
LETTER FROM THE BOARD



A8 新媒體集團
A8 NEW MEDIA GROUP

A8 New Media Group Limited **A8新媒體集團有限公司**

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 800)

Executive Directors:

Mr. Liu Xiaosong
(Chairman & Chief Executive Officer)
Mr. Liu Pun Leung

Registered office:

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

Independent Non-executive Directors:

Mr. Chan Yiu Kwong
Ms. Wu Shihong
Mr. Li Feng

Head office:

23/F, A8 Music Building
No.1002 Keyuan Road, Hi-tech Park
Nanshan District, Shenzhen
Guangdong Province
The People's Republic of China

Principal place of business in Hong Kong:

Suites 06–12, 33/F.
Shui On Centre
6–8 Harbour Road, Wanchai
Hong Kong

25 January 2017

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION –
ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE;
AND
APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

Reference is made to the Announcement in which it was announced that the Company on 19 December 2016 entered into the Subscription Agreement pursuant to which the Subscriber had agreed to subscribe for in cash, and the Company agreed to allot and issue 931,800,000 Subscription Shares at the Subscription Price of HK\$0.41 per Subscription Share, subject to and upon the terms and conditions of the Subscription Agreement.

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The primary purpose of this circular is to provide you with, among other matters, (i) further details of the Subscription contemplated under the Subscription Agreement, the grant of the Specific Mandate and the Whitewash Waiver; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Subscription and the Whitewash Waiver; and (iv) the notice of the EGM.

THE SUBSCRIPTION

Major terms of the Subscription Agreement are set out below.

Date:

19 December 2016

Parties:

- (1) the Subscriber, as subscriber; and
- (2) the Company, as issuer.

Subscription Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, the Subscription Shares at the Subscription Price of HK\$0.41 per Share.

The Subscription Shares, being 931,800,000 new Shares, represented (i) approximately 50.77% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 33.68% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there is no other change in the issued share capital of the Company from the Latest Practicable Date to the Completion Date).

Subscription Price

The Subscription Price is HK\$0.41 per Share, representing:

- (i) a discount of approximately 12.77% to the closing price of HK\$0.47 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 13.14% to the average closing price of HK\$0.472 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the Last Trading Day;
- (iii) a discount of approximately 8.89% to the closing price of HK\$0.45 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

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- (iv) a discount of approximately 37.4% to the unaudited consolidated net asset value of the Company as at 30 June 2016 (“NAV”) per Share (based on the number of the issued Shares as at 30 June 2016) of approximately RMB0.583 (equivalent to approximately HK\$0.655); and
- (v) a discount of approximately 55.1% to the adjusted unaudited consolidated net asset value of the Company as at 30 June 2016 (“Adjusted NAV”) per Share (taking into account the market value of the property interest held by the Group of approximately RMB906 million according to the property valuation report as set out in Appendix II to this circular and based on the number of issued Shares as at 30 June 2016) of approximately RMB0.813 (equivalent to approximately HK\$0.913).

The aggregate Subscription Price for the Subscription shall be paid by the Subscriber to the Company in cash upon Completion.

The Company proposed the Subscription when (i) the closing price of the Shares was at a relatively low level when compared to the past 12 months; and (ii) the Hang Seng Index was fluctuating during the last 12 months preceding the date of the Subscription Agreement. The Directors considered that it is uncertain when or whether the Share price performance will improve as the overall market sentiment in the stock market in Hong Kong in 2016 was rather conservative. In addition, even the online game, music, live performance and comics market in the PRC recorded significant growth, any investment opportunities (though not yet identified as at the Latest Practicable Date) may also be of a lower valuation as the economy in the PRC is experiencing a slowing trend. As such, the Directors considered that the current timing of the Subscription may provide the Company with sufficient reserve to make timely commitment in any investment opportunity which could create value for the Shareholders as discussed under the section headed “Reasons for the Subscription and use of proceeds” below.

