group and the prevailing market conditions):

Year	Project (Status of negotiation)	Expected date of entering into contracts	Nature/theme/genre	Targeted market	Expected budget (in US\$)	Expected investment amount of the Group (in US\$) (investment ratio)	Status of the project (Expected date of release)	Expected box office receipts (in US\$)
2019	Project 1 (With contract signed)	N/A	Sci-fiction	Korea & international	21,495,745	4,299,149 (20%)	Currently in pre-production, production will commence by August 2019 (2020)	60 to 80 million
	Project 2 (In discussion)	June 2019	Animation	U.S., PRC & international	31,405,000	4,710,750 (15%)	Currently in pre-production (2020)	87 to 174 million
	Project 3 (In discussion)	Second half of 2019	Crime	PRC	26,627,219	3,994,083 (15%)	Production to be commenced in 2nd half of 2019 (End of 2019 to Early 2020)	96 to 140 million
	Project 4 (In discussion)	Second half of 2019	Drama	U.S., PRC & international	40,000,000	6,000,000 (15%)	Casting confirmed, currently in script finalisation, production to commence in October 2019 (2020)	129 to 194 million
2020	Project 1 (In discussion)	2020	Action/Crime	Korea & international	17,000,000	3,400,000 (20%)	Production to be commenced in 2020 (2021)	28 to 56 million
	Project 2 (In discussion)	2020	Horror/ Sci-fiction	U.S., PRC & international	60,000,000	9,000,000 (15%)	Production to be commenced in 2020 (2021)	174 to 268 million
	Project 3 (In discussion)	2020	Drama/ Comedy	U.S., PRC & international	35,000,000	5,250,000 (15%)	Currently in script writing and casting, production to be commenced in 2020 (2020 — 2021)	112 to 167 million
	Project 4 (In discussion)	2020	Sci-fiction	Global distribution	100,000,000	10,000,000 (10%)	Currently in script writing, pre-production will start in 2020 (2021 to 2022)	450 to 900 million
2021	Project 1 (In discussion)	2021	Drama/ Comedy	U.S., PRC & international	25,000,000	3,750,000 (15%)	Production to be commenced in 2020 (2021)	84 to 154 million
	Project 2 (In discussion)	2021	Adventure	U.S., PRC & international	35,000,000	5,250,000 (15%)	Production to be commenced in 2020 (2021 to 2022)	112 to 167 million

The Group sources the Media and Entertainment Projects with independent third parties in the following ways: (a) by participating in various film festivals/film marts (e.g. Hong Kong Film Mart, Cannes Film Festival, etc.); (b) by being introduced through the investees or partners of the Group in Korea including HB Entertainment, Warner Brothers Korea, etc.; (c)

LETTER FROM THE BOARD

by being introduced through the Group's business partners with which the Group has carried out investment and/or distribution of Media and Entertainment Projects; and (d) by receiving investment proposals on a regular basis.

As illustrated above, even without the involvement of connected persons and/or substantial shareholders of the Company, the Group is expected to generate substantial amounts of revenue from Media and Entertainment Projects with independent third parties. There had been no revenue contribution to the entertainment and media business of the Group generated from projects involving connected persons of the Company (including Huayi Brothers Group) for the three years ended 31 December 2016, 2017 and 2018. Furthermore, there is a decreasing trend in the ratio of estimated revenue contribution of entertainment and media business generated from projects involving connected persons of the Company to that from projects not involving the Company's connected persons for the three years ending 31 December 2019, 2020 and 2021. Accordingly, the Cooperation Framework Agreement would not give rise to reliance issue of the Company with its connected persons and its substantial shareholders.

To ensure that the Group would not have undue reliance on the Company's connected persons and substantial shareholder, the Group is investing and will continue to invest in Media and Entertainment Projects produced by independent third parties without involvement of the Company's connected persons or substantial shareholders. As disclosed above, the Company is cooperating and will continue to cooperate with third party distributors for international markets as well as the PRC market. In the long run, the Group will further diversify the market of its entertainment and media business and may establish its own production and distribution network. The Company will continue to monitor transactions involving (even if remotely) the Company's connected persons and substantial shareholders, to ensure that all such transactions are on normal commercial terms or better and negotiated at arm's length.

(3) INFORMATION ON THE GROUP AND HUAYI BROTHERS

The Group is principally engaged in (i) entertainment and media business; and (ii) provision of offline healthcare and wellness services. The Company has no current intention to dispose or downsize its existing business of the provision of offline healthcare and wellness services in the next 12 months from the Latest Practicable Date. However, the Company will from time to time review the status and development of the market conditions of such business, and will make decisions in relation to the carrying on of such business as would be in the interest of the Company and the Shareholders as a whole.

Huayi Brothers is principally engaged in the production, releasing and derivative businesses of movies and television dramas, the holding company of which is Huayi Brothers Media Corporation, a company listed on the Shenzhen Stock Exchange (SZSE: 300027) which is principally engaged in the film and television production and distribution businesses.

LETTER FROM THE BOARD

(4) LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Huayi Brothers is a substantial shareholder of the Company holding approximately 18.17% of the total issued share capital of the Company. Accordingly, Huayi Brothers is a connected person of the Company and the transactions contemplated under the Cooperation Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios calculated in accordance with the Listing Rules in respect of the annual caps for the transactions contemplated under the Cooperation Framework Agreement will, on an annual basis, exceed 5%, the Cooperation Framework Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the terms of the Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, whether the Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the resolution to be proposed at the EGM.

Red Sun has been appointed by the Company as its independent financial adviser to give recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, whether the Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the resolution to be proposed at the EGM.

Mr. WANG Zhongjun is the chairman and a director of Huayi Brothers Media Corporation, a substantial shareholder of the Company and the holding company of Huayi Brothers. Mr. WANG Zhonglei is the vice-chairman and general manager of Huayi Brothers Media Corporation. Therefore, Mr. WANG Zhongjun and Mr. WANG Zhonglei have abstained from voting on the relevant Board resolutions approving the Cooperation Framework Agreement and the transactions contemplated thereunder to avoid any conflicts of interest. Save as aforesaid, none of the other Directors has a material interest in the Cooperation Framework Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

(5) EGM

There is set out on pages 70 to 71 of this circular a notice convening the EGM to be held at Boardroom 6, Mezzanine Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wan Chai, Hong Kong on Monday, 24 June 2019 at 3 p.m. at which an ordinary resolution will be proposed for the approval by the Independent Shareholders of the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps.

As at the Latest Practicable Date, Huayi Brothers Media Corporation, through Huayi Brothers, held 2,452,447,978 Shares, representing approximately 18.17% of the total issued share capital of the Company. Huayi Brothers Media Corporation and Huayi Brothers are considered to be materially interested in the transactions contemplated under the Cooperation Framework Agreement and, Huayi Brothers, being a registered Shareholder, will be required to abstain from voting on the resolution to be proposed at the EGM.

Save as disclosed above, to the best knowledge, information and belief of the Directors and having made reasonable enquires, no other Shareholder is involved in or materially interested in the Cooperation Framework Agreement and the transactions contemplated thereunder, who or which would be required to abstain from voting on the resolution to be proposed at the EGM.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the EGM will exercise his power under Article 66(1) of the Articles of Association of the Company to put the ordinary resolution to be proposed at the EGM to be voted by way of poll. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

(6) RECOMMENDATION

The Directors (including the independent non-executive Directors whose views are set out in the “Letter from the Independent Board Committee” in this circular after taking into consideration the advice from Red Sun) consider that the terms of the Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, and the Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are and will be conducted on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Therefore, the Directors recommend that the Independent Shareholders should vote in favour of the ordinary resolution to be proposed at the EGM to approve the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps.

LETTER FROM THE BOARD

(7) ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 30 to 31 of this circular, the Letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 32 to 64 of this circular, and the information set out in the appendix on pages 65 to 69 to this circular.

Yours faithfully,
For and on behalf of
Huayi Tencent Entertainment Company Limited
WANG Zhongjun
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee, setting out its recommendation to the Independent Shareholders in relation to the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps, which has been prepared for the purpose of inclusion in this circular.

H.BROTHERS | ENTERTAINMENT

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Huayi Tencent Entertainment Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 419)

4 June 2019

To the Independent Shareholders

Dear Sir/Madam,

**CONTINUING CONNECTED TRANSACTIONS
COOPERATION FRAMEWORK AGREEMENT ON
INVESTMENT PROJECTS AND DISTRIBUTION PROJECTS
WITH HUAYI BROTHERS INTERNATIONAL LIMITED**

We refer to the circular of the Company dated 4 June 2019 (the “**Circular**”), of which this letter forms part. Unless otherwise stated, terms defined in the Circular have the same meaning when used in this letter.

We have been appointed by the Board as the members of the Independent Board Committee to consider and to advise the Independent Shareholders as to whether the terms of the Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, and the Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole, and to recommend whether or not the Independent Shareholders should vote in favour of the ordinary resolution to be proposed at the EGM to approve the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps.

Red Sun has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps. The text of the letter of advice from Red Sun to the Independent Board Committee and the Independent Shareholders is set out on pages 32 to 64 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Board as set out on pages 4 to 29 of the Circular.

After taking into consideration the terms of the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps and the advice of Red Sun, we consider that terms of the Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, and the Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are and will be conducted on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps.

Yours faithfully,

For and on behalf of the Independent Board Committee of

Huayi Tencent Entertainment Company Limited

WONG Yau Kar David, GBS, JP

YUEN Kin

CHU Yuguo

Independent

Independent

Independent

non-executive director

non-executive director

non-executive director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Red Sun to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Cooperation Framework Agreement for inclusion in this circular.



