



25 January 2017

*The Independent Board Committee and the Independent Shareholders of  
A8 New Media Group Limited*

Dear Sirs,

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

**INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect to the Subscription Agreement, the Specific Mandate and the Whitewash Waiver, details of which are set out in the Letter from the Board contained in the circular of the Company dated 25 January 2017 to the Shareholders (the “Circular”) of which this letter forms part. Capitalised terms used herein have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

Reference is made to the Company’s announcement dated 21 December 2016 in relation to, among other things, the Subscription Agreement, the Specific Mandate and the Whitewash Waiver.

On 19 December 2016, the Company and the Subscriber entered into the Subscription Agreement. Pursuant to the Subscription Agreement, the Subscriber conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue the Subscription Shares at the Subscription Price of HK\$0.41 per Subscription Share. The Subscription is subject to the conditions set out in the Letter from the Board.

The Subscription Shares, being 931,800,000 new Shares, represent (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.

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.

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, hold 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, representing approximately 56.00% of the issued share capital of the Company as enlarged by the 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). 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) approximately 56.00% of the issued share capital of the Company as enlarged by the 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. The Subscriber has made an application to the Executive for the Whitewash Waiver. The Executive has indicated that it would, subject to the approval by Independent Shareholders at the EGM by way of poll, grant the Whitewash waiver.

In view of the foregoing, the Company will convene an EGM to seek the approval of the Independent Shareholders of the Company on the Subscription Agreement and Whitewash Waiver. Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Li Feng, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on the terms and conditions of the Subscription and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver. Being the Independent Financial Adviser approved by the Independent Board Committee and appointed by the Board, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in this regard.

We are independent from, and not connected with, the Company or any of its substantial shareholders, directors, chief executive, or any of their respective associates, and have sufficient expertise and resources to give an opinion on the transactions. 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 to our independence. Apart from normal professional fees in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

#### **BASIS OF OUR OPINION**

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 Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true up to the Latest Practicable Date. The Company will notify the Shareholders of any material changes during the offer period (as defined under the Takeovers Code) as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be notified of any material changes to such information provided and our opinion as soon as possible after the Latest Practicable Date and throughout the offer period (as defined under the Takeovers Code).

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.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Company, the Subscriber and their respective associates, nor have we carried out independent verification on the information supplied. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. The Independent Shareholders will be notified of any material changes to such information provided and our opinion as soon as possible after the Latest Practicable Date and throughout the offer period (as defined under the Takeovers Code). Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Subscription Agreement, the Specific Mandate and the Whitewash Waiver and, 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.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving our opinion in respect of the Subscription and the Whitewash waiver, we have taken into consideration the following principal factors and reasons:

### **1. Background information of the Group**

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.

As stated in the interim report for the six months ended 30 June 2016 (“**2016 Interim Report**”), the Company will continue to (i) build the music-based entertainment industry chain and prime game publishing platform; (ii) strengthen the layout of upstream and downstream in the copyrights industry chain; and (iii) seek the incubation and operations of copyrights.

Set out below is a summary of the Group's operating results and financial position extracted from the Company's annual report for the year ended 31 December 2015 and the 2016 Interim Report.

	<b>Six months ended</b>		<b>Year ended</b>	
	<b>30 June</b>		<b>31 December</b>	
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(audited)	(audited) (restated)
Revenue				
Game-related revenue	57,072	36,050	79,401	133,736
Music-based entertainment	7,920	8,832	16,583	71,881
Rental and management fee income	<u>27,627</u>	<u>23,025</u>	<u>52,371</u>	<u>26,268</u>
	<u>92,619</u>	<u>67,907</u>	<u>148,355</u>	<u>231,885</u>
Gross profit	39,388	24,361	45,737	64,373
Profit for the period/year	16,348	5,521	21,675	9,653
	<b>As at 30 June</b>		<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)	(audited)	(audited) (restated)
Non-current assets	653,499	642,781		608,664
Current assets	566,031	635,053		367,262
– Cash and cash equivalents	<u>492,980</u>	<u>429,745</u>		<u>316,458</u>
Total assets	<u>1,219,530</u>	<u>1,277,834</u>		<u>975,926</u>
Non-current liabilities	67,575	64,585		55,022
Current liabilities	<u>81,967</u>	<u>163,906</u>		<u>122,493</u>
Total liabilities	<u>149,542</u>	<u>228,491</u>		<u>177,515</u>
Net assets	<u>1,069,988</u>	<u>1,049,343</u>		<u>798,411</u>

