THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in A8 New Media Group Limited (the "**Company**"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

A8新媒体集团
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)

(1) DISCLOSEABLE TRANSACTION;
(2) CONNECTED TRANSACTION;
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

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

Gram Capital Limited
嘉林資本有限公司

Capitalised terms used in this cover shall have the same meanings as defined in this circular.

A letter from the Board is set out from pages 6 to 20 of this circular. A letter from the Independent Board Committee is set out on page 21 of this circular. A letter from Gram Capital, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out from pages 22 to 34 of this circular.

A notice convening the EGM to be held at 10:30 a.m. on Friday, 12 August 2016 at 23/F, A8 Music Building, No. 1002 Keyuan Road, Hi-tech Park, Nanshan District, Shenzhen, the PRC is set out on pages EGM-1 to EGM-2 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 accompanying 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 Limited, at Shops 1712–1716, 17/F, 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.

27 July 2016

CONTENTS

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

"Acquisition"	the conditional acquisition of 35% equity interest of the Target by Purchaser A pursuant to the terms and conditions of the SP Agreement
"Announcement"	the announcement of the Company dated 13 May 2016 in relation to, among other things, the Original SP Agreement and the transactions contemplated thereunder
"associate"	has the meaning ascribed to it under the Listing Rules
"Beijing Heiyan"	北京黑岩信息技術有限公司 (Beijing Heiyan Information Technology Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of the Target
"Board"	the board of Directors
"Business Day(s)"	the statutory working day(s) in the PRC (excluding Saturdays, Sundays and statutory holidays)
"Company"	A8 New Media Group Limited (A8 新媒體集團有限公司), 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: 800)
"Completion"	the completion of the registration of change in equity of the Target to the name of the Purchasers with the State Administration for Industry & Commerce of the PRC in accordance with the terms and conditions of the SP Agreement
"Condition(s)"	the conditions precedent to Completion as more particularly set out in the section headed "The SP Agreement — Conditions Precedent" in the "Letter from the Board" in this circular
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the total consideration for the Acquisition, being RMB192.5 million, payable by the Group
"Director(s)"	the director(s) of the Company

"EGM"	the extraordinary general meeting of the Company convened to be held at 10:30 a.m. on Friday, 12 August 2016 at 23/F, A8 Music Building, No. 1002 Keyuan Road, Hi-tech Park, Nanshan District, Shenzhen, the PRC for the Independent Shareholders to consider and, if thought fit, to approve the SP Agreement and the transactions contemplated thereunder, the notice of which is set out on pages EGM-1 and EGM-2 of this circular
"Founders"	collectively, Vendor A and Vendor B
"Gram Capital" or "Independent Financial Adviser"	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the SP Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"Guarantor"	Mr. Liu Xiaosong, the Chairman of the Board and an executive Director
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee, comprising all independent non-executive Directors, formed to advise the Independent Shareholders in respect of the SP Agreement and the transactions contemplated thereunder
"Independent Shareholders"	the Shareholders, other than the Shareholders who have a material interest in the transactions contemplated under the SP Agreement (i.e. Shareholders other than the Guarantor and his associates)
"Independent Third Party(ies)"	third party(ies) who is/are independent of and not connected with the Company and its connected persons

"Latest Practicable Date"	22 July 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Original SP Agreement"	the agreement dated 13 May 2016 entered into by and among the Purchasers, the Vendors, the Guarantor and the Target in relation to the sale and purchase of the entire equity interest of the Target
"PRC"	the People's Republic of China, but for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Purchaser A"	深圳市雲海情天文化傳播有限公司 (Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd.*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"Purchaser B"	深圳市浩祥投資有限公司 (Shenzhen Haoxiang Investment Co., Ltd.*), a company established in the PRC with limited liability and a company indirectly wholly owned by the Guarantor
"Purchasers"	collectively, Purchaser A and Purchaser B
"RMB"	Renminbi, the lawful currency of the PRC
"Selling Proportion"	as among the Vendors, as to 43.94% by Vendor A, 11.74% by Vendor B, 24.32% by Vendor C and 20.00% by Vendor D
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	shareholders of the Company from time to time
"SP Agreement"	the Original SP Agreement (as supplemented and varied by the Supplemental SP Agreement)

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental SP Agreement"	the agreement dated 22 July 2016 entered into by and among the Purchasers, the Vendors, the Guarantor and the Target to vary and supplement the Original SP Agreement
"Target"	北京掌文信息技術有限公司 (Beijing Jiangwen Information Technology Co., Ltd.*), a company established in the PRC with limited liability
"Target Group"	the Target and its subsidiaries, namely Beijing Heiyan and Tianjin Heiyan
"Tianjin Heiyan"	天津黑岩信息技術有限公司 (Tianjin Heiyan Information Technology Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of the Target
"Valuation Date"	30 April 2016, being the date of valuation in the Valuation Report, on which the fair value of 35% of the equity interest of the Target was determined
"Valuation Report"	the valuation report dated 27 July 2016 prepared by the Valuer in relation to 35% of the equity interest of the Target, a copy of which is set out in Appendix I to this circular
"Valuer"	Greater China Appraisal Limited
"Vendor A"	畢建偉 (Mr. Bi Jianwei)
"Vendor B"	倪凱 (Mr. Ni Kai)
"Vendor C"	經緯(杭州)創業投資合夥企業(有限合夥)(Jingwei (Hangzhou) Venture Investment Partnership Enterprise (Limited Partnership)*), a limited partnership established in the PRC
"Vendor D"	北京紅杉信遠股權投資中心(有限合夥) (Beijing Hongshan Xinyuan Equity Investment Centre (Limited Partnership)*), a limited partnership established in the PRC

"Vendors"	collectively, Vendor A, Vendor B, Vendor C and Vendor D
"%"	per cent

In this circular, amounts denominated in RMB have been converted into HK$ at the rate of RMB0.84 = HK$1 for the purpose of illustration. Such Exchange rates are for illustration purpose only and do not constitute representations that any amount in RMB or HK$, could have been or may be converted at such rate.

* *The English transliteration of the Chinese name in this circular, where indicated, is included for information purpose only, and should not be regarded as the official English name of such Chinese name.*

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

Independent Non-executive Directors:
Mr. Chan Yiu Kwong
Ms. Wu Shihong
Mr. Li Feng

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

Head office:
23/F, A8 Music Building,
No.1002 Keyuan Road, Hi-tech Park,
Nanshan District, Shenzhen,
Guangdong Province
The PRC

Principal Place of Business in Hong Kong:
Suites 06–12, 33/F.
Shui On Centre
6–8 Harbour Road, Wanchai
Hong Kong

27 July 2016

To the Shareholders

Dear Sir or Madam,

(1) DISCLOSEABLE TRANSACTION; AND (2) CONNECTED TRANSACTION

INTRODUCTION

Reference is made to the Announcement in which the Company announced that after trading hours on 13 May 2016, the Purchaser, the Vendors, the Guarantor and the Target entered into the Original SP Agreement, pursuant to which the Purchasers have conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, the entire equity interest of the Target in aggregate (as at the date of the Original SP Agreement and as at Completion) at the aggregate consideration of RMB550 million in cash. On 22 July 2016, the Purchasers, the Vendors, the Guarantor and the Target entered into the Supplemental SP Agreement to extend the original Long Stop Date (as defined below) of 30 July 2016 to 31 August 2016.

The purpose of this circular is to provide you with, among other things, (i) further information of the SP Agreement and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders containing its recommendation in respect of the SP Agreement and the transactions contemplated thereunder; (iii) a letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the SP Agreement and the transactions contemplated thereunder; and (iv) notice of the EGM.