红日资本有限公司
RED SUN CAPITAL LIMITED

4 June 2019

*To: The Independent Board Committee and the Independent Shareholders of
Huayi Tencent Entertainment Company Limited*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS COOPERATION FRAMEWORK AGREEMENT ON INVESTMENT PROJECTS AND DISTRIBUTION PROJECTS WITH HUAYI BROTHERS INTERNATIONAL LIMITED

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders, among other things, on whether the terms of the Cooperation Framework Agreement and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 4 June 2019 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As disclosed in the Letter from the Board, on 2 May 2019, the Company entered into the Cooperation Framework Agreement with Huayi Brothers, pursuant to which the parties have agreed to cooperate in (i) the Investment Projects; and (ii) the Distribution Projects, for a term from 2 May 2019 to 31 December 2021 (both dates inclusive), subject to the fulfillment of the condition precedent of the Cooperation Framework Agreement.

As at the Latest Practicable Date, Huayi Brothers is a substantial shareholder of the Company holding approximately 18.17% of the total issued share capital of the Company. Accordingly, Huayi Brothers is a connected person of the Company and the transactions contemplated under the Cooperation Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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As one or more applicable percentage ratios calculated in accordance with the Listing Rules in respect of the annual caps for the transactions contemplated under the Cooperation Framework Agreement will, on an annual basis, exceed 5%, the Cooperation Framework Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened to obtain the Independent Shareholders' approval of the terms of the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps. Huayi Brothers, being a registered Shareholder, will be required to abstain from voting on the resolution to be proposed at the EGM.

INDEPENDENT BOARD COMMITTEE

The Board currently comprises Mr. Wang Zhongjun as Chairman and executive Director, Mr. Cheng Wu as Vice Chairman and executive Director, Mr. Wang Zhonglei, Mr. Lin Haifeng, Mr. Hu Junyi and Mr. Yuen Hoi Po as executive Directors, and three independent non-executive Directors, namely Dr. Wong Yau Kar David, *GBS, JP*, Mr. Yuen Kin and Mr. Chu Yuguo.

An Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the terms of the Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote on the resolution to be proposed at the EGM.

We, Red Sun, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. In the previous two years, we did not act as an independent financial adviser to the Company under the Listing Rules.

Apart from normal professional fees payable to us in connection with this appointment and the engagement as stated above as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

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BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management, were true and accurate at the time they were made and continue to be so as at the Latest Practicable Date.

The Directors jointly and severally accept full responsibility for the accuracy of the statements, information and representations contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been reasonably arrived at after due and careful consideration and there are no other material facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We have also sought and obtained confirmation from the Management that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents, including, but not limited to, (i) the internal control manual; (ii) the list of potential Investment Projects; and (iii) the list of potential Distribution Projects, and have performed all necessary steps as required under Rule 13.80 of the Listing Rules, including the notes thereto, to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading.

We have not, however, conducted any independent verification provided by the Directors and the Management, nor have we conducted independent investigation into the business and affairs or future prospects of the Group, Huayi Brothers and their respective associates.

This letter is issued for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration in relation to the Cooperation Framework Agreement and the proposed annual caps, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Cooperation Framework Agreement, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

The Group is principally engaged in (i) entertainment and media business; and (ii) provision of offline healthcare and wellness services.

Set out below is a summary of the Group's revenue as extracted from the Company's annual reports for the years ended 31 December 2017 and 2018; respectively.

	For the year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Revenue	128,324	167,666	109,168
— Entertainment and media	11,825	52,039	1,139
— Offline healthcare and wellness services	116,499	115,627	108,029

The Group recorded a revenue of approximately HK\$128.3 million and HK\$167.7 million for the years ended 31 December 2016 and 2017, respectively, representing a growth rate of approximately 30.7%. Such increase was mainly attributable to the increase in revenue generated from entertainment and media from approximately HK\$11.8 million for the year ended 31 December 2016 to HK\$52.0 million for the year ended 31 December 2017, representing an increase of approximately HK\$40.2 million or 3.4 times. For the year ended 31 December 2018, the Group recorded revenue of approximately HK\$109.2 million, representing a decrease of approximately HK\$58.5 million or 34.9% as compared to the year ended 31 December 2017. Such decrease was mainly attributable to the decrease in revenue generated from entertainment and media from approximately HK\$52.0 million for the year ended 31 December 2017 to approximately HK\$1.1 million for the year ended 31 December 2018. As disclosed in the Company's annual report for the year ended 31 December 2018, the revenue from the entertainment and media operations dropped by 98% to approximately HK\$1.1 million (2017: HK\$52.0 million) due to the lack of theatrical release of new films by the Group during the year.

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2. Information of Huayi Brothers and Huayi Brothers Media Corporation

Huayi Brothers is principally engaged in the production, releasing and derivative businesses of movies and television dramas, the holding company of which is Huayi Brothers Media Corporation (“**Huayi Brothers Media**”), a company listed on the Shenzhen Stock Exchange (SZSE: 300027) which is principally engaged in the film and television production and distribution businesses. As at 2 May 2019 (being the date of the Cooperation Framework Agreement), the market capitalisation of Huayi Brothers Media was in excess over RMB14 billion. Huayi Brothers Media was founded in 1994 and commenced its entertainment and media business in the PRC since 1998.

Set out below is a summary of certain financial information as extracted from the Huayi Brothers Media’s annual reports for the year ended 31 December 2017 and 2018, respectively (for the year ended 31 December 2018, being “**2018 Annual Report of Huayi Brothers Media**”):

	For the year ended 31 December		
	2016	2017	2018
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue	3,503	3,946	3,891
Net profit (loss)	994	987	(909)
Net assets	9,850	10,552	9,587

Huayi Brothers Media recorded a revenue of approximately RMB3.5 billion and RMB3.9 billion for the years ended 31 December 2016 and 2017, respectively, representing a growth rate of approximately 11.4%. Such increase was mainly attributable to the increase in revenue generated from entertainment and media business from approximately RMB2.6 billion for the year ended 31 December 2016 to RMB3.4 billion for the year ended 31 December 2017, representing an increase of approximately RMB0.8 billion or 30.8%. For the year ended 31 December 2018, Huayi Brothers Media’s revenue remained relatively stable at approximately RMB3.9 billion, among which, revenue generated from entertainment and media business accounted for approximately 94.0% of the total revenue. The increase in revenue generated from entertainment and media business from approximately RMB3.4 billion for the year ended 31 December 2017 to RMB3.7 billion for the year ended 31 December 2018, representing an increase of approximately RMB0.3 billion or 8.4%.

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Huayi Brothers Media recorded a net profit of approximately RMB994 million for the year ended 31 December 2016 which was largely in line with the net profit of approximately RMB987 million for the year ended 31 December 2017. For the year ended 31 December 2018, Huayi Brothers Media recorded net loss of approximately RMB909 million. Such change was mainly attributable to the increase in loss from fair value change in assets from approximately RMB280 million for the year ended 31 December 2017 to approximately RMB1.4 billion for the year ended 31 December 2018. We noted from the 2018 Annual Report of Huayi Brothers Media that among the approximately RMB1.4 billion loss from fair value change in assets, impairment losses of goodwill accounting for approximately RMB0.9 billion was mainly attributable to the impairment related to four subsidiaries of Huayi Brothers Media which were primarily engaged in (i) provision of agency management service* (娛樂經紀); (ii) ticket agency service* (票務代理); (iii) movie production* (影視製作); and (iv) investment holding. The impairment losses of goodwill on the above-mentioned subsidiaries were approximately RMB0.3 billion, RMB0.2 billion, RMB\$0.2 billion and RMB0.2 billion, respectively.

Notwithstanding that Huayi Brothers Media recorded a loss for the year ended 31 December 2018 which was partly attributable to the impairment losses of goodwill of certain subsidiaries, having considered (i) the long and proven track record with sizeable market capitalisation of Huayi Brothers Media; (ii) Huayi Brothers Media had recorded a stable revenue in entertainment and media business for the three years ended 31 December 2018; (iii) Huayi Brothers Media had maintained net assets of approximately RMB9.6 billion as at 31 December 2018; and (iv) the impairment loss of goodwill in relation to the subsidiary of Huayi Brothers Media which was primarily engaged in movie production* (影視製作) of approximately RMB0.2 billion was relatively small compared with the net assets of Huayi Brothers Media as at 31 December 2018, we concur with the Directors that Huayi Brothers Group is well-connected with strong capabilities and experience in entertainment and media business in the PRC, which in turn, will be advantageous for the Group in carrying out the potential collaboration, namely the Investment Projects and the Distribution Projects, under the Cooperation Framework Agreement.

3. Overview of the PRC economy

The PRC

As set out on the website of the National Bureau of Statistics of the PRC (<http://data.stats.gov.cn>), year-on-year growth in gross domestic product for the PRC in 2018 was approximately 6.6% (2017: 6.8%). Pursuant to the Thirteenth Five Year Plan* (十三五規劃) set out by the PRC government, the annual gross domestic product growth target for the next five years from 2016 was approximately 6.5%.

The table below shows a summary of the PRC's disposable income of urban households per capita from 2015 to 2018.

	2015	2016	2017	2018
Per Capita Disposable Income of Urban Households (RMB)	31,195	33,616	36,396	39,251

Source: National Bureau of Statistics of China

The annual disposable income per capita of urban households in the PRC increased from approximately RMB31,195 in 2015 to approximately RMB33,616 in 2016 and further increased to approximately RMB36,396 in 2017, representing a year-on-year increase of approximately 7.8% and 8.3%, respectively. The annual disposable income per capita of urban households in the PRC increased from RMB36,396 in 2017 to approximately RMB39,251 in 2018 (representing a year-on-year increase of approximately 7.8%).

Entertainment and media business

According to the State Administration of Press, Publication, Radio, Film and Television of The People's Republic of China (中華人民共和國國家新聞出版廣電總局), the gross box office receipts in the PRC in 2018 amounted to approximately RMB61.0 billion, representing a year-on-year increase of approximately RMB5.1 billion or 9.1% from the gross box office receipts amounted to approximately RMB55.9 billion in 2017.

The income per capita and together with the gross box office receipts in the PRC have increased steadily in recent years, which, in turn, has contributed towards a sustainable growth potential of PRC's entertainment and media business.