The Subscription Price was arrived at after arm’s length negotiations between the Company and the Subscriber with reference to the liquidity and recent trading performance of the Shares, and the financial performance and the business outlook of the Group. The average daily trading volume of the Shares during the last 12 months preceding the date of the Subscription Agreement and up to the Latest Practicable Date was in the range of approximately 0.04% and 0.69% of the number of Shares in issue as at the Latest Practicable Date. The Directors considered that in light of the thin trading volume, investors may find the Shares to be less attractive due to the difficulties in realising any potential future capital gain from the open market. As set out in the paragraph headed “Market comparable analysis” in the sub-section headed “Principal terms of the Subscription Agreement” in the section headed “Principal Factors and Reasons Considered” in the Letter from Donvex Capital in this circular, the price-to-book ratio of (i) all 23 transactions involving issue of new shares under specific mandate by companies listed on the Stock Exchange during the period from 20 June 2016, being six months prior to the date of the Subscription Agreement, and up to the date of the Announcement (“Comparables”) ranged from 0.16 to 4.15; and (ii) for the Comparables with market capitalisation (based on the number of shares in issue and the closing price of the shares of the respective Comparables as at the date of the relevant announcement) of not less

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than HK\$500 million but not more than HK\$1,000 million (“**Market Cap Comparables**”), ranged from 0.16 to 2.56. As such, the Company’s price-to-book ratio of 0.45 represented by the discount of approximately 55.1% to the Adjusted NAV per Share is within the range of all the Comparables and/or the Market Cap Comparables. As such, it is justifiable that the Subscription Price was set at a discount to the recent closing price of the Shares.

The Directors (including the independent non-executive Directors after taking into account the opinion of the Independent Financial Adviser) consider that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions precedent to the Subscription

Completion is conditional on:

- (1) the passing of an ordinary resolution by the Independent Shareholders at the EGM approving the Subscription Agreement and the allotment and issue of the Subscription Shares by the Company (including the Specific Mandate);
- (2) the passing of an ordinary resolution by the Independent Shareholders at the EGM approving the Whitewash Waiver;
- (3) the Executive having granted the Whitewash Waiver and the satisfaction of any condition attached to the Whitewash Waiver granted, and the Whitewash Waiver not being revoked;
- (4) the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Subscription Shares, and such approval not being revoked;
- (5) the compliance with the applicable requirements under the Listing Rules by the Company; and
- (6) all necessary consents, approvals, authorisations, waivers, or grant in accordance with any applicable laws, regulations or the articles of association to be obtained on the part of the Subscriber and its shareholders or on the part of the Company in respect of the Subscription and the transactions contemplated hereunder having been obtained and such consents, approvals, authorisations, waivers, and grant not having been revoked prior to Completion.

It is confirmed that in relation to condition (6) above, no such consents, approvals, authorisations, waivers or grant other than the Whitewash Waiver were contemplated at the Latest Practicable Date.

None of the above conditions are capable of being waived by any party to the Subscription Agreement.

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If any of the above conditions shall not have been satisfied at or before 4:00 p.m. on the Long Stop Date, the Subscription Agreement shall cease and terminate, save and except for certain provisions relating to confidentiality, notice, costs and expenses, governing laws and certain miscellaneous matters which provisions shall continue to have full force and effect, and save for any antecedent breach thereof by any party to the Subscription Agreement.

The date of the Long Stop Date was determined by the parties to the Subscription Agreement in order to allow more flexibility by such parties in satisfying the conditions precedent to the Subscription Agreement. However, the parties to the Subscription Agreement intend to proceed to Completion as soon as practicable subject to the fulfilment of the conditions precedent to the Subscription Agreement. Any extension of the Long Stop Date will be subject to the Shareholders' approval.

As at the Latest Practicable Date, none of the above conditions had been fulfilled.

Completion

Completion shall take place on the Completion Date.

Ranking of the Subscription Shares

The Subscription Shares, when allotted and issued, will rank equally in all respects with the Shares in issue on the date of allotment and issue of the Subscription Shares including the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Subscription Shares.

Mandate to allot and issue the Subscription Shares

The Subscription Shares will be allotted and issued under the Specific Mandate and is subject to the Independent Shareholders' approval.

Application for listing

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

INFORMATION OF THE PARTIES TO THE SUBSCRIPTION AGREEMENT

The Group is principally engaged in the provision of digital entertainment services, including game publishing services and music-based entertainment services as well as property investment in the PRC.