THE SP AGREEMENT

The principal terms of the SP Agreement are set out below:

Date

13 May 2016 (for the Original SP Agreement)

22 July 2016 (for the Supplemental SP Agreement)

Parties

(1) the Purchasers:

(i) Purchaser A — 深圳市雲海情天文化傳播有限公司 (Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd.*), an indirect wholly-owned subsidiary of the Company; and

(ii) Purchaser B — 深圳市浩祥投資有限公司 (Shenzhen Haoxiang Investment Co., Ltd.*), a company indirectly wholly owned by the Guarantor;

(2) the Vendors:

(i) Vendor A — 畢建偉 (Mr. Bi Jianwei), one of the Founders;

(ii) Vendor B — 倪凱 (Mr. Ni Kai), one of the Founders;

(iii) Vendor C — 經緯(杭州)創業投資合夥企業(有限合夥) (Jingwei (Hangzhou) Venture Investment Partnership Enterprise (Limited Partnership)*), a limited partnership established in the PRC; and

(iv) Vendor D – 北京紅杉信遠股權投資中心(有限合夥) (Beijing Hongshan Xinyuan Equity Investment Centre (Limited Partnership)*), a limited partnership established in the PRC;

(3) the Guarantor:

Mr. Liu Xiaosong, the Chairman of the Board and an executive Director; and

(4) the Target:

北京掌文信息技術有限公司 (Beijing Jiangwen Information Technology Co., Ltd.*), a company established in the PRC with limited liability.

The Guarantor joined as a party to the SP Agreement to guarantee the performance and observance by Purchaser B of its payment and other obligations and responsibilities under the SP Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries:

(1) each of the Vendors and (where applicable) their ultimate beneficial owners is an Independent Third Party;

(2) Purchaser B, a company established in the PRC with limited liability, is principally engaged in the investment business;

(3) Vendor C, a limited partnership established in the PRC, is principally engaged in the venture capital business; and

(4) Vendor D, a limited partnership established in the PRC, is principally engaged in the venture capital business.

Assets to be acquired

In accordance with the terms and conditions of the SP Agreement, Purchaser A and Purchaser B have conditionally agreed to acquire 35% and 65% of the equity interest of the Target respectively as at the date of the Original SP Agreement and as at Completion, free from all encumbrances and third party rights, from the Vendors at the Selling Proportion as follows:

Name of the Vendors	**Approximate % of the equity interest of the Target held and to be sold by each Vendor**
Vendor A	43.94%
Vendor B	11.74%
Vendor C	24.32%
Vendor D	20.00%
Total:	**100.00%**

Consideration

The total consideration for the acquisition of the entire equity interest of the Target by the Purchasers is RMB550 million (equivalent to approximately HK$654,762,000) which comprises two parts:

(1) RMB500 million (equivalent to approximately HK$595,238,000) as basic consideration ("**Basic Consideration**"), which shall be payable in cash by Purchaser A as to 35% (i.e. RMB175 million (equivalent to approximately HK$208,333,000)) ("**Relevant Basic Consideration**") and Purchaser B as to 65% (i.e. RMB325 million (equivalent to approximately HK$386,905,000)) to the Vendors (or to their order). The amount of the Basic Consideration to be received by each of the Vendors under the SP Agreement shall be calculated by multiplying the total amount of the Basic Consideration by the Selling Proportion which relates to such Vendor; and

(2) RMB50 million (equivalent to approximately HK$59,524,000) as founders' consideration ("**Founders' Consideration**"), which shall be payable in cash by Purchaser A as to 35% (i.e. RMB17.5 million (equivalent to approximately HK$20,833,000)) ("**Relevant Founders' Consideration**") and Purchaser B as to 65% (i.e. RMB32.5 million (equivalent to approximately HK$38,690,000)) to the Founders (or collectively to their order).

Based on the above, the Consideration for the Acquisition payable by Purchaser A is RMB192.5 million (equivalent to approximately HK$229,167,000), comprising the Relevant Basic Consideration of RMB175 million (equivalent to approximately HK$208,333,000) and the Relevant Founders' Consideration of RMB17.5 million (equivalent to approximately HK$20,833,000).

The Consideration was determined by the Group and the Vendors after arm's length negotiations with reference to, among other factors, (i) publicly available information in relation to recent acquisitions of companies engaging in businesses similar to the Target Group; (ii) the copyrights accessible by the Target Group which is in line with the layout for prime copyrights of the Group as more particularly set out in the section headed "Reasons for and benefits of the Acquisition" in the "Letter from the Board" in this circular; (iii) the business prospects of the Target Group; and (iv) the preliminary valuation of the fair value of 35% equity interest in the Target as at 30 April 2016 of RMB194,000,000 as appraised by the Valuer.

As regards the comparable acquisitions of companies that were referred to by the Group and the Vendors, 8 completed transactions in the PRC from October 2013 to February 2016, all of which were network literature platforms transactions, were selected as comparable transactions to serve as reference in determining the Consideration for the Acquisition. The comparable transactions involved the purchase of the company or investment fund holding company operating a literature platform by certain acquirers, most of which are listed companies. Please refer to page I-20 of the Valuation Report for further details of such comparable transactions.

Payment of the Consideration

The Consideration, comprising the Relevant Basic Consideration of RMB175 million (equivalent to approximately HK$208,333,000) and the Relevant Founders' Consideration of RMB17.5 million (equivalent to approximately HK$20,833,000), shall be payable by Purchaser A to the Vendors in cash in the following manner:

Relevant Basic Consideration:

(a) as to RMB17.5 million (equivalent to approximately HK$20,833,000) shall be paid to the Vendors on the 10th Business Day after the fulfilment or waiver (as the case may be) of all the Conditions ("**First Payment**");

(b) as to RMB70 million (equivalent to approximately HK$83,333,000) shall be paid to the Vendors (or to their order) on or before the 10th Business Day from completion of the registration of change in equity of the Target to the name of the Purchasers with the State Administration for Industry & Commerce of the PRC;

(c) as to RMB70 million (equivalent to approximately HK$83,333,000) shall be paid to the Vendors on or before the 10th Business Day from the issue of the 2016 audit report of the Target by an auditor to be designated by the Purchasers (and in any event no later than 15 April 2017) ("**Third Payment Date**"); and

(d) as to RMB17.5 million (equivalent to approximately HK$20,833,000) shall be paid to the Vendors on or before the 10th Business Day from the issue of the 2017 audit report of the Target by an auditor to be designated by the Purchasers (and in any event no later than 15 April 2018).

Relevant Founders' Consideration:

(a) as to RMB17.5 million (equivalent to approximately HK$20,833,000) shall be paid to the Founders (or collectively to their order) subsequent to the signing of the Consultancy Services Agreements (as defined below) and in any event no later than the Third Payment Date.

The Consideration will be funded by internal resources of the Group.

The relevant portion of the consideration for the acquisition of 65% equity interest in the Target payable by Purchaser B to the Vendors shall also be payable on the same instalment dates as the payments to be made by Purchaser A, with such instalments to be settled in cash and to correspond proportionally with the amount to be paid by Purchaser A based on the percentage of equity interest in the Target to be acquired by Purchaser B.

Conditions Precedent

Completion is subject to the fulfilment or (if applicable) waiver by the Purchasers of the following Conditions:

(1) the Purchasers having obtained the approval by their respective boards of directors and shareholders for the transactions under the SP Agreement as required by applicable laws and constitutional documents;

(2) the Target having obtained the approval by its board of directors and shareholders for the transactions under the SP Agreement as required by applicable laws and constitutional documents;

(3) the Founders and the Target having delivered the unaudited financial statements (including the consolidated balance sheet, income statement and cash flow statement) of the Target for the period from 31 March 2016 to the last date of the last full calendar month preceding the date on which all Conditions are fulfilled or waived ("**Effective Date**") to the Purchasers; and

(4) Vendor C and Vendor D having issued a letter of waiver in relation to the waiver of certain obligations under shareholders' agreement and capital injection agreement entered into between the Target and the Vendors to the Founders and the Target.

In accordance with the SP Agreement, the Purchasers may waive any of the Conditions above. As at the Latest Practicable Date, the Purchasers currently have no intention to waive any of the above Conditions.

If Conditions (2), (3) and (4) above have not been fulfilled (or waived by the Purchasers as stated above) by 30 July 2016, the Purchasers may choose to:

(a) waive all unfulfilled Conditions and proceed with Completion under acceptable circumstances, without prejudice to the damages and compensation to which the Purchasers entitled under the SP Agreement; or

(b) terminate the SP Agreement, without prejudice to the damages and compensation to which the Purchasers entitled under the SP Agreement; or

(c) postpone the Effective Date to a later date.