*For the six months ended 30 June 2016*

The revenue of the Group increased by approximately 36.4% from approximately RMB67.9 million for the six months ended 30 June 2015 to approximately RMB92.6 million for the six months ended 30 June 2016. The increase was mainly attributable to (i) the increase in revenue from game related services of approximately RMB21.0 million; and (ii) the increase in revenue of rental and management fee of approximately RMB4.6 million as a result of increased occupancy rate and unit rental. As such, the net profit of the Group increased by approximately 196.1% from approximately RMB5.5 million for the six months ended 30 June 2015 to approximately RMB16.3 million for the six months ended 30 June 2016.

*For the year ended 31 December 2015*

The revenue of the Group decreased by approximately 36.0% from approximately RMB231.9 million for the year ended 31 December 2014 to approximately RMB148.4 million for the year ended 31 December 2015, which was mainly attributable to (i) the downward trend of the traditional wireless music-based entertainment services; and (ii) the delay in launching several mobile games which lowered the game-related revenue. Despite the decrease in revenue, the net profit of the Group increased by approximately 124.5% from approximately RMB9.7 million for the year ended 31 December 2014 to approximately RMB21.7 million for the year ended 31 December 2015 as a result of a decrease in income tax expenses of approximately RMB23.0 million.

## **2. Industry overview of mobile game industry**

According to the data published by China Internet Network Information Center, a non-profit organization authorized by the PRC's state competent departments to organize relevant Internet entities to jointly carry out internet development survey since 1997, in August 2016, China's mobile Internet population has reached 656 million by the end of June 2016, representing an increase of 36.56 million as compared with the end of 2015 and reached 92.5% of the China's total Internet population. Along with the increasing mobile screen size and user experiences on mobile application, mobile phone has further consolidated its position as the major access channel to the Internet in the PRC and the mobile game market continued to grow rapidly.

Set out below the data in relation to the Internet market in the PRC for the six months ended 30 June 2016 published by China Culture Daily, a newspaper operated by the Ministry of Culture of the PRC, on 10 August 2016.

	<b>Online game market</b>	<b>Online music market</b>	<b>Online live performance market</b>	<b>Online comics market</b>
Revenue (RMB' billion)	83.9	2.5	8.3	7.0
Growth rate as compared to the corresponding period in 2015 (%)	24.1	43.5	77.1	209.3

As illustrated above, the online game, music, live performance and comics market in the PRC recorded significant growth for the six months ended 30 June 2016. As such, we are of the view that growth in the upstream and downstream mobile game industry is positive.

### **3. Reasons for and benefits for entering into the Subscription Agreement**

According to the section headed "Industry overview of mobile game industry" above, the upstream and downstream mobile game industry is expected to grow with the increase in the number of internet users through mobile phone in the PRC. Therefore, the Company can capture the increase in mobile game and music-based entertainment market demand by means of its strategic expansion in mobile game and music-based entertainment business. As such, the Directors are of the view and we concur that continuous growth in the upstream and downstream mobile game industry is positive.

As disclosed in the 2016 Interim Report, the Company will continue to (i) build the music-based entertainment industry chain and prime game publishing platform; (ii) strengthen the layout of upstream and downstream in the copyrights industry chain; and (iii) seek the incubation and operations of copyrights. With sufficient funding, the Directors consider the Company can strategically expand its upstream and downstream mobile game business through business cooperation with leading developers or equity investment in upstream and downstream mobile game related corporation.

As stated in the Letter from the Board, the Board considers 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. The net proceeds of the Subscription will be approximately HK\$380.5 million (after deducting related expenses in connection with the Subscription from the gross proceeds from the Subscription of approximately HK\$382.0 million) and utilised as future investment of the Group as and when opportunities arise, with a focus on mobile games industry. 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.

With reference to the circular of the Company dated 27 July 2016, the Group entered into a sale and purchase agreement dated 13 May 2016 to acquire 35% equity interest in 北京掌文信息技術有限公司 (Beijing Jiangwen Information Technology Co., Ltd.\*) (“**Beijing Jiangwen**”) at a consideration of RMB192.5 million (the “**Acquisition Consideration**”). Beijing Jiangwen and its subsidiaries are principally engaged in incubation and operation of prime copy rights, licensing of authorisation to use and adaptation to cartoons, comics, audio works, mobile games, network drama, television drama and movies. The Acquisition Consideration of RMB192.5 million shall be payable by the Group after the fulfilment or waiver (as the case may be) of all conditions in the manner specified in the sale and purchase agreement.