4. Reasons for and benefits of entering into the Cooperation Framework Agreement

As disclosed in the Letter from the Board, for the entertainment and media business operations of the Group, the Group undertakes investments in as well as collaboration with other parties in Media and Entertainment Projects. In the PRC, market players which have considerable scale, long track record, and capabilities in the production and distribution of Media and Entertainment Projects tend to be few. In terms of the manner of collaboration, co-development and co-investment in Media and Entertainment Projects by several investors and operators is a common market practice. Huayi Brothers, a substantial shareholder of the Company, belongs to a prominent group with strong capabilities in the media and entertainment field. To endeavour to be successful in the Media and Entertainment Projects that the Group participates in, it is necessary to avail itself of opportunities to co-operate with prominent investors and operators in the media and entertainment industry with the financial strength and capabilities to develop films, drama series and other media projects that can bring decent commercial returns.

Having discussed with the Management, we note that the commercial success or viability of Media and Entertainment Projects depends on a number of factors, including but not limited to, the general social and economic conditions, timing of release, the success of marketing efforts and preference from consumers. Accordingly, given the inherent risk for investing in Media and Entertainment Projects, it is not uncommon for investors to diversify the potential risk by collaboration, co-development and co-investment with other co-investors in Media and Entertainment Projects in this industry.

It would be advantageous for the Group to carry out the Investment Projects and the Distribution Projects by partnering with Huayi Brothers Group since it is a major investor and operator in the media and entertainment industry and a major distributor of Media and Entertainment Projects in the PRC. Huayi Brothers Group is strong in capital, connections and marketing, and is experienced in market connection, promotion and advertising as well as in dealing with government authorities. Besides, the Company considers that Huayi Brothers Group would duly take the interest of the Group into account in such transactions given the shareholding relationship of Huayi Brothers with the Company.

The Directors are of the view that the Cooperation Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and on normal commercial terms, and that the terms of the Cooperation Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Having considered that (i) the growth in income per capita and gross box office receipts in the PRC set out under the paragraph headed “3. Overview of the PRC economy” above; (ii) Huayi Brothers Group is a major investor operator in media and entertainment industry which has a proven track record in distributing Media and Entertainment Projects in the PRC; (iii) it is not uncommon for investors to co-invest in Media and Entertainment Projects; and (iv) the Group relies on distributors for distributing Media and Entertainment Projects in the PRC, we concur with the Directors that the entering into the Cooperation Framework Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

5. Cooperation Framework Agreement

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

Date : 2 May 2019

Parties : (1) The Company
(2) Huayi Brothers

Term : From 2 May 2019 to 31 December 2021 (both dates inclusive), subject to the fulfillment of the condition precedent of the Cooperation Framework Agreement

(a) *Cooperation in relation to Investment Projects*

Members of the Group may from time to time enter into definitive agreements with Huayi Brothers (or its Associated Companies) on specific Investment Projects in accordance with the terms of the Cooperation Framework Agreement. Such cooperation definitive agreement will be in the form of Huayi Brothers (or its Associated Company) procuring (for Media and Entertainment Projects that are produced by third party production companies) or allowing (for Media and Entertainment Projects that are produced by Huayi Brothers Group) the members of the Group to share part of an Investment Project.

The Investment Projects that will be carried out under the Cooperation Framework Agreement may involve (i) the Group investing in Media and Entertainment Projects that are produced by Huayi Brothers Group, where Huayi Brothers Group will provide to the Group the services of production, post-production work and/or distribution in respect of the Media and Entertainment Projects concerned; and (ii) the Group and Huayi Brothers Group together investing in Media and Entertainment Projects that are produced by third party production companies, where Huayi Brothers Group will provide to the Group the services of an intermediary in introducing and liaising with the third party production companies and procuring the business opportunities for those Media and Entertainment Projects.

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i. *Consideration*

The investment amount of the Group for each single transaction of the Investment Projects shall be set out in the relevant definitive agreement to be entered into between the relevant member of the Group and Huayi Brothers (or its Associated Company).

The investment amount will be paid in full within certain days of signing of a definitive agreement, or in instalments after (i) signing of a definitive agreement; and (ii) certain milestone(s) is/are reached (including but not limited to obtaining the necessary approval of relevant authority(ies) in relation to the Investment Project, commencement of shooting, etc.). For those Media and Entertainment Projects that are produced by third party production companies in which the Group and Huayi Brothers Group are together investing, the investment amount may be payable by the Group to the third party production companies directly, or payable by the Group to Huayi Brothers Group which will in turn pay the investment amount to the third party production companies (with no premium to be charged by Huayi Brothers Group).

Given that Huayi Brothers Group is a substantial shareholder of the Company and its associates, other than the amount to be invested by the Group in each Investment Project, no additional fees will be charged by the Huayi Brothers Group in respect of its provision of services of production, post-production work and/or distribution, provision of services of an intermediary in introducing and liaising with the third party production companies and procuring the business opportunities for those Media and Entertainment Projects.

ii. *Basis for determining the terms of definitive agreements*

The Company and Huayi Brothers agree that each transaction of the Investment Projects shall be on normal commercial terms which are no less favourable than terms offered by independent third parties to the Group or which can be obtained by the Group from independent third parties.

Detailed terms of each Investment Project shall be negotiated with reference to the respective business scopes, applicable laws and regulations, general commercial terms and collaboration practice on Media and Entertainment Projects of the Company and Huayi Brothers, in accordance with the principles set out in the Cooperation Framework Agreement and on the basis of fairness. Such detailed terms to be contained in a definitive agreement for an Investment Project include the subject work (setting out the title, production company, format, director (if confirmed), main cast (if confirmed), draft script, expected date of release, estimated budget of the subject Media and Entertainment Project), investment amount, settlement terms, investment proportion, revenue split arrangement, film copyright issues, distribution rights, management fees (if any), consequences of actual costs exceeding or falling short of budget, and other general clauses including confidentiality, governing law and assignability.

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A member of the Group and Huayi Brothers (or its Associated Companies) shall negotiate and conclude the terms of a definitive agreement taking into account relevant factors including (but not limited to) the financial strength of the parties involved, the scale and content of the Media and Entertainment Project, the major artistes/creation teams involved, and the relevant parties' ability on distribution and on obtaining government and regulatory approvals.

As a general practice, the sharing of revenue/profit or loss of a Media and Entertainment Project (after deduction of expenses, costs, remuneration or bonus to relevant participants in the project) among investors of the Investment Project shall be pro rata to (or in such proportions as close as practicable to) their corresponding investment amount in the Investment Project.

iii. *Revenue nature of the Investment Projects under the Cooperation Framework Agreement*

As set out in the Letter from the Board, the carrying out of or participation in the Investment Projects by the Group constitutes transactions of a revenue nature in its ordinary and usual course of business. In undertaking or participating in the Investment Projects, the Group pays an investment amount to cooperate with other parties in the Media and Entertainment Projects. The investment amounts paid by the Group for the Media and Entertainment Projects are recorded in the Group's financial statements as its costs of investment classified under "Film rights and Film production in progress". Upon the release of the Media and Entertainment Projects, film rights are amortized as cost of sales in the Group's financial statements using diminishing balance method at rates calculated to write off the costs over their estimated useful lives, and the Group's share of the income (e.g. box office, advertising and/or other income after deduction of necessary costs incurred) to be received from and the Group's share of sales and marketing expenses to be incurred for the release of the Media and Entertainment Projects are recorded in the Group's financial statements as the Group's revenue and sales & marketing expenses respectively. The above accounting treatments adopted by the Company for Media and Entertainment Projects are in accordance with Hong Kong Financial Reporting Standards, the generally acceptable accounting standards in Hong Kong, and apply to all of the Group's transactions in relation to Media and Entertainment Projects.

We have discussed with the Management and reviewed recurring transactions of the Group which were of the same nature and noted that such transactions were treated as revenue nature transactions. Accordingly, based on the above, the Management and we concur that the carrying out of or participating in the Investment Projects by the Group constitutes transactions of a revenue nature in its ordinary and usual course of business.

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iv. *Green Light Committee*

The Group has formed an investment committee (the “**Green Light Committee**”) which currently comprises two executive Directors, namely Mr. Wang Zonglei (currently the vice-chairman and general manager of Huayi Brothers Media Corporation) and Mr. Cheng Wu (currently the chief executive officer of Tencent Pictures), and the Chief Financial Officer of the Company, who are with experience in producing Media and Entertainment Projects as well as in accounting and finance and possess the necessary qualification and expertise, with responsibility to analyse and vet all investment decisions in relation to Media and Entertainment Projects including those involving Huayi Brothers and/or their Associated Companies and those involving independent third parties. Having considered the experience of the members of the Green Light Committee as mentioned above, we concur with the Management that members of the Green Light Committee possess the necessary knowledge/qualification and are competent to review/analyse and vet investment decisions in relation to Media and Entertainment Projects.

Every Media and Entertainment Project is subject to the unanimous approval of the Green Light Committee, which is empowered to review and approve a Media and Entertainment Project taking into account factors including, without limitation to, the script/synopsis, production budget, the proposed director/producer and the proposed cast of the Media and Entertainment Project, and production analysis and profitability analysis to be performed for the Media and Entertainment Project in order to assess its commercial viability. The Green Light Committee may engage legal advisers, financial advisers and/or other professional advisers to conduct due diligence and/or give advice on a Media and Entertainment Project. Along the execution of an approved Media and Entertainment Project, if (a) the production budget is increased by a specific percentage or above as compared to the initial budget provided to the Green Light Committee for approval; (b) the director or main cast is changed; or (c) there is any change that would result in material adverse implication on the Company’s expected investment return, the Media and Entertainment Project that has been approved by the Green Light Committee will be subject to re-approval of the Green Light Committee.