If Condition (1) above has not been fulfilled (or waived by the Purchasers as stated above) by 31 August 2016 ("**Long Stop Date**"):

(a) the Purchasers may choose to terminate the SP Agreement; or

(b) the Vendors and the Purchasers may mutually agree to postpone the Effective Date to a later date.

As at the Latest Practicable Date, save for Condition (4), none of the other Conditions have been fulfilled.

Completion

Subject to the fulfilment or waiver (as the case may be) of all the Conditions, Completion shall take place within 30 Business Days from the date of receipt of the First Payment by the Vendors.

Immediately after Completion, the Company will own 35% of the equity interest of the Target and the remaining 65% equity interest will be owned by Purchaser B, a company indirectly wholly owned by the Guarantor.

As regards the accounting treatment of the Group's investment in the Target Group, the investment would be initially recognised at cost as an associate of the Group. At the end of each reporting period, the Group would recognise the share of profit or loss of the associate under the equity method, less any impairment losses.

Other major terms

Consultancy Services Agreements

Each of the Founders should enter into a consultancy services agreement (collectively, the "**Consultancy Services Agreements**") for a duration of not less than three years with the Purchasers and the Target prior to the payment of the Founders' Consideration.

Management and appointment of officers of the Target

In order to ensure the continued stability of the business of the Target Group, following Completion, the Target will appoint Vendor A as the chief executive officer of the Target and Vendor B as the executive vice president of the Target for a duration of not less than one year.

Non-competition

During the tenure of office of Vendor A and Vendor B as the chief executive officer and executive vice president of the Target and for a period of two years after cessation of their respective employments, each of Vendor A and Vendor B has undertaken not to, in any circumstances, operate or be employed in any way which brings him into direct competition or conflict of interest with the production or adaptation of literary works into audio books, cartoons, comics, games for licensing; and provision of works of literature and reading services.

INFORMATION OF THE TARGET GROUP

The Target is a company established in the PRC with limited liability. As at the Latest Practicable Date, the Target has two wholly-owned subsidiaries, namely Beijing Heiyan and Tianjin Heiyan, both being companies established in the PRC.

The Target Group is principally engaged in incubation and operation of prime copyrights, including but not limited to, the provision of pay-to-read services on the Target's websites; and the licensing of authorisation to use and adaptation to cartoons, comics, audio works, mobile games, network drama, television drama and movies. The shareholding structure of the Target as at the Latest Practicable Date is set out in the section headed "The SP Agreement — Assets to be acquired" in the "Letter from the Board" in this circular.

Financial information of the Target Group

Set out below is the summary of the key financial information extracted from the audited consolidated financial statements of the Target for the year ended 31 December 2014, the unaudited consolidated financial statements of the Target for the year ended 31 December 2015 and the unaudited consolidated financial statements of the Target for the four months ended 30 April 2016:

	For the year ended 31 December 2014 *(audited)* *(Unit: RMB'000)*	**For the year ended 31 December 2015** *(unaudited)* *(Unit: RMB'000)*	**For the four months ended 30 April 2016** *(unaudited)* *(Unit: RMB'000)*
Turnover	22,637	58,494	24,271
Profit/(loss) before taxation	(7,139)	795	2,346
Profit/(loss) after taxation	(7,170)	795	2,346

The unaudited consolidated total asset value and unaudited consolidated net asset value of the Target as at 31 December 2015 were approximately RMB45,488,000 (equivalent to approximately HK$54,152,000) and RMB34,582,000 (equivalent to approximately HK$41,169,000) respectively.

As set out above, the turnover of the Target Group for the year ended 31 December 2014 was approximately RMB22,637,000, whereas the turnover of the Target Group for the year ended 31 December 2015 was approximately RMB58,494,000, which represents an increase of approximately 158%. The Target Group recorded a loss after taxation of approximately RMB7,170,000 in 2014 and a profit after taxation of RMB795,000 in 2015. The reason for the significant increment of the turnover and profit of the Target Group from 2014 to 2015 was mainly due to the rapid growth in revenue of the Target Group's pay-to-read services, the launch of the Target Group's copyrights business and a tax refund of approximately RMB785,000 in connection with the local tax incentive policy in 2015. The growth in revenue of the Target Group's pay-to-read services was mainly due to the growth in the number of users, paid users, average individual top-ups and daily top-ups. Further, the revenue from the Target Group's copyrights business has greatly increased from less than RMB1,000,000 in 2014 to over RMB7,000,000 in 2015 due to the increased number of works adapted or licensed for use by the Target Group in 2015.

The financial information of the Target Group above was prepared based on the accounting principles generally accepted in the PRC which do not have significant difference from International Financial Reporting Standards as currently adopted by the Group that may have a material impact on the financial information of the Group.

Valuation of the Target Group

The Valuation Report is prepared by Greater China Appraisal Limited, an independent professional valuer.

Comparable transactions

The Valuer made reference to eight comparable transactions from October 2013 to February 2016 which were the most recent transactions of which the targets to be acquired were famous online literature platforms operating in China. The Valuer has searched for all the publicly announced comparable transactions with targets similar to the Target Group.

Since the Target Group is engaged in specific industry as online literature platform and operating in China only, similar comparable transactions have to take into account the two major factors of principal business and location to ensure comparability. The online literature industry is a fast growing industry. As a fast developing and new attention seeking industry, it is not quite sensitive to the general economic movement under general market condition. Unlike other matured industries, valuation of the companies in this industry would be more specific on their project status and achievements. Thus, their principal business and locations are the major factors to be taken into account, while the year of comparable transactions is not considered as primary factor. Accordingly, a 3-year timeframe from the Valuation Date is only further applied to confine the choice of selection so that the outcome comparable sample set would be reasonably representative while sufficiently conclusive. In order to establish a set of comparable companies in sufficient numbers and quality, transactions from late 2013 to early 2016 were considered. The selection of time frame is also set to be within 3 years from the Valuation Date, with the oldest transaction occurred in October 2013. Hence, the comparable transactions selected should remain relevant to the target transaction.

After considering factors such as the principal business and operating locations, a representative list of comparable transactions is comprised in justifying the Valuation. There are some comparable transactions on the market which might also serve as reference of the Valuation; however, those transactions in the private market are with low or even no disclosed information about the transaction details. As such, the Valuer is of the view that the adopted comparable transactions are practically not exhaustive yet adequate in justifying the Valuation. Though the samples may not be exhaustive and that online literature platform transactions occurring in other places may not have been taken into account, the closest comparable transactions in China have been considered. Since the Target Group is engaged in the same business in China, the Valuer is of the view that the comparable transactions provide the most relevant views of fair value on the Target Group that the Valuer could make reference to.

Valuation metrics

Regarding the target platforms (i.e. 童石網絡 (Tongshiwangluo*) and 掌閱書城 (Zhangyueshucheng*) in four comparable transactions, the difference of the valuation levels may due to the objective facts surrounding the transactions and specific acquirer's assessment. Starting from the second half of 2015, many television dramas and games were successfully launched from which lots of profits were earned. Many original screenplays of these TV dramas and games are products from the online literature platforms including 瑯琊榜 (Langyabang*) and 太子妃升職記 (Taizifeishengzhiji*); hence investors put more attention to this industry to search for the next popular literature. The difference of valuation metrics with the same target platform could be understood as specific acquirer's assessment on potential benefit to be bought to the acquirer. As such, deals with implied valuation in relation to the same target would be found on the market, and thus result in difference of valuation levels.