As disclosed in the 2016 Interim Report, 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 Acquisition Consideration. With reference to the Letter from the Board, although the Group, as at the Latest Practicable Date, has not yet identified any investment target, the valuation of the companies in the PRC mobile game industry such as mobile game developers are generally ranging from HK\$600 million to HK\$1 billion based on the Company’s past experience and the recent acquisition activities of other listed companies (mainly listed A-shares companies). As such, the Group’s internal cash resources may not be sufficient for the acquisition of all appropriate investments that may be identified by the 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 Directors are of the view that the Subscription can put the Company at a better position during the negotiation process and allow the Company to make timely commitment in any investment opportunity which could create value for the Shareholders.

As such, having considered that (i) the continuous growth in the mobile game industry can be maintained; and (ii) the expansion of mobile game business of the Company is being carried out by the Company, we consider that the reasons for the Subscription is justifiable and the Subscription is in the interests of the Company and the Shareholders as a whole.

\* For identification purpose only



#### 4. Financing alternatives of the Group

Based on our discussion with the Company, other than the Subscription, the Board has also considered the feasibilities of various fund raising methods such as (i) debt financing; (ii) placement of new Shares to independent investors; and (iii) other form of equity financing with the following reasons.

##### *(i) Debt financing*

Debt financing methods may be favourable to the Company due to the facts that (a) bank and/or other borrowings could be designated and tailored to match the Company's needs in terms of timeline and size of fund, while (b) issue of bonds would not result in any dilution effect to the shareholding structure of the Company. However, increased borrowings and bond issuance would possibly result in significant interest expenses and adversely affect the profit and the gearing ratio of the Group. As such, debt financing proposals may not be favourable and suitable for the Company based on its current financial position.

In assessing potential impact derived from interest rate if the Company adopted debt financing, we have conducted a research on the lending interest rate with reference to the information from the People's Bank of China in the PRC where the principal business activities of the Group are conducted as at the Latest Practicable Date as tabulated below:

	<b>Interest rate for bank borrowing with less than 1 year term as at the Latest Practicable Date</b>	<b>Interest rate for bank borrowing for a term over 1 but less than 5 years as at the Latest Practicable Date</b>
The People's Bank of China	4.35%	4.75%

*Source: Website of the People's Bank of China (www.pbc.gov.cn)*

If the Group borrows HK\$382.0 million (equivalent to approximately to RMB340.0 million) from the financial institution in the PRC, interest expense of at least approximately RMB14.8 million will be incurred annually which would have adverse impact to the profitability of the Company.

##### *(ii) Placement of new Shares to independent investors*

Given the thin trading volume of the Shares during the Review Period as further discussed under the section under "Trading liquidity of the Shares" below, the independent investors may find the Shares less attractive due to the difficulties in realizing any potential future capital gain from the open market. As such, the Directors consider that it is difficult for the placing agent to seek independent third parties to subscribe new shares without a large discount as compared with the Subscriber.

*(iii) Other form of equity financing*

We are advised by the Directors that both open offer and rights issue would allow the Shareholders to participate in the subscription on new Shares to be issued by the Company and maintain their respective pro-rata shareholdings in the Company. Given the thin trade volume of the Shares as further discussed under the section headed “Trading liquidity of the Shares” below, the Company would have difficulties in sourcing underwriter with reasonable underwriting fee and subscription price of reasonable discount. Furthermore, due to the thin trading volume of the Shares, certain Shareholders may not be interested in participating a right issue or an open offer.

Taking into account the above, we concur with the Directors’ view that equity financing by way of the Subscription is comparatively a more appropriate and viable means of raising additional capital.

**5. Principal terms of the Subscription Agreement**

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, the 931,800,000 Subscriptions Shares at the Subscription Price of HK\$0.41 per Subscription Share.

The Subscription Shares represent (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 issue of the Subscription Shares, assuming that there will be no change in the issued share capital of the Company (other than the issue of the Subscription Shares) between the Latest Practicable Date and the Completion.