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Such policy applies to cooperation in Media and Entertainment Projects with connected persons as well as independent third parties. Although Mr. Wang Zhonglei, a member of the Green Light Committee, is the vice-chairman and general manager of Huayi Brothers Media Corporation, unanimous approval by all members of the Green Light Committee would be required for every Media and Entertainment Project (whether with connected persons or independent third parties). Accordingly, no single member of the Green Light Committee would have control on any investment decision. With the implementation of the above green light policy, in particular, the unanimous approval requirement, and after taking into consideration the factors as set out in the paragraph above to assess the commercial viability of a Media and Entertainment Project from the Group's perspective and comparing the terms of the subject Media and Entertainment Project with the terms of other comparable Media and Entertainment Projects of the Group with Huayi Brothers Group and with independent third parties in the Group's previous transactions and transactions under discussion, the Management and we concur that the Group with the Green Light Committee, has sufficient internal controls to ensure that the terms of Investment Projects would be fair and reasonable and on normal commercial terms or better to the Group and no less favourable than the terms offered by independent third parties to the Group or which can be obtained by the Group from independent third parties.

We have discussed with the Management and reviewed the internal green light policy for project approval and noted that unanimous approval from the Green Light Committee would be required for every Media and Entertainment Project with connected persons or independent third parties, and accordingly no single member of the Green Light Committee would have control on any investment decision. Based on our discussions with the Management, we understand that the internal procedures are the same applied to cooperation in Media and Entertainment Projects with connected persons as well as independent third parties. With the implementation of the green light policy, in particular, that all Investment Projects must obtain unanimous approval from each member of the Green Light Committee and the Green Light Committee would compare the terms of the subject Media and Entertainment Project with the terms of other comparable Media and Entertainment Projects of the Group with Huayi Brothers Group and with independent third parties, we concur with the Directors that the cooperation in Investment Projects with Huayi Brothers, including the revenue/profit sharing arrangement which shall be pro rata to (or in such proportions as close as practicable to) its corresponding investment amount, would be no less favourable than those with independent third parties and would be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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(b) *Cooperation in relation to Distribution Projects*

Members of the Group may from time to time enter into definitive agreements with Huayi Brothers (or its Associated Companies) on specific Distribution Projects in accordance with the terms of the Cooperation Framework Agreement, pursuant to which members of the Group engage Huayi Brothers (or its Associated Company) to provide distribution services in relation to the Distribution Projects.

i. *Consideration*

The formula of distribution fee payable by the Group for each single transaction of the Distribution Projects based on the gross profit of a Distribution Project will be set out in the relevant definitive agreement to be entered into between the relevant member of the Group and Huayi Brothers (or its Associated Company).

All revenues generated from box office receipts, sales to satellite TV, sales to cable TV, sale of DVD and sale of ancillary products, etc. arising from distribution of a Media and Entertainment Project in the PRC within a specified distribution period of not more than 10 years from the first day of distribution after deducting the cost of sales, national film project fund, tax, cinema branch shared revenue, import movies shared revenue, import and export fee, etc. (if applicable), will constitute the gross profit of a Distributable Project (“**Distribution Gross Profit**”).

The distribution fee under the definitive agreement for each Distribution Project to which Huayi Brothers (or its Associated Company) is entitled shall not exceed 20% of the Distribution Gross Profit of the Media and Entertainment Project.

The distribution fee will be deducted from the Distribution Gross Profit received by Huayi Brothers (or its Associated Company) on behalf of the relevant member of the Group. The balance of the Distribution Gross Profit (after deducting the distribution fee and reimbursement of promotion and advertising expenses (the budget for which is subject to approval by the Group), if applicable) (if any) will be paid by Huayi Brothers (or its Associated Company) to the relevant member of the Group. The Company is entitled to conduct independent audit on the documents or records of the Distribution Projects.

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As stated in the Letter from the Board, in line with industry practice, the first batch of settlement of the balance of the Distribution Gross Profit normally occurs within four to six months from the first day of distribution of the relevant Media and Entertainment Project, and subsequent settlements will be made along the period of distribution of the relevant Media and Entertainment Project on a regular basis. We have reviewed the payment terms of the distribution arrangement with independent third party, and noted that the payment terms for the Distribution Gross Profit are in line with industry practice.

ii. *Basis for determining the terms of definitive agreements*

The Company and Huayi Brothers agree that each transaction of the Distribution Projects shall be on normal commercial terms which are no less favourable than terms offered by independent third parties to the Group or which can be obtained by the Group from independent third parties.

Detailed terms of each Distribution Project shall be negotiated with reference to the respective business scopes, applicable laws and regulations, general commercial terms and collaboration practice of Media and Entertainment Projects of the Company and Huayi Brothers, in accordance with the principles set out in the Cooperation Framework Agreement and on the basis of fairness. Such detailed terms include, without limitation to, the length of distribution period, the formula of distribution fee based on certain percentages of Distribution Gross Profit of the Media and Entertainment Project, etc.

A member of the Group and Huayi Brothers (or its Associated Companies) shall negotiate and conclude the terms of a definitive agreement taking into account relevant factors including (but not limited to) the scale and content of the project, the major artistes/creation teams involved, the expected timing of theatrical release and estimates of box office receipts, the amount and proportion of promotion and advertising budgets that will be paid in advance by the relevant parties, and the relevant parties' ability on distribution and on obtaining government and regulatory approvals.

We have discussed with the Management and we have reviewed the basis of the determination of the distribution fee, we noted that the distribution fee under the Cooperation Framework Agreement is determined, amongst other things, with reference to samples of distribution arrangements which the Group previously entered or intended to enter into with other independent distributors. We have reviewed a schedule prepared by the Management including four samples of distribution arrangements obtained through the Group's investments (previously entered or intended to enter into) in prior and current Media and Entertainment Projects with independent third parties (together, the "Samples"). The Samples include distribution rights of the respective movies in the PRC, the U.S. and international markets. Pursuant to the Samples, (i) the distribution fee in the PRC ranges from 15% to 20%; and (ii) the distribution fees are determined with reference to the box office of the relevant Media and Entertainment Projects, which is in line with the distribution fees as set out in the terms of the Cooperation Framework Agreement.

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Based on our discussions with the Management and taking into account that (i) the Group does not have its distribution capabilities in the PRC while Huayi Brothers is one of the major distributors of Media and Entertainment Projects in the PRC with long history and proven track records; (ii) the distribution fee under the Cooperation Framework Agreement is in line with distribution fees with independent distributors; (iii) the distribution fee under the Cooperation Framework Agreement is determined with reference to the box office of the relevant Media and Entertainment Projects which is in line with the industry practice; and (iv) the payment terms of the distribution fee are in line with the industry practice, we are of the view that the cooperation of Distribution Projects with Huayi Brothers is no less favourable than those with independent third parties and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, we have discussed with the Management and reviewed the internal control manual of the Company, and noted that the continuing connected transactions contemplated under the Cooperation Framework Agreement (the “**Continuing Connected Transactions**”) will be subject to the internal control of the Company, including, the company secretary department of the Company (the “**Company Secretary Department**”) would (a) review and monitor the Continuing Connected Transactions and to ensure that the annual caps of the Continuing Connected Transactions will not exceeded and that the Continuing Connected Transactions have been conducted in accordance with the pricing policies or mechanism under the Cooperation Framework Agreement, the person-in-charge of the business of the Media and Entertainment Projects of the Group will report to the Company Secretary Department and the Company Secretary Department will keep record of the amount and annual cap usage of the Continuing Connected Transactions; (b) compare the actual figures with the approved annual caps of the Continuing Connected Transactions, and consult the Group’s internal audit function and external legal advisers on the compliance issues of the Continuing Connected Transactions; and (c) report to the Chief Financial Officer regularly.

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When the accumulated amounts exceed 50% of the approved annual caps of continuing connected transactions of the Company, (i) the Company Secretary Department will make a specific notification to the Chief Financial Officer of the Company; (ii) the Chief Financial Officer of the Company would in turn report to the audit committee of the Company, take the appropriate action (including reviewing the pipeline of the Media and Entertainment Projects of the Group or reducing or controlling the volume of the actual continuing connected transactions of the Company to be carried out under the Cooperation Framework Agreement and/or revising the relevant annual caps in accordance with the requirements of the Listing Rules), and on a regular basis, provide a confirmation and relevant supporting evidence to the audit committee of the Company that the Continuing Connected Transactions which are subject to the annual reviews and disclosure requirement under the Listing Rules have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the Cooperation Framework Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and (iii) the audit committee of the Company will be in a position to check that the Group's internal control procedures applicable to the Continuing Connected Transactions are adequate and effective to ensure that such transactions were so conducted.

We have also discussed and understand from the Management that (i) the independent non-executive Directors would conduct annual review of the Continuing Connected Transactions and would provide an annual confirmation on whether the transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the Cooperation Framework Agreement on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole; and (ii) the Company would engage its auditors to report on the Continuing Connected Transactions annually confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions (a) have not been approved by the Directors; (b) were not entered into, in all material respects, in accordance with the Cooperation Framework Agreement; and (c) have exceed the proposed annual caps.

In this connection, we concur with the Management that the Company has sufficient and effective internal control procedures to govern the terms of the Cooperation Framework Agreement and to ensure the annual caps will not be exceeded.