With regard to nos. 6 & 7 of the transaction valuation metrics for 掌閱書城 (Zhangyueshucheng*) as set out on page I-20 of the circular, although the transactions both took place in January 2016, they were conducted on different dates in January 2016. The transactions were carried out by different acquirers: 奧飛動漫 (Aofeidongman*) and 國金投資 (Guojintouzhi*) for no. 6 transaction and 掌趣科技 (Zhangqukeji*) for no. 7 transaction, and as such the Valuer considered that both transactions reflected market participants' perception on the same target platform and did serve as reference of the Valuation. The difference in valuation of nos. 6 & 7 transactions may reflect the difference in assessments of the target by the investors despite the closeness of the transaction dates. Investors in the target may attach varying levels of importance and place dissimilar emphasis towards different attributes of the target depending on the investors' particular requirements and accordingly this may result in different implied valuations of target. No. 6 transaction involved the acquirer's direct investment into the target; yet no. 7 transaction involved a transfer of equity interest in an investment fund investing in the target at the net asset value of the investment fund. Based on publicly available information, nearly 98% of the assets of the investment fund comprises the equity interest in掌閱書城 (Zhangyueshucheng*) (precisely 10% in 掌閱書城 (Zhangyueshucheng*)). As the valuation metric was calculated by reference to the transfer price of the investment fund's stake between different holders of the fund, such transfer price of the investment fund's stake was accordingly applied to determine the implied valuation of the underlying target held by the investment fund. As the both transactions were considered reasonably relevant to serve as comparable transactions by nature, the Valuer considered their metrics appropriate in the Valuation.

As regards nos. 4 & 8 of the transaction valuation metrics for 童石網絡 (Tongshiwangluo*) as set out on page I-20 of the circular, the transactions occurred on different reference dates, and they were representing different rounds of equity investment into the target: No. 4 transaction belonged to the 2nd round equity investment and no. 8 transaction was the 3rd round equity investment. Investors were drawn to this fast growing industry of online literature by end of 2015 as a result of successful launch of online literature products in TV drama and movie in 2015. Therefore, the 3rd round equity investment in 2016 would likely incorporate acquirers' latest assessment of the revenue generating ability of the target. As mentioned above, the online literature industry is a fast growing industry, the value of companies depends on the status of their projects, thus, it is not unreasonable to consider both transactions as relevant references in the Valuation. The comparable transactions were recorded transactions with similarities as Target Group, thus they are considered valid for comparison in the Valuation.

Outliers

Other than the principal business and operating locations, there are also other factors affecting the deal amount of comparable transactions, for example, the growth stage of the platform, the literature products held, the number of platform users, the effect of variation in multiple factors may result in wide range of valuation levels. In order to remove the effect of outliers which may result in distortion in valuation result, the outliers in both valuation metrics are excluded. The outliers are observation points that are considered distant from other observations in the distribution. There is no clear-cut definition for determining outliers but the gradually accepted practice would consider outliers as the most distant observations (extreme numbers, no matter high or low) that result in sample skewness. The elimination of outliers is a practice of valuation adjustment so that a more robust conclusion of fair value could be obtained.

Valuation

The fair value of 35% equity interest in the Target as at 30 April 2016 as stated in the Valuation Report was arrived at based on analysis of various factors, including (i) the financial data of the Target Group; (ii) the market overview of China's online literature market; and (iii) the economic overview of China. The Valuation is also subject to general assumptions and determination of valuation metrics. The market approach using the Guideline Merger and Acquisition Method was applied for the preparation of the Valuation Report.

Based on analysis of the above and the valuation method employed, the fair value of 35% equity interest in the Target as at 30 April 2016 was determined by the Valuer to be equivalent to RMB194,000,000. Please refer to Appendix I to this circular for further details.

REASONS FOR AND BENEFITS OF THE ACQUISITION

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 Group has been endeavouring to strengthen the layout for prime copyrights. The Group intends to capture the increased demand in both the mobile games and mobile music markets by means of upstream or downstream strategic expansion of the industry chain such as mobile game developer, mobile game related copyright content developer/platform, music content developer/platform, online publishing channel and other cultural and entertainment platform, etc.

The Target Group is principally engaged in incubation and operation of prime copyrights, including but not limited to the provision of pay-to-read services on the Target's websites; and the licensing of authorisation to use and adaptation to cartoons, comics, audio works, mobile games, network drama, television drama and movies.

The Target principally operates three online literature platforms, namely "Hei Yan" (黑岩), "Ruo Chu" (若初) and "Ruo Xia" (若夏). The Target Group has access to over 5,000 quality copyrights relating to network literature through signing copyright licence agreements or copyright transfer agreements with the respective copyright holders. The common duration for the licence to use the copyrights pursuant to such agreements is 10 years. The Target Group has access to certain prime copyrights. Among them, three works, namely 誰與爭鋒 (Shuiyuzhengfeng*), 劫天運 (Jietianyun*) and 獸血沸騰 (Shouxuefeiteng*), have already accumulated readerships of over 10 million, ten works, namely 陰陽代理人 (Yinyangdailiren*), 苗疆道事 (Miaojiangdaoshi*), 麻衣神算子 (Mayishensuanzi*), 捉蠱記 (Zhuoguji*), 佛牌 (Fupai*), 王者榮耀 (Wangzherongyao*), 靈車 (Lingche*), 地鐵詭事 (Ditieguishi*), 剃頭匠 (Titoujiang*) and 信仰 (Xinyang*), have already accumulated readerships of over 1 million and numerous works have already been adapted into television drama. The Target Group has authorised 空中影業 (KongZhong Galaxy) to use the copyright for 陰陽代理人 (Yinyangdailiren*) and it is expected that a film and network drama based on 陰陽代理人 (Yinyangdailiren*) will be released in 2017 and the second half of 2017 respectively. The Target Group has authorised 愛奇藝 (iQIYI) to use the television and gaming copyrights for 苗疆道事 (Miaojiangdaoshi*) and it is expected that a film and network drama based on 苗疆道事 (Miaojiangdaoshi*) will be released in 2017. The works 捉蠱記 (Zhuoguji*), 陰陽代理人 (Yinyangdailiren*), 苗疆道事 (Miaojiangdaoshi*) and 麻衣神算子 (Mayishensuanzi*) have a Baidu Index of 50,000 to 150,000 and rank in the top 50 of the Baidu fiction charts. The Target Group has access to a large number of copyrights and the continual addition of new copyrights and copyright operation would allow plenty of room for growth.

Set out below is the summary of business statistics of the Target Group for the years ended 31 December 2014 and 2015 and for the six months ended 30 June 2016:

	No. of copyrighted works uploaded by the Target Group	**No. of copyrighted works signed by/ licensed to the Target Group**	**No. of copyrights adapted/ authorised for use by the Target Group**
For the year ended 31 December 2014	19,877	2,213	508
For the year ended 31 December 2015	22,563	2,478	1,623
For the six months ended 30 June 2016	12,748	1,040	2,321

The Target Group plans to implement (i) the broadcasting of 3 to 5 of its copyrighted works simultaneously through the internet and television in the PRC by co-operating or negotiating with various television channels and network television channels; and (ii) the adaptation of 10 to 15 of its copyrighted works into network drama or network television.

The Target Group will continue to strengthen the incubation of its copyright content and expand in the direction of new copyrighted works which target younger customers. It is estimated that during the second half of 2016, the number of copyrighted works signed by/licensed to the Target Group will increase to approximately 2,000 copyrighted works, resulting in a total of approximately 3,000 copyrighted works for 2016. The expected increase in the number of copyrighted works proposed to be signed by/licensed to the Target Group in the second half of 2016 compared to the first half of 2016 would be achieved through expanding into other categories/domains of copyrighted works.

The Target Group principally operates three online literature platforms, namely "Hei Yan" (黑岩), "Ruo Chu" (若初) and "Ruo Xia" (若夏), each of which is also a mobile app. The Target Group will also continue to strengthen its online literature platforms through optimisation and strengthening operations in order to improve the ability of the platforms to generate revenue and gather fan loyalty. The Target Group also plans to accelerate optimisation of mobile apps, and would endeavour to increase the level of end mobile usage to over 90% from the current level of approximately 70%. The Target Group plans to introduce a 'gaming mentality' to the operation of its products and through such 'gaming mentality', retain and strengthen the interaction between the creators of the intellectual property and the fans. A new platform named "少年 dream (Shaonian dream*)" which targets younger customers is expected to be launched in July 2016. The new platform would also have its own mobile app.