*The Subscription Price*

The Subscription Price of HK\$0.41 per Subscription Share represents:

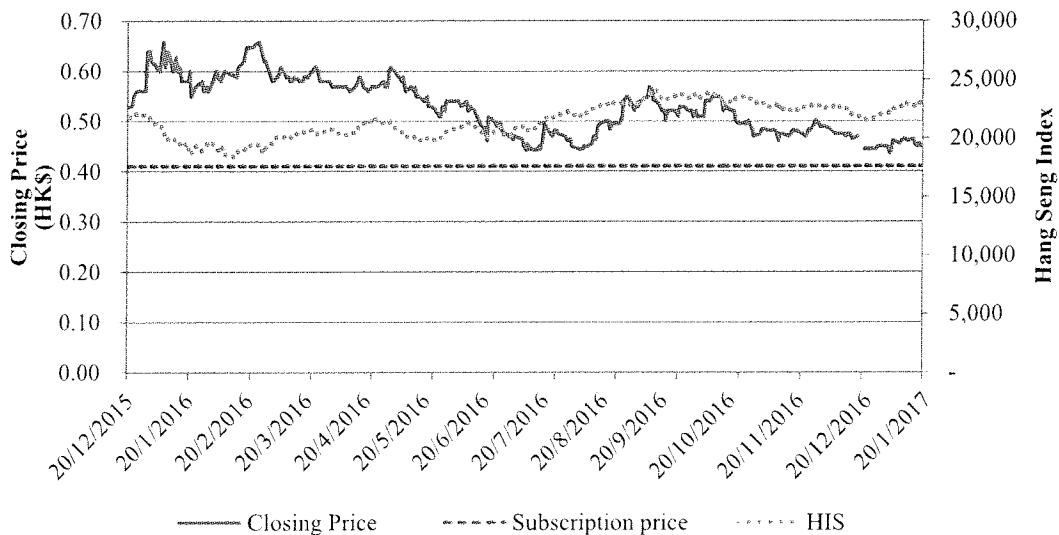
- (i) a discount of approximately 8.89% to the closing price of HK\$0.45 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 12.77% to the closing price of HK\$0.47 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 13.14% to the average closing price of HK\$0.472 per Share as quoted on the Stock Exchange for the last five consecutive trading days prior to but excluding the Last Trading Day;
- (iv) a discount of approximately 37.4% to the unaudited consolidated net asset value of the Company as at 30 June 2016 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 per Share of approximately RMB0.813 (equivalent to approximately HK\$0.913) (the “**Adjusted NAV per Share**”) as at 30 June 2016 (after taking into account (i) the market value of the Property (as defined in the valuation report as set out in Appendix II to this circular) of RMB906 million as at 30 November 2016 and (ii) the net book value of approximately RMB358 million and RMB126 million recorded under investment properties and property, plant and equipment, respectively, as at 30 June 2016, representing a fair value gain of approximately RMB422 million on the unaudited consolidated net asset value of the Company as at 30 June 2016).

As stated in the Letter from the Board, the Subscription Price was arrived at after arm’s length negotiations between the Company and the Subscriber with reference to the liquidity and trading performance of the Shares, and the financial performance and the business outlook of the Group.

(a) *Review on Share price performance*

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the daily closing prices of the Shares as quoted on the Stock Exchange during the last twelve months preceding the date of the Subscription Agreement and up to the Latest Practicable Date (the “**Review Period**”), for the purpose of illustrating the trend of the share price performance of the Shares. The chart below illustrates the daily closing price of the Shares versus the Subscription Price of HK\$0.41 during the Review Period.



Source: Website of the Stock Exchange

As shown in the above chart, we noted that there was a general downward trend of closing price of the Shares since December 2015. During the Review Period, the lowest closing price was HK\$0.435 per share on 4 January 2017 and the highest closing price was HK\$0.66 per Share on 1 January 2016 and 12 February 2016, with an average closing price of approximately HK\$0.53 per Share. The Subscription Price of HK\$0.41 is lower than the average closing price of HK\$0.53 during the Review Period, representing a discount of approximately 22.6%.

We noted that (i) the Company proposed the Subscription when the closing price of the Shares was at a relatively low level when compared to the past twelve months; and (ii) the Hang Seng Index was fluctuating during the Review Period as illustrated in the above chart. As advised by the management of the Company, 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 as discussed under the section headed “Industry overview of mobile game industry” above, any investment opportunities in these industries (though not yet identified as at the Latest Practicable Date) may be in lower valuation as the economy in the PRC is experiencing a slowing trend. As such, the Directors considered and we agreed 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 and benefits of entering into the Subscription Agreement” above.