The Subscriber is a company incorporated in the BVI with limited liability whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu, the chairman of the Board and an executive Director, for the benefit of his family members. The Subscriber is principally engaged in investment holding. As at the Latest Practicable Date, Mr. Liu was the sole director of the Subscriber.

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REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Group is principally engaged in the provision of digital entertainment services, including game publishing services and music-based entertainment services as well as property investment in the PRC. Subject to the successful completion of the Subscription, the Group intends to acquire upstream and downstream mobile game industry chain company(ies) in 2017, accelerating the Group's pace of development in the mobile games sector.

The gross proceeds and the net proceeds from the Subscription will be approximately HK\$382.0 million and approximately HK\$380.5 million respectively. On such basis, the net price of each Subscription Share is approximately HK\$0.408. It is intended that the net proceeds from the Subscription will be utilised as further investment of the Group as and when opportunities arise, with a focus on mobile game industry chain. The Company intends to use the entirety of the proceeds from the Subscription for the future acquisition of upstream and downstream mobile game industry chain company(ies). The Board is of the opinion that mobile games sector is a relatively strong performer in the internet industry. In 2016, the Group acquired 35% of the equity interest in 北京掌文信息技術有限公司 (Beijing Jiangwen Information Technology Co., Ltd.*) ("**Jiangwen Acquisition**"), an online literature platform, fulfilling Group's layout for copyrights in respect of upstream mobile games. The Group intends to acquire upstream and downstream mobile game industry chain company(ies) through merger and acquisition, accelerating the pace of development in the mobile games sector in addition to complementing and assisting the Group's existing mobile games business.

As disclosed in the interim report of the Company for the six months ended 30 June 2016, the Group's cash and cash equivalents were approximately RMB493.0 million as at 30 June 2016, of which RMB192.5 million was/will be used for the settlement of the consideration of the Jiangwen Acquisition. Although the Group, as at the Latest Practicable Date, has not yet identified any investment target, based on the Group's internal investment criteria, the Group would prioritise the consideration of investments in PRC mobile game companies with (i) a valuation ranging from HK\$600 million to HK\$1 billion; (ii) an annual net profit in the range of approximately RMB40 million to RMB80 million; and (iii) a P/E ratio in the range of 6.1x to 18.9x. The Group's internal investment criteria in relation to the range of valuation and net profit of potential target companies were based on the Group's preference to invest in a company with a value and net profit of such range which would neither be too small to have any financial impact nor too large to be too costly for investment by the Group taking into account the financial conditions of the Group. As regards the Group's investment criteria for P/E ratio, the value of such criteria was made with reference to the acquisition activities of PRC mobile game developers by other listed companies (mainly listed A-shares companies). The Company has used its best endeavours to obtain information on the P/E ratios of such acquisition activities through the respective websites of the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Stock Exchange. 48 distinctive acquisition activities of PRC mobile game developers by other listed companies during the period of 2015 to 2016 which contain information on their acquisition activity's P/E ratio was referenced by the Company. Based on the Group's investment criteria, the Group's internal cash resources may not be sufficient for the acquisition of all appropriate investments that may be identified by the

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Company in the future. In the event that the Group identifies suitable business or investment opportunities (though not yet identified as at the Latest Practicable Date), and does not have sufficient cash and cash equivalents on hand, the Group may lose its opportunity in an otherwise favourable development/investment. In view of the market valuation of the companies in the PRC mobile game industry as discussed above, the Company intended to raise HK\$380.5 million through the Subscription.

The proceeds of the Subscription will not be used to settle the consideration for the Jiangwen Acquisition. As at the Latest Practicable Date, RMB87.5 million was paid by the Group for the partial settlement of the aggregate consideration of RMB192.5 million for the Jiangwen Acquisition and the remaining balance of such consideration will be payable by the Group in accordance with the terms and conditions of the sale and purchase agreement for the Jiangwen Acquisition.

As at the Latest Practicable Date, the Company had not entered into any agreement, arrangement or undertaking (whether formal or informal and whether express or implied) with the Subscriber or any other party in relation to any potential acquisition of new business or assets.