The Acquisition is in line with the Group's strategic layout for prime copyrights. Popular online literature works accumulate large numbers of fans through the internet. This shows the value of copyrights relating to online literature and the vast potential for growth and the crossover of online literature works into other areas of multimedia such as films, television drama, and games.

The Directors expect that the Acquisition would assist in the mobile games publishing business of the Group. Considering that large numbers of copyrights accessible to the Target Group are suitable for adaptation into games, the mobile games publishing business of the Group would benefit from the Acquisition as it would result in the Group being able to gain access to more content resources through the cooperation between it and the Target Group.

The Acquisition is expected to bring the Group financial returns. The Target Group already enjoys stable income through pay-to-read services, and in the wake of the growth in the copyright market, the Company expects that potential growth in the development and operation of copyrights (such as licensing of authorisation to use and adaptation to movies, television drama and games) would be huge.

The Directors are of the view that the Acquisition is in line with the Group's strategic layout for prime copyrights and would assist in the mobile games publishing business of the Group; it would also bring the Group financial returns and will be beneficial to the long term development of the Group.

On the above basis, the terms of the SP Agreement (including the Consideration) were determined after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) are of the view that the terms of the SP Agreement (including the Consideration) are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders as a whole are concerned, and the Acquisition is in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

Discloseable transaction

As certain of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition are more than 5% and all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction for the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. The Announcement was published in compliance with such requirement.

Connected transaction

As at the Latest Practicable Date, Purchaser B was indirectly wholly owned by the Guarantor, who is the Chairman of the Board and an executive Director. Purchaser B is an associate of the Guarantor and therefore a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Immediately after Completion, the Target will be owned as to 35% by the Group and 65% by Purchaser B. As a result of the Acquisition, the Group and Purchaser B will form a joint venture company and accordingly, the Acquisition also constitutes a connected transaction for the Company, and is subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Guarantor and his associates will be required to abstain from voting on the resolution(s) approving the SP Agreement and the transactions contemplated thereunder at the EGM.

The Company will seek the Independent Shareholders' approval for the Acquisition at the EGM.

The Guarantor, being the Chairman of the Board and an executive Director, indirectly owns the entire equity interest of Purchaser B and is its sole director, and is considered to have a material interest in the Acquisition. As such, the Guarantor had abstained from voting at the meeting of the Board approving the SP Agreement and the transactions contemplated thereunder.

EGM

A notice convening the EGM to be held at 10:30 a.m. on Friday, 12 August 2016 at 23/F, A8 Music Building, No. 1002 Keyuan Road, Hi-tech Park, Nanshan District, Shenzhen, the PRC, at which an ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, approve the SP Agreement and the transactions contemplated thereunder, is set out from pages EGM-1 to EGM-2 of this circular.

As at the Latest Practicable Date, the Guarantor and parties acting in concert with him were interested in 617,713,398 Shares, representing approximately 33.66% of the issued share capital of the Company. The Guarantor is considered to have a material interest in the

Acquisition by virtue of his interests in Purchaser B and he and his associates who are Shareholders will be required to abstain from voting on the resolution approving the SP Agreement and the transactions contemplated thereunder at the EGM. Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the SP Agreement and the transactions contemplated thereunder and therefore no other Shareholder is required to abstain from voting at the EGM.

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 accompanying 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 Limited, at Shops 1712–1716, 17/F, 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 ordinary resolution 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.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 21 of this circular which contains its recommendation to the Independent Shareholders in respect of the SP Agreement and transactions contemplated thereunder and the letter from Gram Capital set out on pages 22 to 34 of this circular which contains its independent financial advice to the Independent Board Committee and the Independent Shareholders in respect of the SP Agreement and transactions contemplated thereunder.

The Directors (including the independent non-executive Directors) consider that the terms of the SP Agreement are on normal commercial terms, 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. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the SP Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

On behalf of the Board
A8 New Media Group Limited
Liu Xiaosong
Chairman and Executive Director

The following is the text of a letter of advice from the Independent Board Committee setting out its recommendation to the Independent Shareholders for the purpose of inclusion in this circular.

A8新媒体集团
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)

27 July 2016

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST OF THE TARGET

We refer to the circular of the Company dated 27 July 2016 (the "**Circular**") of which this letter forms part.

Capitalised terms used in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to advise you in connection with the SP Agreement and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" in the Circular.

We wish to draw your attention to the "Letter from the Board", as set out on pages 6 to 20 of the Circular, and the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders, as set out on pages 22 to 34 of the Circular. Although the SP Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, having considered the terms of the SP Agreement, and the advice of Gram Capital and the principal factors and reasons taken into consideration by Gram Capital in arriving at its advice, we are of the opinion that the terms of the SP Agreement (including the Consideration) and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole as far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the SP Agreement and the transactions contemplated thereunder.

Yours faithfully
Independent Board Committee

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

Independent non-executive Directors

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

27 July 2016

To: The independent board committee and the independent shareholders of
A8 New Media Group Limited

Dear Sirs,

DISCLOSEABLE TRANSACTION
AND
CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 27 July 2016 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 13 May 2016, the Purchasers, the Vendors, the Guarantor and the Target entered into the Original SP Agreement pursuant to which the Purchasers have conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, the entire equity interest of the Target in aggregate (as at the date of the Original SP Agreement and as at Completion) at the aggregate consideration of RMB550 million in cash. On 22 July 2016, the Purchasers, the Vendors, the Guarantor and the Target entered into the Supplemental SP Agreement to extend the original Long Stop Date of 30 July 2016 to 31 August 2016.

With reference to the Board Letter, the Acquisition constitutes a discloseable transaction for the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, Purchaser B was indirectly wholly owned by the Guarantor, being the Chairman of the Board and an executive Director. Purchaser B is an associate of the Guarantor and therefore a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Immediately after Completion, the Target will be owned as to 35% by the Group and 65% by Purchaser B. As a result of the Acquisition, the Group and Purchaser B will form a joint venture company and accordingly, the Acquisition also constitutes a connected transaction for the Company, and is subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Li Feng, has been established to advise the Independent Shareholders on (i) whether the terms of the SP Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the SP Agreement and the transactions contemplated thereunder at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

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 or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Acquisition. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group, the Target or its subsidiary, and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report of the Target (the "**Valuation Report**"), the summary of which is set out in Appendix I to the Circular. The Valuation Report was prepared by Greater China Appraisal Limited (the "**Valuer**"). Since we are not experts in the valuation of land, properties and/or business, we have relied upon the Valuation Report for the fair value of the 35% of the equity interest of the Target as at 30 April 2016 (the "**Valuation**").

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the 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 in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Purchasers, the Vendors, the Guarantor, the Target or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. 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. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, 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.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of and reasons for the Acquisition

Business overview of the Group

With reference to the Board Letter, 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 Group has been endeavouring to strengthen the layout for prime copyrights. The Group intends to capture the increased demand in both the mobile games and mobile music markets by means of upstream or downstream strategic expansion of the industry chain such as mobile game developer, mobile game related copyright content developer/platform, music content developer/platform, online publishing channel and other cultural and entertainment platform, etc.

Set out below are the financial information of the Group for the two years ended 31 December 2015 as extracted from the annual report of the Company for the year ended 31 December 2015 (the "**2015 Annual Report**"):

	For the year ended 31 December 2015	For the year ended 31 December 2014	Change from 2014 to 2015
	RMB'000	*RMB'000*	%
	(audited)	(audited)	
Revenue, net of business tax	145,578	229,738	(36.63)
– Game-related revenue	79,401	133,736	(40.63)
– Music-based entertainment	16,583	71,881	(76.93)
– Rental and management fee income	52,371	26,268	99.37
Profit for the year	21,675	9,653	124.54

As illustrated by the above table, the Group recorded revenue of approximately RMB145.58 million, representing a decrease of approximately 36.63% in revenue for the year ended 31 December 2015 ("**FY2015**") as compared to the year ended 31 December 2014 ("**FY2014**"). With reference to the 2015 Annual Report and as confirmed by the Directors, the decrease resulted from the shrinking of the traditional wireless music-based entertainment services following the strategic transformation of the Company to dispose certain traditional wireless value-added business, and the delay in launching several mobile games which resulted in lower than expected performance of the mobile game publishing business.