(b) *Trading liquidity of the Shares*

The following table set out the trading volume of the Shares during the Review Period:

	Total trading volume for the month/ period (Shares)	Average daily trading volume for the month/ period (Shares) (Note 1)	Percentage of average daily trading volume to number of Shares in issue as at the end of relevant month/period (Note 2)	Percentage of average daily trading volume to number of Shares held by Independent Shareholders as at the end of relevant month/period (Note 3)
<b>2015</b>				
December (beginning from 20 December 2015)	49,997,176	6,249,647	0.34%	0.51%
<b>2016</b>				
January	254,359,276	12,717,964	0.69%	1.04%
February	101,882,608	5,660,145	0.31%	0.46%
March	126,316,722	6,015,082	0.33%	0.49%
April	85,546,450	4,277,308	0.23%	0.35%
May	45,828,071	2,182,289	0.12%	0.18%
June	43,759,000	2,083,762	0.11%	0.17%
July	67,978,000	3,398,900	0.19%	0.28%
August	109,392,000	4,972,364	0.27%	0.41%
September	58,232,200	2,772,962	0.15%	0.23%
October	63,446,000	3,339,263	0.18%	0.27%
November	27,971,850	1,271,448	0.07%	0.10%
December	39,033,250	1,951,663	0.11%	0.16%
<b>2017</b>				
January (up to the Latest Practicable Date)	10,738,000	767,000	0.04%	0.06%

Source: Website of the Stock Exchange

*Notes:*

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
2. Based on 1,835,192,628 Shares in issue as at the end of relevant month/period and up to the Latest Practicable Date.
3. Based on 1,835,192,628 Shares in issue and (i) 586,621,398 Shares held by the Subscriber and parties acting in concert with it as at 31 December 2015; (ii) 609,701,398 Shares held by the Subscriber and parties acting in concert with it as at the end of January to May 2016; and (iii) 617,713,398 Shares held by the Subscriber and parties acting in concert with it as at the end of June 2016 and up to the Latest Practicable Date.

As illustrated in the above table, the average daily trading volume during the Review Period was thin, with a range of approximately 1,271,448 Shares to 12,717,964 Shares, representing approximately 0.04% to 0.69% of the number of Shares in issue as at the Latest Practicable Date. In view of the above, we consider that the liquidity of the Shares was thin during the Review Period. In light of the thin trading volume, the investors may find the Shares less attractive due to the difficulties in realizing any potential future capital gain from the open market. As such, it is justifiable that the Subscription Price was set at a discount to the recent closing price of the Shares.

*(c) Market comparable analysis*

In assessing the fairness and reasonableness of the Subscription, we have identified an exhaustive list of 23 transactions involving issue of new shares under specific mandate (the “**Comparables**”) announced by companies listed on the Stock Exchange (excluding companies under prolonged suspension) 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 (the “**Comparable Period**”), for comparison purpose.

With reference to the annual report of the Company for the year ended 31 December 2015, majority of the Group’s revenue was contributed from digital entertainment services, namely game-related revenue and music-based entertainment business, representing approximately 64.7% of the Group’s total gross revenue for the year ended 31 December 2015. We have attempted to compare the Subscription Price against the market valuation of other listed issuers in Hong Kong that are principally engaged in digital entertainment services, however we have not been able to identify comparable companies in similar industry.

We have, at the best endeavor, identified the most recent transactions involving issue of shares under specific mandate announced to the public. It should be noted that all the subject companies involved in the Comparables may have different principal activities, market capitalization, profitability and financial position as compared with those of the Company. The circumstances leading to the subject companies to proceed with the subscription/placement may also be different from that of the Company. However, as (i) the terms of the Comparables were determined under similar market condition and sentiment and they might be able to reflect the recent trend of transactions involving issue of shares under specific mandate in the Hong Kong stock market; (ii) the price performance of the Shares was generally in line with the movements of Hang Seng Index during the Comparable Period; and (iii) the population of Comparables is adequate with sufficient number of samples for the purpose of comparison. As such, we consider that (i) the Comparables may provide general reference of the recent trend and terms of the transactions involving issue of shares under specific mandate under common market practice; and (ii) the comparison between the Subscription and the Comparables is an appropriate basis to assess the fairness of the Subscription Price. Details regarding the Comparables are set out below:

Date of announcement	Company	Stock code	Fund raising method	Principal business/industry	Market capitalisation as at the date of announcement (HK\$ million)	Gross proceed (HK\$ million)	Premium/ (discount) of the subscription price to the closing price of the shares for the last five consecutive trading days immediately prior to the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Premium/ (discount) of the subscription price to the closing price of the shares on the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Premium/ (discount) of the subscription price to the closing price of the shares for the last five consecutive trading days immediately prior to the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Price-to-book ratio ("PB Ratio")
				(Note 1)	(Note 2)					(Note 3)
<b>For comparables with market capitalisation of not less than HK\$500 million and not more than HK\$1,000 million (the "Market Cap Comparables")</b>										
14/12/2016	Winshine Science Company Limited	209	Subscription	Manufacturing and trading of toys	602	122	(10.90)	(25.30)		1.39
28/10/2016	Kiu Hung International Holdings Limited	381	Placing	Manufacturing and trading of toys and gifts items	539	92	(13.39)	(18.52)		1.46
25/8/2016	Asian Citrus Holdings Limited	73	Placing	Planting and sale of agricultural produce and fruit juice products	775	305	(19.35)	(21.14)		0.16
18/7/2016	Luxey International (Holdings) Limited	8041	Subscription & placing	Manufacturing and trading of swimwear and related garment products	943	30	(45.95)	(45.53)		2.56
13/7/2016	Sino Golf Holdings Limited	361	Subscription	Manufacturing and trading of golf equipment	725	400	(63.23)	(59.86)		1.54



Date of announcement	Company	Stock code	Fund raising method	Principal business/industry	Market capitalisation as at the date of relevant announcement (HK\$ million) (Note 2)	Gross proceed (HK\$ million)	Premium/ (discount) of the subscription price to the closing price of the shares on the last trading day before the relevant announcement (%)	Premium/ (discount) of the subscription price to the closing price of the shares for the last five consecutive trading days immediately prior to the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Price-to-book ratio ("PB Ratio") (Note 3)
<b>Other Comparables</b>									
16/12/2016	Bank of Jinzhou Co., Ltd.	416	Placing	Banking	12,821	7,400	(11.20)	(9,001)	1.65
28/11/2016	Daitang International Power Generation Co., Ltd	991	Subscription	Utilities	6,897	5,925	1.92	2.51	0.56
25/11/2016	Beijing Capital Jida Limited	1329	Subscription	Property development	2,484	1,477	(23.91)	(23.91)	0.86
16/11/2016	Ozner Water International Holding Limited	2014	Subscription	Utilities	2,889	541	2.40	7.55	1.40
11/11/2016	Yue Da Mining Holdings Limited	629	Subscription	Coal and non-ferrous metal mining	266	95	31.03	35.23	0.88
28/10/2016	Vitop Group Limited	1178	Subscription	Manufacturing and trading of consumer goods	1,078	180	(17.43)	(16.59)	3.28
27/10/2016	Shanghai Dasheng Agriculture Finance Technology Co., Ltd	1103	Subscription & placing	Sale of agricultural and petrochemical products	3,699	975	(7.14)	(8.19)	1.00
24/10/2016	Sandmartin International Holdings Limited	482	Subscription	Satellite television service operator business	298	53	(47.14)	(46.67)	0.35
17/10/2016	DX.com Holdings Limited	8086	Placing	E-commerce	241	60	(5.88)	(1.39)	1.36
17/10/2016	Global Mastermind Capital Limited	905	Subscription	Investment in listed and unlisted companies	237	88	(4.26)	1.81	0.54
30/9/2016	Neai Shun Holdings Limited	1246	Subscription	Foundation business and property development	1,211	520	6.95	5.82	4.15
26/9/2016	Sunac China Holdings Limited	1918	Subscription	Real estate developers	19,742	2,800	6.55	3.34	1.10