Having considered that (i) the reasons for and benefit of the Group to enter into the Cooperation Framework Agreement; (ii) the basis of determining the terms of Investment Projects and Distribution Projects; and (iii) the internal measures in respect of the Continuing Connected Transactions, we concur with the Directors' view that the Cooperation Framework Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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6. Proposed annual caps

The maximum annual investment amount to be invested by the Group in the Investment Projects and the maximum annual consideration amount for the agreements in respect of the Distribution Projects to be entered into by the Group with Huayi Brothers (or its Associated Companies) for Annual Cap Periods shall not exceed the following respective proposed annual caps:

	Proposed annual caps		
	For the eight months ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
	Investment Projects (in HK\$) <i>(Note)</i>	162,000,000	264,000,000
Distribution Projects (in RMB)	165,000,000	196,000,000	206,000,000

Note:

The proposed annual caps for the Investment Projects for the Annual Cap Periods, breaking down into (i) estimated amounts for the Group investing in Media and Entertainment Projects to be produced by Huayi Brothers Group; and (ii) estimated amounts for the Group and Huayi Brothers Group together investing in Media and Entertainment Projects to be produced by third party production companies, are as follows:

	For the eight months ending 31 December 2019 <i>(in HK\$)</i>	For the year ending 31 December 2020 <i>(in HK\$)</i>	For the year ending 31 December 2021 <i>(in HK\$)</i>
(i) For the Group investing in Media and Entertainment Projects to be produced by Huayi Brothers Group	115,000,000	215,000,000	227,000,000
(ii) For the Group and Huayi Brothers Group together investing in Media and Entertainment Projects to be produced by third party production companies	47,000,000	49,000,000	52,000,000
	162,000,000	264,000,000	279,000,000

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Assessment of reasonableness of the proposed annual caps

i. Investment Projects

As set out in the Letter from the Board, the aforesaid proposed annual caps in respect of the Investment Projects in the relevant Annual Cap Periods are determined with reference to investment amounts and investment ratios of the Group's historical investment in and acquisition of distribution rights of Media and Entertainment Projects with independent third parties, the Media and Entertainment Projects in the pipeline of Huayi Brothers or its Associated Companies currently available to the Group, and the estimated amounts proposed to be invested by the Group in Media and Entertainment Projects during the Annual Cap Periods.

The Group expects to invest in four, eight and six Media and Entertainment Projects under the Cooperation Framework Agreement for the eight months ending 31 December 2019 and each of the two years ending 31 December 2020 and 2021, respectively. The Group's investment ratio is expected to be in the range of 12.5% to 25% (but not exceeding 25%) (which is subject to change due to factors including implementation of the relevant business plan of the Group and the prevailing market conditions) for each Media and Entertainment Project. The Group's amount of investment in each Media and Entertainment Project is expected to be in the range of HK\$14.7 million to HK\$88.3 million. The investment amounts of the Group for each Investment Projects under the Cooperation Framework Agreement are determined with reference to a certain percentage (i.e. the investment ratio) of the total budget of an Investment Project. The investment ratio and the total budget for each Investment Project are estimated with reference to the historical investment projects of the Company with independent third parties, the script/synopsis, production budget, the proposed director/producer and the proposed cast of the particular Investment Project, and an estimated budget annual growth rate of 5%.

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The investment amounts for Investment Projects for the eight months ending 31 December 2019 are intended to be mostly financed by the Group's existing internal resources. The investment amounts for Investment Projects for the two years ending 31 December 2020 and 2021 are intended to be financed by the Group's existing internal resources and the profits to be generated from the release of currently ongoing projects and future projects (including those under the Cooperation Framework Agreement and others involving independent third parties only). The anticipated largest investment would be an investment in a tentpole movie project targeting American and international markets to be produced by a Hollywood-based studio managed by renowned directors and writers in Hollywood. The expected investment amount to be committed by Huayi Brothers (or its Associated Companies) for the Media and Entertainment Projects under the Cooperation Framework Agreement will be at about the same level or higher than as that of the Group, and any remaining portion of the total investment amount of the Media and Entertainment Projects will be committed by other third parties, and if such other third parties constitute connected persons of the Company, the Company will re-comply with the applicable requirements under Chapter 14A of the Listing Rules.

Details of the anticipated Investment Projects under the Cooperation Framework Agreement for the Annual Cap Periods (all under discussion without contracts signed) are as follows (which are subject to change due to factors including implementation of the relevant business plan of the Group and the prevailing market conditions):

Year	Project	To be produced by	Expected date of entering into contracts	Nature/theme/genre	Targeted market	Status of the project (Expected date of release)	Expected box office receipts (in US\$)	Expected budget (in US\$)	Expected investment amount of the Group (in US\$) (investment ratio)
2019	Project 1	Third party production company	Second half of 2019	Crime	Korea & international	Production to be commenced in second half of 2019 (2020)	N/A (Note: This project is a television drama)	9,373,882	1,874,776 (20%)
	Project 2	Third party production company	Second half of 2019	Action	Korea & international	Production in progress (2020)	40 to 80 million	20,600,000	4,120,000 (20%)
<i>Sub-total of investment amount of the Group:</i>									5,994,776
<i>Average investment amount of the Group:</i>									2,997,388
	Project 3	Huayi Brothers Group	Second half of 2019	Animation	U.S., PRC & international	Currently in pre-production (2020 to 2021)	87 to 174 million	35,000,000	5,250,000 (15%)
	Project 4	Huayi Brothers Group	Second half of 2019	Family tentpole	Global distribution	Production in progress (End of 2019 to Early 2020)	300 to 700 million	75,000,000	9,375,000 (12.5%)
<i>Sub-total of investment amount of the Group:</i>									14,625,000
<i>Average investment amount of the Group:</i>									7,312,500
<i>Total estimated investment amount of the Group for 2019:</i>									20,619,776
									(Equivalent to approximately <u>HK\$161,865,245</u>)

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Year	Project	To be produced by	Expected date of entering into contracts	Nature/theme/genre	Targeted market	Status of the project (Expected date of release)	Expected box office receipts (in US\$)	Expected budget (in US\$)	Expected investment amount of the Group (in US\$) (investment ratio)
2020	Project 1	Third party production company	2020	Romance	Korea & international	Production to be commenced in 2020 (2021)	N/A (Note: This project is a television drama)	9,842,576	1,968,515 (20%)
	Project 2	Third party production company	2020	Sci-fiction	Korea & international	Production expected to commence by 2020 (2021)	42 to 84 million	21,630,000	4,326,000 (20%)
	<i>Sub-total of investment amount of the Group:</i>								6,294,515
	<i>Average investment amount of the Group:</i>								3,147,258
	Project 3	Huayi Brothers Group	2020	Animation	U.S., PRC & international	Currently in concept creation, production expected to be commenced by 2020 (2021 to 2022)	91 to 178 million	36,750,000	5,512,500 (15%)
	Project 4	Huayi Brothers Group	2020	Family tentpole	Global distribution	Production expected to be commenced by 2020 (2021 to 2022)	300 to 700 million	80,000,000	10,000,000 (12.5%)
	Project 5	Huayi Brothers Group	2020	Drama	Global distribution	Production in progress (2020 to 2021)	50 to 100 million	15,000,000	3,750,000 (25%)
	Project 6	Huayi Brothers Group	2020	Thriller/Suspense	U.S., & international	Production in progress (2020 to 2021)	65 to 120 million	20,000,000	2,500,000 (12.5%)
Project 7	Huayi Brothers Group	2020	Legal/Crime	U.S. & international	Production to be commenced in 2020 (2021 to 2022)	50 to 100 million	15,000,000	3,750,000 (25%)	
Project 8	Huayi Brothers Group	2020	Mystery/Family	Global distribution	Production to be commenced in 2020 (2021 to 2022)	50 to 100 million	15,000,000	1,875,000 (12.5%)	
<i>Sub-total of investment amount of the Group:</i>								27,387,500	
<i>Average investment amount of the Group:</i>								4,564,583	
<i>Total estimated investment amount of the Group for 2020:</i>								33,682,015	
								(Equivalent to approximately <u>HK\$264,403,819</u>) (Note)	

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Year	Project	To be produced by	Expected date of entering into contracts	Nature/theme/genre	Targeted market	Status of the project (Expected date of release)	Expected box office receipts (in US\$)	Expected budget (in US\$)	Expected investment amount of the Group (in US\$) (investment ratio)
2021	Project 1	Third party production company	2021	Fantasy romance	Korea & international	Production to be commenced in 2021 (End of 2021 to Early 2022)	N/A (Note: This project is a television drama)	10,334,705	2,066,941 (20%)
	Project 2	Third party production company	2021	Action/War	Korea & international	Production expected to commence by 2021 (2022)	43 to 85 million	22,711,500	4,542,300 (20%)
									<i>Sub-total of investment amount of the Group:</i> 6,609,241
									<i>Average investment amount of the Group:</i> 3,304,620
	Project 3	Huayi Brothers Group	2021	Animation	U.S., PRC & international	Production expected to be commenced by 2021 (2022 to 2023)	93 to 180 million	38,587,500	5,788,125 (15%)
	Project 4	Huayi Brothers Group	2021	Sci-fiction	Global distribution	Production expected to be commenced by late 2020/2021 (2022)	350 to 800 million	90,000,000	11,250,000 (12.5%)
	Project 5	Huayi Brothers Group	2021	Horror	Global distribution	Production expected to be commenced by late 2020/2021 (2022)	300 to 700 million	75,000,000	9,375,000 (12.5%)
	Project 6	Huayi Brothers Group	First half of 2021	Drama	U.S. & international	Production expected to be commenced by late 2021 (2022 to 2023)	65 to 120 million	10,000,000	2,500,000 (25%)
									<i>Sub-total of investment amount of the Group:</i> 28,913,125
									<i>Average investment amount of the Group:</i> 7,228,281
									<i>Total estimated investment amount of the Group for 2021:</i> 35,522,366
									(Equivalent to approximately <u>HK\$278,850,573</u>)

Note: Although the estimated investment amount of the Group for the Investment Projects under the Cooperation Framework Agreement for the year ending 31 December 2020 (i.e. HK\$264,403,819) exceeds the proposed annual cap for the year ending 31 December 2020 (i.e. HK\$264,000,000), such estimation is calculated based on the upper range of investment ratio of the Group in the relevant Investment Projects and the actual investment amounts to be committed by the Group may be less. Accordingly, the Company considers that the proposed annual cap will be sufficient to cover the actual amount to be invested by the Group under the Cooperation Framework Agreement for the year ending 31 December 2020. The Company will monitor the annual cap usage and will ensure that the proposed annual cap will not be exceeded.