Despite the decrease in the Group's revenue for FY2015, the Group's profit for FY2015 increased by approximately 124.54% as compared to FY2014. With reference to the 2015 Annual Report, such increase in profit was mainly due to the gain on redemption of the First Tranche Convertible Notes of Duomi Music Holding Limited held by the Group during the year amounted to approximately RMB53.70 million.

According to the 2015 Annual Report, the Company will continue to build the music-based entertainment industry chain and prime game publishing platform, and at the same time to strengthen the layout of upstream and downstream in the copyrights industry chain, as well as to seek the incubation and operations of copyrights.

Information on the Target Group

With reference to the Board Letter, the Target is a company established in the PRC with limited liability. As at the Latest Practicable Date, the Target has two wholly-owned subsidiaries, namely Beijing Heiyan and Tianjin Heiyan, both being companies established in the PRC.

The Target Group is principally engaged in incubation and operation of prime copyrights, including but not limited to, the provision of pay-to-read services on the Target's websites; and the licensing of authorisation to use and adaptation to cartoons, comics, audio works, mobile games, network drama, television drama and movies.

The Target principally operates three online literature platforms, namely "Hei Yan" (黑岩), "Ruo Chu" (若初) and "Ruo Xia" (若夏). The Target Group has access to over 5,000 quality copyrights relating to network literature through signing copyright licence agreements or copyright transfer agreements with the respective copyright holders. The common duration for the licence to use the copyrights pursuant to such agreements is 10 years. The Target Group has access to certain prime copyrights. Among them, three works, namely 誰與爭鋒 (Shuiyuzhengfeng*), 劫天運 (Jietianyun*) and 獸血沸騰 (Shouxuefeiteng*), have already accumulated readerships of over 10 million, ten works, namely 陰陽代理人 (Yinyangdailiren*), 苗疆道事 (Miaojiangdaoshi*), 麻衣神算子 (Mayishensuanzi*), 捉蠱記 (Zhuoguji*), 佛牌 (Fupai*), 王者榮耀 (Wangzherongyao*), 靈車 (Lingche*), 地鐵詭事 (Ditieguishi*), 剃頭匠 (Titoujiang*) and 信仰 (Xinyang*), have already accumulated readerships of over 1 million and numerous works have already been adapted into television drama. The Target Group has authorised 空中影業 (KongZhong Galaxy) to use the copyright for 陰陽代理人 (Yinyangdailiren*) and it is expected that a film and network drama based on 陰陽代理人 (Yinyangdailiren*) will be released in 2017 and the second half of 2017 respectively. The Target Group has authorised 愛奇藝 (iQIYI) to use the television and gaming copyrights for 苗疆道事 (Miaojiangdaoshi*) and it is expected that a film and network drama based on 苗疆道事 (Miaojiangdaoshi*) will be released in 2017. The works 捉蠱記 (Zhuoguji*), 陰陽代理人 (Yinyangdailiren*), 苗疆道事 (Miaojiangdaoshi*) and 麻衣神算子 (Mayishensuanzi*) have a Baidu Index of 50,000 to 150,000 and rank in the top 50 of the Baidu fiction charts. The Target Group has access to a large number of copyrights and the continual addition of new copyrights and copyright operation would allow plenty of room for growth.

Set out below is the summary of business statistics of the Target Group for the years ended 31 December 2014 and 2015 and for the six months ended 30 June 2016:

	No. of copyrighted works uploaded by the Target Group	**No. of copyrighted works signed by/ licensed to the Target Group**	**No. of copyrights adapted/ authorised for use by the Target Group**
For the year ended 31 December 2014	19,877	2,213	508
For the year ended 31 December 2015	22,563	2,478	1,623
For the six months ended 30 June 2016	12,748	1,040	2,321

The Target Group plans to implement (i) the broadcasting of 3 to 5 of its copyrighted works simultaneously through the internet and television in the PRC by co-operating or negotiating with various television channels and network television channels; and (ii) the adaptation of 10 to 15 of its copyrighted works into network drama or network television.

The Target Group will continue to strengthen the incubation of its copyright content and expand in the direction of new copyrighted works which target younger customers. It is estimated that during the second half of 2016, the number of copyrighted works signed by/licensed to the Target Group will increase to approximately 2,000 copyrighted works, resulting in a total of approximately 3,000 copyrighted works for 2016. The expected increase in the number of copyrighted works proposed to be signed by/licensed to the Target Group in the second half of 2016 compared to the first half of 2016 would be achieved through expanding into other categories/domains of copyrighted works.

The Target Group principally operates three online literature platforms, namely "Hei Yan" (黑岩), "Ruo Chu" (若初) and "Ruo Xia" (若夏), each of which is also a mobile app. The Target Group will also continue to strengthen its online literature platforms through optimisation and strengthening operations in order to improve the ability of the platforms to generate revenue and gather fan loyalty. The Target Group also plans to accelerate optimisation of mobile apps, and would endeavour to increase the level of end mobile usage to over 90% from the current level of approximately 70%. The Target Group plans to introduce a 'gaming mentality' to the operation of its products and through such 'gaming mentality', retain and strengthen the interaction between the creators of the intellectual property and the fans. A new platform named "少年 dream (Shaonian dream*)" which targets younger customers is expected to be launched in July 2016. The new platform would also have its own mobile app.

Set out below is the summary of the key financial information extracted from the audited consolidated financial statements of the Target for the year ended 31 December 2014, the unaudited consolidated financial statements of the Target for the year ended and 31 December 2015 and the unaudited consolidated financial statements of the Target for the four months ended 30 April 2016:

	For the four months ended 30 April 2016 (unaudited) *RMB'000*	**For the year ended 31 December 2015** (unaudited) *RMB'000*	**For the year ended 31 December 2014** (audited) *RMB'000*
Turnover	24,271	58,494	22,637
Profit/(loss) before taxation	2,346	795	(7,139)
Profit/(loss) after taxation	2,346	795	(7,170)

The unaudited consolidated total asset value and unaudited consolidated net asset value of the Target as at 31 December 2015 were approximately RMB45,488,000 (equivalent to approximately HK$54,152,000) and RMB34,582,000 (equivalent to approximately HK$41,169,000) respectively.

The Target recorded turnover and loss after taxation of approximately RMB22.64 million and approximately RMB7.17 million for FY2014. For FY2015, the Target recorded turnover of approximately RMB58.49 million, representing an increase of approximately 158.40% as compared to FY2014. For FY2015, the Target made a turnaround in its loss position and recorded profit after taxation of approximately RMB0.8 million.

With reference to the Board Letter and advised by the Directors, the aforesaid improvement was mainly due to the increase in turnover from the pay-to-read services, the commencement of the copyrights operation business and a tax refund of approximately RMB785,000 in connection with the local tax incentive policy in 2015. With respect to the pay-to-read services, the growth was due to the growth in number of corporate users, paid users, average recharge amount and daily recharge amount. With respect to the copyrights operation business, the content of works incubated at the Target's platform has become more mature in FY2015. The turnover of the copyrights operation business grew from below RMB1 million in FY2014 to over RMB7 million in FY2015.

Reasons for and benefits of the Acquisition

With reference to the Board Letter, 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 Group has been endeavouring to strengthen the layout for prime copyrights. The Group intends to capture the increased demand in both the mobile games and mobile music markets by means of upstream or downstream strategic expansion of the industry chain such as mobile game developer, mobile game related copyright content developer/platform, music content developer/platform, online publishing channel and other cultural and entertainment platform, etc.

The Acquisition is in line with the Group's strategic layout for prime copyrights. Popular online literature works accumulate large numbers of fans through the internet. This shows the value of copyrights relating to online literature and the vast potential for growth and the crossover of online literature works into other areas of multimedia such as films, television drama, and games.