Save for and subject to the successful completion of the Subscription, the Company currently has no intention for further equity fund raising in the coming 12 months from the date of this circular.

The Board has considered other alternative means of fund raising before resolving to the Subscription, including but not limited to rights issue or open offer and debt financing.

Among the possible fund raising alternatives to the Subscription available to the Company, the Board considers that the Subscription is the most appropriate fund raising method and beneficial to the Company as:

- (a) debt financing, bank borrowings and issuance of bonds would increase the finance cost of the Group and more professional fees would also be expected to be incurred due to interest expense incurred at the prevailing lending interest rates. As set out under the paragraph headed “Debt financing” in the sub-section headed “Financial alternatives of the Group” in the section headed “Principal Factors and Reasons Considered” in the Letter from Donvex Capital in this circular, the lending interest rate of The People’s Bank of China in the PRC at the Latest Practicable Date ranged from approximately 4.35% to 4.75% depending on the term of the loan. Assuming that an amount of HK\$382 million (equivalent to the estimated gross proceeds of the Subscription) was borrowed from such financial institution in the PRC, an interest expense of at least approximately RMB14.8 million would be incurred annually by the Group which would have an adverse impact to the profitability of the Group;
- (b) it would be difficult for the placing agent to seek independent third parties to subscribe for new Shares without a large discount as compared to the Subscriber due to the Shares appearing less attractive as a result of the thin trading volume of the

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Shares during the last 12 months preceding the date of the Subscription Agreement and the difficulties for such independent third parties in realising any potential future capital gain from the open market due to the thin trading volume. As set out under the paragraph headed “Market comparable analysis” in the sub-section headed “Principal terms of the Subscription Agreement” in the section headed “Principal Factors and Reasons Considered” in the Letter from Donvex Capital in this circular, the average discount of the 23 transactions involving issue of new shares under specific mandate by companies listed on the Stock Exchange during the period from 20 June 2016, being six months prior to the date of the Subscription Agreement, to the relevant closing price of the shares was approximately 21.05%. As such, the discount of the Subscription Price of 12.77% to the closing price per Share on the Last Trading Day represented a lower discount than the average discount of such transactions; and

- (c) the Company does not wish to unnecessarily incur additional costs in the form of underwriting/placing commission for rights issue, open offer or placing (as the case may be) and certain Shareholders may not be interested in participating a rights issue or open offer.

Taking into account the above, the Directors are of the view that the equity financing by way of the Subscription is comparatively a more appropriate means of raising additional capital, and is in the interests of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors after taking into account the opinion of the Independent Financial Adviser) consider that the Subscription can strengthen the financial position of the Group and provide working capital to the Group to meet any future development and obligations, which is in the interest of the Company and the Shareholders as a whole.

FURTHER INTENTION OF THE SUBSCRIBER REGARDING THE GROUP

Following the Completion, the Subscriber intends to continue the existing business of the Group. The Subscriber will provide such resources within its means to support the development of the existing business of the Group. The Subscriber has no intention to introduce any change to the existing business of the Group including any redeployment of the fixed assets of the Group or terminate the continued employment of the employees of the Group.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE LAST TWELVE MONTHS

The Company had not carried out any fund raising exercises during the 12 months immediately preceding the Latest Practicable Date.

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EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon Completion (assuming there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date); and (iii) for illustration purpose only, immediately upon Completion and upon the exercise in full of all outstanding share options of the Company:

	As at the Latest Practicable Date		Upon Completion (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date)		Upon Completion (assuming that all the outstanding share options of the Company are exercised in full and Shares have been issued pursuant thereto immediately after Completion)	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
The Subscriber and parties acting in concert with it (Note 1)	617,713,398	33.66	1,549,513,398	56.00	1,571,428,308	55.86
Subscriber (Note 1)	144,571,095	7.88	1,076,371,095	38.90	1,076,371,095	38.26
Prime Century Technology Limited (Note 1)	379,496,303	20.68	379,496,303	13.72	379,496,303	13.49
Grand Idea Holdings Limited (Note 1)	87,880,000	4.79	87,880,000	3.18	87,880,000	3.12
Mr. Liu (Note 1)	5,766,000	0.31	5,766,000	0.21	27,680,910	0.98
Mr. Chan Yiu Kwong ("Mr. Chan") (Note 2)	105,000	0.01	105,000	(Note 3)	420,000	0.01
Mr. Liu Pun Leung (Note 4)	-	-	-	-	1,250,000	0.04
Ms. Wu Shihong (Note 5)	-	-	-	-	420,000	0.01
Public Shareholders	1,217,374,230	66.33	1,217,374,230	44.00	1,239,856,658	44.07
	<u>1,835,192,628</u>	<u>100.00</u>	<u>2,766,992,628</u>	<u>100.00</u>	<u>2,813,374,966</u>	<u>100.00</u>

Notes:

- Mr. Liu, the chairman of the Board and an executive Director, is the founder of a family trust which is owned by HSBC International Trustee Limited as trustee of such discretionary trust. These 617,713,398 Shares (representing approximately 33.66% of the issued share capital of the Company as at the Latest

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Practicable Date) comprised (i) 524,067,398 Shares (representing approximately 28.56% of the issued share capital of the Company as at the Latest Practicable Date) interested or deemed to be interested by the various companies controlled by such family trust, of which 379,496,303 Shares (representing approximately 20.68% of the issued share capital of the Company as at the Latest Practicable Date) and 144,571,095 Shares (representing approximately 7.88% of the issued share capital of the Company as at the Latest Practicable Date) were directly held by Prime Century and the Subscriber respectively; (ii) 5,766,000 Shares (representing approximately 0.31% of the issued share capital of the Company as at the Latest Practicable Date) directly held by Mr. Liu; and (iii) 87,880,000 Shares (representing approximately 4.79% of the issued share capital of the Company as at the Latest Practicable Date) directly held by Grand Idea which was interested or deemed to be interested by an associate of Mr. Liu. As at the Latest Practicable Date, Mr. Liu had share options to subscribe for an aggregate of 21,914,910 Shares (“**Mr. Liu’s Options**”) granted by the Company under the share option scheme of the Company.

2. Mr. Chan is an independent non-executive Director.
3. The Shares held by Mr. Chan will represent approximately 0.0038% of the issued share capital of the Company upon Completion (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date).
4. Mr. Liu Pun Leung is an executive Director.
5. Ms. Wu Shihong is an independent non-executive Director.
6. Certain percentage figures included in the above table have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

IMPLICATIONS UNDER THE LISTING RULES

As the Subscriber is a company whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu (the chairman of the Board and an executive Director) for the benefit of his family members, the Subscriber is an associate of Mr. Liu, a connected person of the Company. Therefore, the Subscription shall constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the Subscription Agreement, including the issue of the Subscription Shares under the Specific Mandate, are subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As Mr. Liu is the director of the Subscriber whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu for the benefit of his family members, he is considered having a material interest in the Subscription Agreement and the transactions contemplated thereunder, and he abstained from voting on the resolutions of the Board approving the Subscription Agreement and transactions contemplated thereunder.

TAKEOVERS CODE IMPLICATIONS

Dealings and interest held in the Company’s securities by the Subscriber and its concert parties

As at the Latest Practicable Date, the Subscriber had confirmed that:

- (i) neither the Subscriber nor parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) has received an irrevocable commitment from anyone to vote for or against the Subscription and/or the Whitewash Waiver;

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- (ii) save for the Subscription and Mr. Liu's Options, neither the Subscriber nor parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) holds any convertible securities, warrants or options of the Company;
- (iii) neither the Subscriber nor parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) has entered into outstanding derivative in respect of securities in the Company;
- (iv) there are no arrangements (whether by way of option, indemnity or otherwise) in relation to the Shares and shares of the Subscriber and which might be material to the Subscription and/or the Whitewash Waiver;
- (v) there are no agreements or arrangements to which the Subscriber or any of parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) is a party which relate to the circumstances in which any of them may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription and/or the Whitewash Waiver (save as the conditions precedent to the Subscription); and
- (vi) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Subscriber or parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) has borrowed or lent, save for any borrowed shares which have been either on-lent or sold.