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The estimated amount for the Group investing in Media and Entertainment Projects that are produced by Huayi Brothers Group is higher than the estimated amount for the Group and Huayi Brothers Group together investing in Media and Entertainment Projects that are produced by third parties. This is mainly because the anticipated largest investment in Media and Entertainment Projects would be the Group's potential investments in high-budget tentpole movie projects targeting American and international markets to be produced by a Hollywood-based studio managed by renowned directors and writers, which is an Associated Company of Huayi Brothers.

As disclosed in the Letter from the Board, detailed terms (which include the investment amount) of each Investment Project shall be negotiated with reference to the respective business scopes, applicable laws and regulations, general commercial terms and collaboration practice of Media and Entertainment Projects of the Company and Huayi Brothers, in accordance with the principles set out in the Cooperation Framework Agreement and on the basis of fairness. Each Investment Project shall be subject to the unanimous approval of the Green Light Committee to ensure that the investment amounts of each Investment Projects would be fair and reasonable and on normal commercial terms or better.

In assessing the fairness and reasonableness of the aforesaid proposed annual caps in respect of the Investment Projects, we have reviewed and discussed with the Management (i) the above list of potential Investment Projects, which was estimated with reference to the projects under discussion with respective production companies; (ii) a schedule prepared by the Management including samples of the Group's investment projects in the past, which sets out, among other things, the project budget, investment ratio and investment costs of the respective projects; and (iii) the estimated total budget for Investment Project was determined with reference to comparable historical Investment Projects of the Company with independent third parties from 2015 to 2019. The Management and ourselves concur that (i) the determination of the investment amount based on estimated total budget for each Investment Project; and (ii) the year-on-year fluctuation of the proposed annual caps for Investment Projects are fair and reasonable.

Notwithstanding that the estimated investment amount of the Group for the year ending 31 December 2020 is approximately HK\$264,403,819, which is slightly above the proposed annual cap of HK\$264,000,000 (i.e. by exceeding approximately HK\$400,000), given (i) the estimation is calculated based on the upper range of investment ratio of the Group in the relevant Investment Projects and the actual investment amounts to be committed by the Group may be less; and (ii) the Group would monitor the annual cap usage with the implementation of the internal control and to ensure that the proposed annual cap would not be exceeded, we concur with the Management that the proposed annual cap will be sufficient to cover the actual amount to be invested under the Cooperation Framework Agreement for the year ending 31 December 2020.

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In addition, we further note from the 2018 Annual Report of Huayi Brothers Media that there were nine films expected to be released in 2019 which representing a growth rate of 40% as comparing to films expected to be released in 2018 (based on the annual report of Huayi Brothers Media for the year ended 31 December 2017) as at 31 December 2017. As discussed with the Management, we understand that it is expected that investment opportunities in entertainment and media business with Huayi Brothers would continue during the Annual Cap Periods.

Having considered that (i) the overview of the PRC economy as set out under the paragraph headed “3. Overview of the PRC economy” in this letter; (ii) the list of potential Investment Projects that the Group may jointly participate in or Huayi Brothers (or its Associated Companies) may procure or allow the members of the Group to participate (or share part of the investment) in Investment Projects (or vice versa) with Huayi Brothers from 2019 to 2021 with an estimated total production budget of approximately HK\$4.7 billion covering the Annual Cap Periods which was made with reference to historical investment projects of the Group entered into or intends to enter into with independent third parties; (iii) the expected growth in investment opportunities in entertainment and media business with Huayi Brothers during the Annual Cap Periods; and (iv) the basis of the proposed annual caps in respect of the Investment Projects, we consider the basis for determining the proposed number of Media and Entertainment Projects to be invested and the proposed annual caps in respect of the Investment Projects to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Nevertheless, Shareholders are advised that the proposed annual caps for Investment Projects under the Cooperation Framework Agreement represent the best estimates by the Group based on the information available at the time. Besides, the actual investment in Investment Project will only be made based on the evaluation process which is no different from independent third parties. In addition, the proposed annual caps would provide the Group the flexibility but not the obligation to co-invest in media and entertainment-related projects with Huayi Brothers, and that it would avoid undue delay in the execution of the investment which the Group wishes to participate with Huayi Brothers in media and entertainment-related projects.

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ii. *Distribution Projects*

As set out in the Letter from the Board, the aforesaid proposed annual caps in respect of the Distribution Projects in the relevant Annual Cap Periods are determined with reference to (i) the estimated amount of Distribution Projects that the Group may engage Huayi Brothers (or its Associated Companies) to provide distribution services in the PRC during the Annual Cap Periods (based on the estimated amount of PRC distribution rights to be acquired by the Group separately or along with investments in Media and Entertainment Projects); (ii) the estimated percentage of distribution fees in terms of Distribution Gross Profit to be payable to Huayi Brothers (or its Associated Companies) (the estimated range of the percentage of distribution fees is based on the Group's experience and knowledge obtained through investments in prior and current Media and Entertainment Projects with independent third parties); and (iii) the estimated box office receipts for the Distribution Projects during the Annual Cap Periods based on historical box office records of comparable imported movies in the PRC from 2016 to 2018).

The Group expects to have three, four and four Distribution Projects for the eight months ending 31 December 2019 and each of the two years ending 31 December 2020 and 2021, respectively. With reference to the historical box office records of similar comparable imported movies ("**Comparable Movies**") in the PRC during 2016 to 2018 (details of which are set out below), the estimated box office receipts generated by each of these Distribution Projects from the PRC is expected to be in the range of RMB0.25 billion to RMB2.23 billion. The distribution fee payable by the Group to Huayi Brothers (or its Associated Companies) will be calculated based on a certain percentage of the Distribution Gross Profits (not more than 20% in accordance with the Cooperation Framework Agreement), while all revenues generated from box office receipts, sales to satellite TV, sales to cable TV, sale of DVD and sale of ancillary products, etc. arising from distribution of a Media and Entertainment Project in the PRC within a specified distribution period, after deducting the cost of sales, national film project fund, tax, cinema branch shared revenue, imported movies shared revenue, import and export fee, etc. (if applicable), will constitute the Distribution Gross Profit.

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Details of Comparable Movies (based on publicly available information) and the formulation of the proposed annual caps for Distribution Projects are as follows:

English title (year of release)	Description	Genre	Approximate box office in the PRC (in RMB)	Estimated Distribution Gross Profit	Estimated amount of distribution fees	Estimated distribution fees (in RMB)		
				for imported movies based on its approximate box office (in RMB) <i>(Note 1)</i>	(based on a maximum distribution fee percentage of 20%) (in RMB)	For the eight months ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
Ready Player One (2018)	Large-scale U.S. movie	Adventure/Sci-fiction	1,396,680,000					
Fast and Furious 8 (2018)		Action	2,670,880,000					
Aquaman (2018)		Adventure/Fantasy/ Action	2,012,250,000					
<i>Average approximate box office in the PRC (in RMB)</i>			2,026,603,333	547,182,900	109,436,580	109,436,580	114,908,409 <i>(Note 2)</i>	120,653,829 <i>(Note 2)</i>
Dangal (2017)	Non-Hollywood	Comedy/Action	1,299,190,000					
Bad Genius (2017)		Drama/Crime	271,318,000				44,523,902 <i>(Note 2)</i>	46,750,097 <i>(Note 2)</i>
<i>Average approximate box office in the PRC (in RMB)</i>			785,254,000	212,018,580	42,403,716	42,403,716	44,523,902 <i>(Note 2)</i>	46,750,097 <i>(Note 2)</i>
La La Land (2017)	Small/Medium- scale U.S. movie	Drama/Musical	247,251,000	66,757,770	13,351,554	13,351,554	14,019,132 <i>(Note 2)</i>	14,720,088 <i>(Note 2)</i>
Hacksaw Ridge (2016)		Drama/War	425,779,000	114,960,330	22,992,066	—	22,992,066	24,141,669 <i>(Note 2)</i>
Total						165,191,850 <i>(Note 3)</i>	196,443,509 <i>(Note 3)</i>	206,265,683 <i>(Note 3)</i>

Note:

- As a general practice for imported movies in the PRC, the estimated ratio of Distribution Gross Profit to box office for imported movie is about 27%, which is calculated by deducting the contribution to national film project fund, taxes, cinema branch shared revenue, import and export fee, charges by the national film digital program administration center and copyrights and imported movies shared revenue from the box office receipts.
- Taking into account an estimated box office annual growth rate of 5%.
- Although the estimated distribution fees to be payable by the Group for the Distribution Projects under the Cooperation Framework Agreement for the Annual Cap Periods exceeds the proposed annual caps for the Annual Cap Periods, the estimation is calculated using 20% as the percentage of distribution fees while the range of the actual percentage of distribution fees would be between 15% and 20%. Accordingly, the Company considers that the proposed annual caps will be sufficient to cover the actual distribution fees to be payable by the Group under the Cooperation Framework Agreement for the Annual Cap Periods. The Company will monitor the annual caps usage and will ensure that the proposed annual caps will not be exceeded.

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We had discussed with the Management and understand that the estimated ratio of Distribution Gross Profit to box office of imported movie of 27% is calculated based on box office receipts after the deduction of (i) the contribution to national film project fund; (ii) taxes; (iii) cinema branch shared revenue, and (iv) other charges and fees, which includes import and export fee, charges by the national film digital program administration center and copyrights and imported movies shared revenue from the box office receipts. We noted that the majority of that the deductions being contribution to national film project fund, taxes, cinema branch shared revenue, import and export fee and charges by the national film digital program administration center are in line with government policies or industry general practice; whereas the remaining potential charges and fees (which are subject to negotiations with other cooperating third parties) are estimated by the Management, on a prudent basis, for the purpose of the calculation for the proposed annual caps for Distribution Projects. As such, we concur with the Management that the estimated ratio of Distribution Gross Profit to box office is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Notwithstanding that the estimated distribution fees to be payable by the Group for the Distribution Projects under the Cooperation Framework Agreement for the Annual Cap Periods are slightly above the proposed annual cap for the Annual Cap Periods, given (i) the estimation is calculated using 20% as the percentage of distribution fees, which represents the upper range of actual percentage of distribution fees of 15% to 20%, and the actual distribution fees to be payable the Group may be less; and (ii) the Group would monitor the annual cap usage with the implementation of the internal control and to ensure that the proposed annual cap would not be exceeded, we concur with the Management that the proposed annual cap will be sufficient to cover the actual distribution fees to be payable by the Group under the Cooperation Framework Agreement for the Annual Cap Periods.