The Directors expect that the Acquisition would assist in the mobile games publishing business of the Group. Considering that large numbers of copyrights accessible to the Target Group are suitable for adaptation into games, the mobile games publishing business of the Group would benefit from the Acquisition as it would result in the Group being able to gain access to more content resources through the cooperation between it and the Target Group. The Acquisition is expected to bring the Group financial returns. The Target Group already enjoys stable income through pay-to-read services, and in the wake of the growth in the copyright market, the Company expects that potential growth in the development and operation of copyrights (such as licensing of authorisation to use and adaptation to movies, television drama and games) would be huge.

The Directors are of the view that the Acquisition is in line with the Group's strategic layout for prime copyrights and would assist in the mobile games publishing business of the Group; it would also bring the Group financial returns and will be beneficial to the long term development of the Group.

In view of the foregoing potential benefits of the Acquisition and that the Acquisition is in line with the Group's strategy, we concur with the Directors that the Acquisition is on normal commercial terms, in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the SP Agreement

On 13 May 2016, the Purchasers, the Vendors, the Guarantor and the Target entered into the Original SP Agreement pursuant to which the Purchasers have conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, the entire equity interest of the Target in aggregate (as at the date of the Original SP Agreement and as at Completion) at the aggregate consideration of RMB550 million in cash. On 22 July 2016, the Purchasers, the Vendors, the Guarantor and the Target entered into the Supplemental SP Agreement to extend the original Long Stop Date of 30 July 2016 to 31 August 2016. Set out below are the principal terms of the SP Agreement. Other terms are set out in the section headed "The SP Agreement" of the Board Letter.

Date

13 May 2016 (for the Original SP Agreement)

22 July 2016 (for the Supplemental SP Agreement)

Parties

Purchaser A which is an indirect wholly-owned subsidiary of the Company; Purchaser B; the Vendors; the Guarantor; and the Target.

The Guarantor joined as a party to the SP Agreement to guarantee the performance and observance by Purchaser B of its payment and other obligations and responsibilities under the SP Agreement.

Assets to be acquired

In accordance with the terms and conditions of the SP Agreement, Purchaser A and Purchaser B have conditionally agreed to acquire 35% and 65% of the equity interest of the Target respectively as at the date of the Original SP Agreement and as at Completion, free from all encumbrances and third party rights, from the Vendors in the Selling Proportion as follows:

Name of the Vendors	Approximate % of the equity interest of the Target held and to be sold by each Vendor
Vendor A	43.94%
Vendor B	11.74%
Vendor C	24.32%
Vendor D	20.00%
Total:	**100.00%**

Consideration and Payment of the Consideration

The total consideration for the acquisition of the entire equity interest of the Target by the Purchasers is RMB550 million (equivalent to approximately HK$654,762,000) which comprises two parts:

1) RMB500 million (equivalent to approximately HK$595,238,000) as Basic Consideration, which shall be payable in cash by Purchaser A as to 35% (i.e. RMB175 million (equivalent to approximately HK$208,333,000)) and Purchaser B as to 65% (i.e. RMB325 million (equivalent to approximately HK$386,905,000)) to the Vendors (or to their order); and

   The amount of the Basic Consideration to be received by each of the Vendors under the SP Agreement shall be calculated by multiplying the total amount of the Basic Consideration by the Selling Proportion which relates to the relevant Vendor.

2) RMB50 million (equivalent to approximately HK$59,524,000) as Founders' Consideration, which shall be payable in cash by Purchaser A as to 35% (i.e. RMB17.5 million (equivalent to approximately HK$20,833,000)) and Purchaser B as to 65% (i.e. RMB32.5 million (equivalent to approximately HK$38,690,000)) to the Founders (or collectively to their order).

The Consideration for the Acquisition payable by Purchaser A is RMB192.5 million (equivalent to approximately HK$229,167,000), comprising the Relevant Basic Consideration of RMB175 million (equivalent to approximately HK$208,333,000) and the Relevant Founders' Consideration of RMB17.5 million (equivalent to approximately HK$20,833,000).

With reference to the Board Letter and as confirmed by the Directors, the Consideration is determined by the Group and the Vendors after arm's length negotiations with reference to, among other factors, (i) publicly available information in relation to recent acquisitions of companies engaging in businesses similar to the Target Group; (ii) the copyrights accessible by the Target Group which is in line with the layout for prime copyrights of the Group as detailed in the section headed "Reasons for and benefits of the Acquisition"; (iii) the business prospects of the Target Group; and (iv) the preliminary valuation of the fair value of 35% equity interest in the Target as at 30 April 2016 of RMB194,000,000 as appraised by the Valuer. The Consideration will be funded by internal resources of the Group.

As regards the comparable acquisitions of companies that were referred to by the Group and the Vendors, 8 completed transactions in the PRC from October 2013 to February 2016, all of which were network literature platforms transactions, were selected as comparable transactions to serve as reference in determining the Consideration for the Acquisition. The comparable transactions involved the purchase of the company or investment fund holding company operating a literature platform by certain acquirers, most of which are listed companies.

According to the Valuation Report, the Valuation amounted to RMB194,000,000 as at 30 April 2016. The Consideration represents a discount of approximately 0.77% to the Valuation.

The Valuation Report was prepared by the Valuer using market approach. We have also enquired into the Valuer on the methodology adopted and the basis and assumptions adopted in arriving at the Valuation in order for us to understand the Valuation Report. As confirmed by the Valuer, the market approach is one of the commonly adopted approaches for valuation of companies and is also consistent with normal market practice. Moreover, we have interviewed the Valuer as to its qualifications, expertise and independence to the Company, the Target, Purchasers, Vendors, Guarantor and their respective connected persons and reviewed their terms of engagement.

Major assumptions and inputs used in the Valuation includes:

(i) The assumptions as set out under the section headed "General assumptions" of the Valuation Report.

(ii) The comparable transactions (the "**Comparable Transactions**") as set out under the section headed "Selection of Guideline Merger and Acquisition Transactions" of the Valuation Report.

As advised by the Valuer, the Comparable Transactions were the most recent transactions under which the famous online literature platforms operating in the PRC were acquired. The Valuer has searched for all the publicly announced comparable transactions with targets similar to the Target Group.

As further advised by the Valuer, since the Target is engaged in specific industry as online literature platform and operating in the PRC only, similar comparable transactions have to take into account these two major factors (principal business and location) to ensure comparability. The online literature industry is a fast growing industry. As a fast developing and new attention seeking industry, it is not quite sensitive to the general economic movement under general market condition. Unlike other matured industries, valuation of the companies in this industry would be more specific on their status of their projects and achievements. Thus, their principal business and locations are the major factors to be taken into account, while the year of comparable transactions is not considered as a primary factor. Accordingly, a 3-year timeframe from the Valuation Date is only further applied to confine the choice of selection so that the outcome comparable sample set would be reasonably representative while sufficiently conclusive. In order to establish a set of comparable companies in sufficient numbers and quality, transactions from late 2013 to early 2016 were considered. The selection of time frame is also set to be within 3 years from the Valuation Date, with the oldest transaction occurred in October 2013. Hence, the Comparable Transactions selected should remain relevant to the target transaction.

After considering factors such as the principal business and operating locations, a representative list of Comparable Transactions is comprised in justifying the Valuation. There are some comparable transactions on the market which might also serve as references of the Valuation; however, those transactions in the private market are with low or even no disclosed information about the transaction details. As such, the Valuer is of the view that the adopted Comparable Transactions are practically not exhaustive yet adequate in justifying the Valuation. Though the samples may not be exhaustive and that online literature platform transactions occurring in other places may not have been taken into account, the closest comparable transactions in the PRC have been considered. Since the Target Group is engaged in the same business in the PRC, the Valuer is of the view that the Comparable Transactions provide the most relevant views of fair value on the Target Group that the Valuer could make reference to.