The Subscriber has confirmed that save for the Subscription Agreement entered into by the Subscriber, it or parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) had not acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of, voting rights in the Company in the Relevant Period.

Application for Whitewash Waiver

As at the Latest Practicable Date, the Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang), taken together, directly or indirectly, own, control and have directions over 617,713,398 Shares, representing approximately 33.66% of the existing issued share capital of the Company.

Upon Completion, a total of 931,800,000 Shares will be issued to the Subscriber. The Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) will in aggregate hold 1,549,513,398 Shares. Hence, upon Completion, the shareholding of the Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) in the Company will increase from approximately 33.66% as at the Latest Practicable Date to (i)

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approximately 56.00% of the issued share capital of the Company as enlarged by issue of the Subscription Shares (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date), or (ii) approximately 55.86% of the issued share capital of the Company as enlarged by the issue of Subscription Shares (assuming that all the outstanding share options of the Company are exercised in full and Shares have been issued pursuant thereto immediately after the Completion), whereby triggering a mandatory general offer under Rule 26 of the Takeovers Code. Accordingly, the Subscriber, in the absence of the Whitewash Waiver, would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang). The Subscriber has made an application to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll.

If the Whitewash Waiver is approved by the Independent Shareholders, the maximum potential holding of voting rights of the Company held by the Subscriber and parties acting in concert with it resulting from the Subscription will exceed 50% of the voting rights of the Company. The Subscriber may further increase its holdings of voting rights of the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

As at the Latest Practicable Date, the Company does not believe that the Subscription and the transactions contemplated thereunder, the grant of the Specific Mandate and the Whitewash Waiver give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the Latest Practicable Date, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Subscription and the transactions contemplated thereunder, the grant of the Specific Mandate and the Whitewash Waiver do not comply with other applicable rules and regulations.

EGM

A notice convening the EGM to be held on Monday, 13 February 2017 at 10:30 a.m. at Suites 903–905, 9th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong, at which ordinary resolutions will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder (including the allotment and issue of the Subscription Shares by the Company under the Specific Mandate) and the Whitewash Waiver, is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services

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Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of 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 or any adjourned meeting should you so wish.

The Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang), directly or indirectly, held 617,713,398 Shares, representing approximately 33.66% of the existing issued share capital of the Company as at the Latest Practicable Date. The Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) are interested or involved in the Subscription and the Whitewash Waiver and shall abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Subscription and the Whitewash Waiver.

Ordinary resolutions as set out in the notice of the EGM will be put to the vote of the Independent Shareholders by way of poll. An announcement will be made by the Company following the conclusion of the EGM to inform you of its results.

RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders regarding the Subscription and the Whitewash Waiver. The Independent Board Committee comprises all the independent non-executive Directors (namely Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Li Feng), all of whom are not directly or indirectly interested or involved in the Subscription and the Whitewash Waiver.

Donvex Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription and the Whitewash Waiver. The Independent Board Committee has approved the appointment of the Independent Financial Adviser.

Your attention is drawn to (i) the letter from the Independent Board Committee which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the resolutions to approve the Subscription and the Whitewash Waiver, and (ii) the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription and the Whitewash Waiver. The Board (including the Independent Board Committee after taking the advice of the Independent Financial Adviser) considers that (i) the Subscription contemplated under and pursuant to the terms and conditions of the Subscription Agreement; (ii) the grant of the Specific Mandate; and (iii) the Whitewash Waiver, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and recommends the Independent Shareholders to vote in favour of the resolutions for approving the Subscription Agreement and the transactions contemplated thereunder (including the allotment and issue of the Subscription Shares by the Company under the Specific Mandate) and the Whitewash Waiver at the EGM.


LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

Warning: Shareholders and potential investors should note that the Subscription is subject to the fulfilment of a number of conditions, and accordingly, the transactions contemplated thereunder may or may not proceed. Shareholders and potential investors should exercise extreme caution when dealing in the Shares.

On behalf of the Board
A8 New Media Group Limited



Liu Xiaosong

Chairman and Chief Executive Director