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Details of the anticipated Distribution Projects under the Cooperation Framework Agreement for the Annual Cap Periods (all under discussion without contracts signed) are as follows (which are subject to change due to factors including implementation of the relevant business plan of the Group and the prevailing market conditions):

Year	Project	Description	Nature/theme/genre	Distribution period
2019	Project 1	Non-Hollywood movie	Action	Within 10 years (not yet fixed)
	Project 2	Large-scale U.S.-based movie	Family	Within 10 years (not yet fixed)
	Project 3	Small/Medium-scale U.S. movie	Mystery/Comedy	Within 10 years (not yet fixed)
2020	Project 1	Non-Hollywood movie	Sci-fiction	Within 10 years (not yet fixed)
	Project 2	Large-scale U.S.-based movie	Fantasy	Within 10 years (not yet fixed)
	Project 3	Small/Medium-scale U.S. movie	Drama	Within 10 years (not yet fixed)
	Project 4	Small/Medium-scale U.S. movie	Thriller/Suspense	Within 10 years (not yet fixed)
2021	Project 1	Non-Hollywood movie	Fantasy romance	Within 10 years (not yet fixed)
	Project 2	Large-scale U.S.-based movie	Sci-fiction/Action	Within 10 years (not yet fixed)
	Project 3	Small/Medium-scale U.S. movie	Legal/Crime	Within 10 years (not yet fixed)
	Project 4	Small/Medium-scale U.S. movie	Mystery/Family	Within 10 years (not yet fixed)

Subject to change due to factors including implementation for the relevant business plan of the Group and the prevailing market conditions, the expected range of the percentage of distribution fees to be charged by Huayi Brothers for the Annual Cap Periods would be between 15% and 20%. The distribution fees to be charged by Huayi Brothers pursuant to the Cooperation Framework Agreement is in line with the distribution arrangements which the Group previously entered or intends to enter into with other independent distributors, under which the distribution fees charged or to be charged by those independent distributors are also within the range of 15% to 20%. Taking into account that (i) the Group does not have distribution capabilities in the PRC, while Huayi Brothers is one of the major distributors of Media and Entertainment Projects in the PRC with long history and proven track records; (ii) the distribution fees under the Cooperation Framework Agreement are in line with distribution fees charged by independent distributors; and (iii) the distribution fees are determined with reference to the estimated box office of the relevant Media and Entertainment Projects which is in line with the industry practice, the Company considers that the distribution fee is fair and reasonable and on normal commercial terms or better.

The above information is estimated by the Company for the purpose of arriving at the annual caps amounts for the Distribution Projects for the Annual Cap Periods, which is subject to change due to factors including implementation for the relevant business plan of the Group and the prevailing market conditions.

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In assessing the fairness and reasonableness of the aforesaid proposed annual caps in respect of the Distribution Projects, we have reviewed and discussed with the Management (i) the above list of potential Distribution Projects, which was estimated with reference to the projects under discussion, that the Group may engage Huayi Brothers to provide distribution services in the PRC during the Annual Cap Periods; (ii) the basis of the determination of the distribution fee under the Cooperation Framework Agreement which is in line with samples of distribution arrangements which the Group previously entered or intended to enter into with other independent distributors; (iii) the distribution fees payable by the Group to Huayi Brothers (or its Associated Companies) under the Cooperation Framework Agreement are determined with reference to the historical box office of similar imported movies as set out above; and (iv) the year-on-year fluctuation of the proposed annual caps for Distribution Projects. We understand from the Management that aforesaid Distribution Projects are currently subject to negotiation, accordingly, the Group may or may not engage Huayi Brothers to provide distribution services in the PRC.

In addition, as set out in the paragraph headed “3. Overview of the PRC economy”, the gross box office receipts in the PRC in 2017 amounted to approximately RMB55.9 billion, representing a year-on-year increase of approximately RMB10.2 billion or 7.8%. As discussed with the Management, we understand that with (i) the increase in disposable income of urban households per capita; and (ii) the increase in gross box office receipts for movies market which will have positive impact in the Distribution Gross Profits of the potential Distribution Projects, will in turn increase the distribution fee of the potential Distribution Projects.

Shareholders should note that, pursuant to the Cooperation Framework Agreement, the distribution fee would be based on a percentage of the Distribution Gross Profit of the Media and Entertainment Projects with reference to, among other things, the result of the box office. Hence, the proposed annual cap in Distribution Projects is based on potential Distribution Projects in the pipeline with reference to the historical box office records of similar imported movies in the past. Hence, the proposed annual caps for the Distribution Projects is to provide the Group’s ability to fulfill its obligation under the Cooperation Framework Agreement.

Having considered that (i) the overview of the PRC economy have been set out under the paragraph headed “3. Overview of the PRC economy” above; (ii) the list of potential Distribution Projects to be engaged with Huayi Brothers as the distributor in the PRC during the Annual Cap Periods; (iii) the potential growth in box office receipts in the PRC, the aggregate Distribution Gross Profit and hence the distribution fee of the potential Distribution Projects during the Annual Cap Periods; and (iv) the basis of the proposed annual caps in respect of the Distribution Projects, we consider the basis for determining the proposed number of Distribution Projects and the proposed annual caps in respect of the Distribution Projects to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Nevertheless, the Shareholders are advised that the proposed annual caps in Distribution Projects represent the best estimates by the Group based on the information available at the time. In addition, the proposed annual caps would provide the Group the flexibility but not the obligation to engage Huayi Brothers to provide distribution services for those Media and Entertainment Projects which the Group owns or has acquired the distribution rights in the PRC, and that it would avoid undue delay in the execution of the distribution contracts which the Group wishes to engage Huayi Brothers to provide distribution services for those Media and Entertainment Projects in the PRC.

iii. *Transactions with connected persons or substantial shareholders of the Company and independent third parties*

As disclosed in the Letter from the Board, HTEIL (a wholly-owned subsidiary of the Company) and Huayi Brothers entered into agreements on 12 December 2018 pursuant to which Huayi Brothers agreed to transfer 50% of the profit sharing right corresponding to its distribution rights in certain films to HTEIL at an aggregated consideration equivalent to approximately HK\$41,594,000. Apart from the aforesaid, the Group had not entered into any agreements with Huayi Brothers in respect of the Investment Projects or the Distribution Projects prior to the date of the Cooperation Framework Agreement.

There was no revenue contribution of the entertainment and media business generated from projects involving connected persons of the Company (including Huayi Brothers Group) for the three years ended 31 December 2016, 2017 and 2018, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subject to change due to factors including implementation for the relevant business plan of the Group and the prevailing market conditions, the estimated revenue contribution of the entertainment and media business generated from projects involving connected persons of the Company (including Huayi Brothers Group) and that from projects with independent third parties without involvement of the Company's connected persons or substantial shareholders for the three years ending 31 December 2019, 2020 and 2021 are as follows:

	For the year ending		
	31 December 2019	31 December 2020	31 December 2021
	<i>(Approximately)</i>	<i>(Approximately)</i>	<i>(Approximately)</i>
Estimated revenue contribution of the entertainment and media business generated from projects involving connected persons of the Company (including Huayi Brothers Group)	HK\$37 million (54.4%)	HK\$295 million (52.1%)	HK\$335 million (47.2%)
Estimated revenue contribution of the entertainment and media business generated from projects with independent third parties without involvement of the Company's connected persons or substantial shareholders	HK\$31 million (45.6%)	HK\$271 million (47.9%)	HK\$375 million (52.8%)
Total:	<hr style="width: 100%;"/> HK\$68 million <u><u>(100%)</u></u>	<hr style="width: 100%;"/> HK\$566 million <u><u>(100%)</u></u>	<hr style="width: 100%;"/> HK\$710 million <u><u>(100%)</u></u>

As disclosed in the Letter from the Board, the Group sources the Media and Entertainment Projects with independent third parties in the following ways: (a) by participating in various film festivals/film marts (e.g. Hong Kong Film Mart, Cannes Film Festival, etc.); (b) by being introduced through the investees or partners of the Group in Korea including HB Entertainment, Warner Brothers Korea, etc.; (c) by being introduced through the Group's business partners with which the Group has carried out investment and/or distribution of Media and Entertainment Projects; and (d) by receiving investment proposals on a regular basis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To ensure that the Group would not have undue reliance on the Company's connected persons and substantial shareholder, the Group is investing and will continue to invest in Media and Entertainment Projects produced by independent third parties without involvement of the Company's connected persons or substantial shareholders. As disclosed above, the Company is cooperating and will continue to cooperate with third party distributors for international markets as well as the PRC market. In the long run, the Group will further diversify the market of its entertainment and media business and may establish its own production and distribution network. The Company will continue to monitor transactions involving (even if remotely) the Company's connected persons and substantial shareholders, to ensure that all such transactions are on normal commercial terms or better and negotiated at arm's length.

We have also discussed with the Management, and noted that (i) there was no revenue contribution to the entertainment and media business of the Group generated from projects involving connected persons of the Company (including Huayi Brothers Group) for the three years ended 31 December 2016, 2017 and 2018, respectively; (ii) subject to change due to factors including implementation for the relevant business plan of the Group and the prevailing market conditions, the estimated revenue contribution of the entertainment and media business generated from projects involving connected persons of the Company (including Huayi Brothers Group) for the three years ending 31 December 2019, 2020 and 2021 is estimated to be approximately HK\$37 million, HK\$295 million and HK\$335 million, respectively while the estimated revenue contribution of the entertainment and media business generated from projects with independent third parties without involvement of the Company's connected persons or substantial shareholders for the three years ending 31 December 2019, 2020 and 2021 is estimated to be approximately HK\$31 million, HK\$271 million and HK\$375 million, respectively; and (iii) the Group will further diversify the market of its entertainment and media business and may establish its own production and distribution network in the long run, and will continue to cooperate with third party distributors for international markets as well as the PRC market.