Date of announcement	Company	Stock code	Fund raising method	Principal business/industry	Market capitalisation as at the date of relevant announcement (HK\$ million)	Gross proceed (HK\$ million)	Premium/ (discount) of the subscription price to the closing price of the shares on the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Premium/ (discount) of the subscription price to the closing price of the shares for the last five consecutive trading days immediately prior to the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Price-to-book ratio ("PB Ratio")
21/9/2016	United Photovoltaics Group Limited	686	Subscription	Development, investment, operation of solar power plants	3,533	1,299	(20.36)	(18.80)	0.92
5/9/2016	Digital China Holdings Limited	861	Subscription	IT services	7,643	550	(16.59)	(18.99)	0.72
31/8/2016	China City Railway Transportation Technology	1522	Subscription	Civil engineering services	2,139	903	(9.40)	(8.54)	0.64
5/8/2016	Ground Properties Company Limited	989	Subscription	Provision of telecommunications retail sales and management services	1,466	170	(18.03)	(17.08)	0.48
13/7/2016	China Grand Pharmaceutical and Healthcare Holdings Limited	512	Subscription	Manufacturing and sales of pharmaceutical products	2,786	151	(1.41)	0.00	1.94
30/6/2016	Beijing Capital Juda Limited	1329	Placing	Property development	2,758	2,196	(5.44)	(6.08)	1.31
					All Comparables	Maximum Minimum Average discount	31.03 (63.23) (21.05)	35.23 (59.86) (21.18)	4.15 0.16 1.32
					Market Cap Comparables	Maximum Minimum Average discount	(10.90) (63.23) (30.56)	(18.52) (59.86) (34.07)	2.56 0.16 1.42

Date of announcement	Company	Stock code	Fund raising method	Principal business/industry	Market capitalisation as at the date of relevant announcement (HK\$ million) (Note 2)	Gross proceed (HK\$ million) (Note 2)	Premium/ (discount) of the subscription price to the closing price of the shares on the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Premium/ (discount) of the subscription price to the closing price of the shares for the last five consecutive trading days immediately prior to the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Price-to-book ratio ("PB Ratio") (Note 3)
21/12/2016	The Company	800	Subscription	Provision of digital entertainment services and property investment	863	382	(12.77)	(13.14)	0.45 (Note 5)

Source: Website of the Stock Exchange

Notes:

- For illustrative purpose, the principal business/industry of the Comparables are based on (i) the information as disclosed in the relevant announcement; and/or (ii) the largest business segment by revenue as disclosed in the respective latest published annual reports of the Comparables.
- Based on (i) the number of shares in issue and listed in the Stock Exchange; and (ii) the closing price of the shares of the respective Comparables as at the date of relevant announcement.
- The PB Ratio of the Comparables were calculated based on their respective latest published annual report or interim report (as the case may be).
- Excluding all Comparables with shares issued with premiums to the relevant closing price of the shares, the average discount is calculated based on the Comparables with shares issued at a discount to the relevant closing price of the shares.
- The PB Ratio of the Company is calculated by dividing the Subscription Price by the Adjusted NAV per Share.

*Discount of the Subscription Price to market price comparison*

As illustrated in the table above, the subscription/offer price of all the Comparable ranged from a premium of approximately 31.03% to a discount of 63.23%. The average discount of all Comparables with shares issued at a discount to the relevant closing price of the shares was approximately 21.05%. As such, the discount of the Subscription Price represented a lower discount than the average discount of the Comparables. In addition, the discount of the Subscription Price is lower than the average discount of approximately 30.56% of the Market Cap Comparables.

*PB Ratio comparison*

We have attempted to conduct the PB ratio comparison between the Group and the Comparables to illustrate the recent market trend as general reference. As illustrated in the table above, the subscription/offer price of (i) all the Comparables ranged from a premium of approximately 314.69% to a discount of approximately 84.00%; and (ii) the Market Cap Comparables ranged from a premium of approximately 156.41% to a discount of approximately 84.00%. As such, 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.

However, the business model of the Group's game-related revenue and music-based entertainment business is of service-based and asset-light. The PB Ratio should only be applied for the evaluation of companies engaging in capital-intensive business. Being a service-based company, we consider the comparison on the PB ratio between the Group and other listed issuers may not be meaningful and indicative to the Subscription Price.

Taking into account (i) the discount of the Subscription Price is lower than the average discount of the Comparables; (ii) the discount to the Adjusted NAV per Share is within the range of all the Comparables and/or the Market Cap Comparables despite such comparison may not be meaningful and indicative to the Subscription Price; (iii) the downward trend of the closing price of the Shares since December 2015; and (iv) the Shares may not be attractive to investors due to the difficulties in realizing any potential future capital gain from the open market as a result of the thin trading volume of the Shares as discussed above, we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

## **6. Potential dilution effect on the interests of the Independent Shareholders**

As depicted by the table under the section headed “Effects on shareholding structure of the Company” in the Letter from the Board, upon Completion, the shareholding interests of the existing public Shareholders would be diluted by (i) approximately 33.67% (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 33.45% (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).

Nonetheless, in view of (i) the reasons for and the possible benefits of the Subscription to support the expansion of mobile game and music-based entertainment business of the Company, details of which are set out under the section under “Reasons and benefits for entering into the Subscription Agreement” of this letter; and (ii) the terms of the Subscription Agreement being fair and reasonable, we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

## **7. Financial effects of the Subscription to the Group**

### *(i) Cashflow*

As stated under the section headed “Background information of the Group” above, the Group had cash and cash equivalents of approximately RMB493.0 million as at 30 June 2016. Upon Completion, the liquidity and cash position of the Group will be improved as the Subscription will facilitate the Company to raise net proceeds to approximately HK\$380.5 million (equivalent to approximately RMB338.6 million). Accordingly, the cash position, net current assets and current ratio of the Company are expected to be improved upon Completion.

### *(ii) Earnings*

Save for the expenses relating to the Subscription, the Completion will not have any immediate material impact to the earnings of the Company.

### *(iii) Net asset value*

As stated under the section headed “Background information of the Group” above, the net asset value of the Group as at 30 June 2016 was approximately HK\$1,070.0 million. Upon the Completion, the net asset value of the company will be improved as the Subscription would increase the share capital of the Company. Accordingly, the Subscription will have a positive impact on the net asset value of the Group.

As at the Latest Practicable Date, the number of Shares in issue was 1,835,192,628 Shares. The net asset value per Share based on the net asset value of the Group as at 30 June 2016 as disclosed in the 2016 Interim Report was approximately RMB0.58 per Share. Assuming no other changes to the issued share capital of the Company and Group's net asset value as at 30 June 2016 other than the Subscription, upon completion, the number of Shares in issue will be increased to 2,766,997,628 Share and the net asset value will be increased by approximately RMB338.6 million (equivalent to approximately HK\$380.5 million) from the proceeds of Subscription to approximately RMB1,408.6 million (equivalent to approximately HK\$1,582.7 million), representing a net asset value per Share of approximately RMB0.51 per Share. As such, the net asset value per Share may decrease by approximately RMB0.07 per Share or 12.1% upon the Completion.

Based on the above, the Subscription may have an overall positive effect on the Group's financial position. We consider that the Subscription is in the interests of the Company and the Shareholders as a whole.

#### **8. 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, hold 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, representing approximately 56.00% of the issued share capital of the Company as enlarged by the 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). 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) approximately 56.00% of the issued share capital of the Company as enlarged by the 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 concert with it. The Subscriber has made an application to the Executive for the Whitewash Waiver. The Executive has indicated that it would, subject to approval by Independent Shareholders at the EGM by way of poll, grant the Whitewash Waiver.

As stated in the Letter from the Board, the condition precedent relating to the granting of the Whitewash Waiver and the approval of the Whitewash Waiver by the Independent Shareholders are not waivable by any party to the Subscription Agreement. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders at the EGM, the Subscription will not proceed.

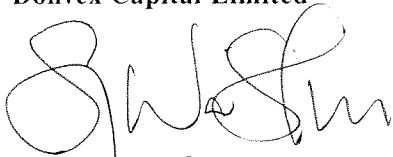
Notwithstanding the dilution effect on the shareholdings of the existing Shareholders in the Company as a result of the Subscription, and the Subscription Price represents a discount to the market price of the Shares, having considered that:

- (a) (i) the continuous growth in the mobile game industry can be maintained; and (ii) the expansion of mobile game business of the Company is being carried out by the Company as discussed under the section headed "Reasons of and benefits of the Subscription" above; and
- (b) the fairness and reasonableness of the Subscription Price as stated in the section headed "Principal terms of the Subscription Agreement" above, we consider that the grant of the Whitewash Waiver (the granting of which being one of the conditions precedent to the Completion) is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

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. Subject to the relevant provisions of the Takeovers Code, the Subscriber may further increase their holdings of voting rights of the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

## **RECOMMENDATION**

Having considered the abovementioned principal factors and reasons, we are of the view that (i) the Whitewash Waiver and the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Subscription and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Subscription Agreement, the Specific Mandate and the Whitewash waiver.

Yours faithfully,  
For and on behalf of  
**Donvex Capital Limited**  
  
**Doris Sy**  
*President*