Having considered the above, in particular, (i) there was no revenue contribution to the entertainment and media business of the Group generated from projects involving connected persons of the Company (including Huayi Brothers Group) for the three years ended 31 December 2016, 2017 and 2018, respectively; (ii) the Company is cooperating and will continue to cooperate with third parties distributors for international markets as well as the PRC market; (iii) there is a decreasing trend in the ratios of estimated revenue contribution of entertainment and media business generated from projects involving connected persons of the Company for the three years ending 31 December 2019, 2020 and 2021; (iv) the Group would further diversify the market of its entertainment and media business and may establish its own production and distribution network in the long run; and (v) the Group would continue to monitor transactions involving the Company's connected persons and substantial shareholders as mentioned above, we concur with the Management that the Cooperation Framework Agreement would not give rise to reliance issue of the Company with its connected persons and substantial shareholder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the above principal factors and reasons, in particular, the following:

- (i) the basis and reasons for the Cooperation Framework Agreement;
- (ii) the cooperation with Huayi Brothers to invest in media and entertainment-related projects or the engagement of Huayi Brothers to provide distribution services in the PRC contemplated under the Cooperation Framework Agreement is a furtherance and continuance of the Group's businesses;
- (iii) the transactions contemplated under the Cooperation Framework Agreement will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms that are no less favourable than those prices and terms available from independent third parties to the Group; and
- (iv) the basis for determining the proposed annual caps are reasonable, details of which are set out in the section headed "6. Proposed annual caps" in this letter above.

Having considered the aforementioned factors and reasons, we are of the opinion that the Cooperation Framework Agreement and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Furthermore, based on our analysis set out above, we consider that the proposed annual caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Cooperation Framework Agreement and the transactions contemplated thereunder (together with the proposed annual caps).

Yours faithfully,
For and on behalf of
Red Sun Capital Limited
Jimmy Chung
Managing Director

Mr. Jimmy Chung is a Responsible Officer of Red Sun Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and permitted to undertake work as sponsor. He has over 20 years of experience in corporate finance industry in Greater China.

* for identification purpose only

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

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

Long position in ordinary shares of the Company

Number of Directors	Capacity	Number of shares held			% of total issued share capital of the Company (Note 1)
		Personal interest	Corporate interest	Total	
YUEN Hoi Po	Beneficial owner and interest of controlled corporations	139,000,000	1,976,492,607 (Note 2)	2,115,492,607	15.67
CHU Yuguo	Beneficial owner	2,000,000	—	2,000,000	0.01

Notes:

- The percentage of shareholding is calculated with reference to the Company's number of shares in issue as at the Latest Practicable Date.
- Mr. YUEN Hoi Po was deemed to be interested in 1,976,492,607 shares of the Company held by his wholly-owned corporations namely, Ming Bang Limited, Rich Public Limited and Smart Concept Enterprise Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Chief Executives of the Company nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange.

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors, none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Directors	Name of companies which had such discloseable interest or short position	Positions of such Director within such company
WANG Zhongjun	Huayi Brothers Media Corporation	chairman and director
CHENG Wu	Tencent Holdings Limited	vice president
WANG Zhonglei	Huayi Brothers Media Corporation	vice-chairman and general manager
	Huayi Brothers International Limited	director
LIN Haifeng	Tencent Holdings Limited	general manager of the merger and acquisitions department
HU Junyi	Huayi Brothers International Limited	general manager
YUEN Hoi Po	Ming Bang Limited	director
	Smart Concept Enterprise Limited	director

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors are aware, each of the following persons (other than a Director or Chief Executive of the Company or their respective associates) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in ordinary shares of the Company

Name of shareholders	Capacity	Nature of Interests	Number of shares held	% of total issued share capital of the Company (Note 1)
Huayi Brothers Media Corporation	Interest of a controlled corporation (Note 2)	Corporation interest	2,452,447,978	18.17
Huayi Brothers International Limited	Beneficial owner	Beneficial interest	2,452,447,978	18.17
Tencent Holdings Limited	Interest of a controlled corporation (Note 3)	Corporation interest	2,116,251,467	15.68
YUEN Hoi Po	Beneficial owner and interest of controlled corporations (Note 4)	Beneficial and corporation interest	2,115,492,607	15.67
Smart Concept Enterprise Limited	Beneficial owner	Beneficial interest	1,837,000,000	13.61
Rich Public Limited	Beneficial owner (Note 5)	Beneficial interest	139,492,607	1.03
Ming Bang Limited	Interest of a controlled corporation (Note 6)	Corporation interest	139,492,607	1.03

Notes:

- The percentage of shareholding is calculated with reference to the Company's number of shares in issue as at the Latest Practicable Date.
- Huayi Brothers International Limited is a wholly-owned subsidiary of Huayi Brothers Media Corporation and is beneficially interested in 2,452,447,978 shares of the Company.
- Mount Qinling Investment Limited is a wholly-owned subsidiary of Tencent Holdings Limited and is beneficially interested in 2,116,251,467 shares of the Company.
- Mr. YUEN Hoi Po was deemed to be interested in 1,976,492,607 shares of the Company held by his wholly-owned corporations namely, Ming Bang Limited, Rich Public Limited and Smart Concept Enterprise Limited.
- Rich Public Limited is an investment holding company incorporated in the British Virgin Islands and its entire issued share is beneficially owned by Ming Bang Limited.

6. Ming Bang Limited is an investment holding company incorporated in the British Virgin Islands and its entire issued share is beneficially owned by Mr. YUEN Hoi Po who is also a director of Ming Bang Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons (not being a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which do not expire or are not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors (including their respective close associates) were considered to have interests in businesses which may compete, either directly or indirectly, with the businesses of the Group.

6. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors and proposed Directors had any direct or indirect interest in any assets which had been, since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group.

On 12 December 2018, HTEIL (a wholly-owned subsidiary of the Company) and Huayi Brothers entered into agreements pursuant to which Huayi Brothers agreed to transfer 50% of the profit sharing right corresponding to its distribution rights in certain films to HTEIL at an aggregated consideration equivalent to approximately HK\$41,594,000. Mr. WANG Zhongjun is the chairman and a director of Huayi Brothers Media Corporation, a substantial shareholder of the Company and the holding company of Huayi Brothers. Mr. WANG Zhonglei is the vice-chairman and general manager of Huayi Brothers Media Corporation. Mr. WANG Zhongjun and Mr. WANG Zhonglei also have shareholding interests in Huayi Brothers Media Corporation.

As at the Latest Practicable Date, save as disclosed above, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up.

8. EXPERT

The following is the qualifications of the expert which has given its opinion or advice which is contained in this circular:

Name	Qualification
Red Sun 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

As at the Latest Practicable Date, Red Sun did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Red Sun did not have any direct or indirect interest in any assets which had been, since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Red Sun has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name in the form and context in which they appear.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents (or copies thereof) will be available for inspection at the principal place of business of the Company in Hong Kong at Suite 908, 9/F, Tower Two, Lippo Centre, 89 Queensway, Hong Kong during normal business hours on Monday to Friday (excluding public holiday) from the date of this circular up to the date of the EGM:

- (a) the Cooperation Framework Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (c) the letter from the Independent Financial Adviser, the text of which is set out in this circular;
- (d) the consent letter of Red Sun referred to in the paragraph headed “Expert” in this appendix; and
- (e) four film distribution cooperation agreements all dated 12 December 2018 entered into between HTEIL and Huayi Brothers.

10. LANGUAGE

This circular is prepared in the English and the Chinese languages respectively. In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

H.BROTHERS | ENTERTAINMENT

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Huayi Tencent Entertainment Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 419)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of Huayi Tencent Entertainment Company Limited (the “**Company**”) will be held at Boardroom 6, Mezzanine Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wan Chai, Hong Kong on Monday, 24 June 2019 at 3 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT**

the terms of the Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps for the 8 months ending 31 December 2019 and the two financial years ending 31 December 2020 and 2021 respectively in relation to Investment Projects and Distribution Projects involving the Group and Huayi Brothers (and/or its Associated Companies) (all as defined and described in the circular of the Company dated 4 June 2019 of which this notice forms part) be and are hereby approved, confirmed and ratified; and that the directors of the Company be and are hereby authorised for and on behalf of the Company to sign, seal, execute, perfect, perform, deliver all such agreements, instruments, documents and deeds, and do all such acts, matters and things and take all such steps as they may in their discretion consider necessary, desirable or expedient to implement and/or to give effect to the Cooperation Framework Agreement and the aforesaid transactions and proposed annual caps as they may in their discretion consider to be desirable and in the interests of the Company.”

By Order of the Board

Huayi Tencent Entertainment Company Limited

WANG Zhongjun

Chairman

Hong Kong, 4 June 2019

NOTICE OF EGM

Notes:

1. The Register of Members of the Company will be temporarily closed from 19 June 2019 to 24 June 2019, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the attendance and voting at the Company's extraordinary general meeting to be held on Monday, 24 June 2019, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 18 June 2019.
2. Any shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
3. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for holding the meeting (or any adjournment thereof).
4. Completion and return of the form of proxy will not preclude members from attending and voting at the aforesaid meeting and in such event, the form of proxy will be deemed to be revoked.

As at the date hereof, the Board comprises:

Executive directors: Mr. WANG Zhongjun (Chairman), Mr. CHENG Wu (Vice Chairman), Mr. WANG Zhonglei, Mr. LIN Haifeng, Mr. HU Junyi, Mr. YUEN Hoi Po

Independent non-executive directors: Dr. WONG Yau Kar David, GBS, JP, Mr. YUEN Kin, Mr. CHU Yuguo