The Valuer also confirmed that other than the principal business and operating locations, there are also other factors affecting the deal amount of comparable transactions, for example, the growth stage of the platform, the literature products held, the number of platform users, the effect of variation in multiple factors may result in wide range of valuation levels. In order to remove the effect of outliers which may result in distortion in valuation result, the outliers in both valuation metrics are excluded. The outliers are observation points that are considered distant from other observations in the distribution. There is no clear-cut definition for determining outliers but the gradually accepted practice would consider outliers as the most distant observations (extreme numbers, no matter high or low) that result in sample skewness. The elimination of outliers is a practice of valuation adjustment so that a more robust conclusion of fair value could be obtained.

(iii) The revenue and number of daily active users of the subject of under the Comparable Transactions.

(iv) The revenue and number of daily active users of the Target Group.

(v) The valuation metrics of the Comparable Transactions. As advised by the Valuer, the difference of the valuation levels of the same target platform may due to the objective facts surrounding the transactions and specific acquirer's assessment. The difference of valuation metrics with the same target platform could be understood as specific acquirer's assessment on potential benefit to be bought to the acquirer. As such, deals with implied valuation in relation to the same target but different acquirers would be found on the market, and thus result in difference of valuation levels. The Comparable Transactions were recorded transactions with similarities as Target Group, thus they are considered valid for comparison in the Valuation. Detailed explanation on the valuation metrics is set out under the sub-section headed "Valuation of the Target Group — Valuation metrics" of the Board Letter.

The Valuation Report is set out in Appendix I to the Circular. During our discussion with the Valuer, we have not identified any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions and inputs adopted for the Valuation. However, Shareholders should note that valuation of assets or companies usually involves assumptions and therefore the Valuation may or may not reflect the value of 35% equity interest of the Target as at 30 April 2016 accurately.

Having considered that the Consideration represents a discount of approximately 0.77% to the Valuation, we are of the opinion that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Other major terms

Other major terms such as the Consultancy Services Agreements to be entered into by the Founders, the management and appointment of officers of the Target and clause of non-competition are set out under the section headed "Other major terms" of the Board Letter. We consider that such terms can ensure sufficient management and expertise to manage the Target Group and safeguard the interest of the Company in the Target Group.

Taking into account the principal terms of the SP Agreement as discussed above, we consider that the terms of the SP Agreement are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

3. Possible financial effects of the Acquisition

As confirmed by the Directors, upon Completion, the Target will become an associated corporation of the Company.

Effect on net asset value

Based on the 2015 Annual Report, the audited consolidated net asset value ("**NAV**") of the Group was approximately RMB1.05 billion as at 31 December 2015. As confirmed by the Directors, the Acquisition would have no material impact on the NAV of the Group.

Effect on profit or loss

With reference to the Board Letter, at the end of each reporting period, the Group would recognise the share of profit or loss of the associate under the equity method, less any impairment losses.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon Completion.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the SP Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Acquisition is not conducted in the ordinary and usual course of business of the Company, the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the SP Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

The following is the text of letter and valuation report prepared for the purpose of incorporation in this circular received from Greater China Appraisal Limited, an independent valuer, in connection with its valuation of the equity interest in the Target Group as at the Valuation Date.

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

Our Ref: GA040/142732/MKPT **FIN1605107**

27 July 2016

Board of Directors
A8 New Media Group Limited
23/F, A8 New Music Building
No. 1002 Keyuan Road
Hi-tech Park, Nanshan District
Shenzhen, Guangdong Province
The PRC

Dear Sirs/Madams,

Valuation of 35% Equity Interest in
北京掌文信息技術有限公司及附屬公司
(Beijing Jiangwen Information Technology Company Limited and its subsidiaries)

In accordance with the instructions from A8 New Media Group Limited (the "Company"), we were engaged to assist you in the analysis pertaining to the fair value of 35% equity interest (the "Equity Interest") in 北京掌文信息技術有限公司 (Beijing Jiangwen Information Technology Company Limited), a company incorporated in the People's Republic of China (the "Target Company") and its subsidiaries (collectively referred to as the "Target Group") as at 30 April 2016 (the "Valuation Date"). It is our understanding that our analysis will be used by the management of the Company in their determination of the fair value of the Equity Interest solely for transaction reference only and form part of the circular of the Company dated 27 July 2016. The Target Company in this report is referred to as Target in the circular. Our analysis was conducted for the above purpose only and this report should be used for no other purpose without our express written consent. Our work was performed subject to the limiting conditions and general service conditions described in this report. The standard of value is fair value; whilst the premise of value is going concern.

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our valuation.

I. PURPOSE OF ENGAGEMENT

The purpose of this particular engagement is for transaction reference only.

II. SCOPE OF SERVICES

We were engaged by the management of the Company to assist in their determination of the fair value of the Equity Interest in the Target Group as at the Valuation Date.

III. BASIS OF VALUATION

We have performed the valuation on the basis of fair value which is defined as *"the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties"*.

Our valuation has been prepared in accordance with the International Valuation Standards (2013 Edition) on business valuation published by International Valuation Standards Council. This standard contains guideline on the basis and valuation approaches used in business valuation.

IV. PREMISE OF VALUE

Premise of value relates to the concept of valuing a subject in the manner in which it would generate the greatest return to the owner of the property, taking account of what is physically possible, financially feasible, and legally permissible. Premises of value include the following:

1. **Going concern:** appropriate when a business is expected to continue operating without the intention or threat of liquidation in the foreseeable future;

2. **Orderly liquidation:** appropriate for a business that is clearly going to cease operations in the near future and is allowed sufficient time to sell its assets in the open market;

3. **Forced liquidation:** appropriate when time or other constraints do not allow an orderly liquidation; and

4. **Assembled group of assets:** appropriate when all assets of a business are sold in the market piecemeal instead of selling the entire business.

This valuation is prepared on a going concern basis.

V. LEVEL OF VALUE

Current valuation theories suggest that there are at least three basic "levels" of value applicable to a business or business interest. The levels of value are respectively:

1. **Controlling interest:** the value of the controlling interest, always evaluate an enterprise as a whole;

2. **As if freely tradable minority interest:** the value of a minority interest, lacking control, but enjoying the benefit of market liquidity; and

3. **Non-marketable minority interest:** the value of a minority interest, lacking both control and market liquidity.

This valuation was prepared and adjusted on a non-marketable minority interest basis.

VI. SOURCES OF INFORMATION

Our analysis and conclusion of opinion of value were based on our discussions with the management of the Company, as well as reviews of key documents and records, including but not limited to:

1. Management accounts of the Target Group for the period from 1 January 2016 to 30 April 2016;

2. Segmental revenue of the Target Group for the period from 1 January 2015 to 30 April 2016;

3. Operating data of the Target Group for the period from 1 March 2014 to 30 April 2016;

4. The Target Group's online literature platforms, namely "Hei Yan", "Ruo Chu" and "Ruo Xia";

5. Disclosed company filings, circulars and announcement documents on websites of Shenzhen Stock exchange, Shanghai Stock exchange and EDGAR of US SEC; and

6. Publicly announced private transactions from online data sources.

We also relied upon publicly available information from sources on capital markets, including industry reports, and various databases of publicly traded companies and the news.

VII. ECONOMIC OVERVIEW

In conjunction with the preparation of this valuation, we have reviewed and analysed the current economic conditions of China where the profit of the Target Group is derived, and how the valuation may be impacted.

7.1 Nominal GDP Growth in China

In the period of 12th Five-year plan (2011-2015), the status of economic development has been altered from rapid growth to medium-high speed growth. It can be observed that the real gross domestic products ("GDP") has been stabilised at around 7% from 2012 onwards, whereas the inflation has remained moderate around 2%. The slowdown of the economic expansion was not a turning signal of economic downturn, but in fact it was matched with the expectation of Chinese government. Upon the inauguration of Chinese President Mr Xi Jinping and the new government officials in 2013, the core of economic policy has shifted from focusing on short-term stimulus to no stimulus, deleveraging and structural reform on the national economy. Premier Mr Li Ke Qiang has expressed his administration's policies, named as "Likonomics", on the future direction of Chinese economy. In the nutshell, it represents short-term pain in return for a long term gain in the economy.

<Table 7–1a> Real GDP Annual Growth Rate and Inflation of China

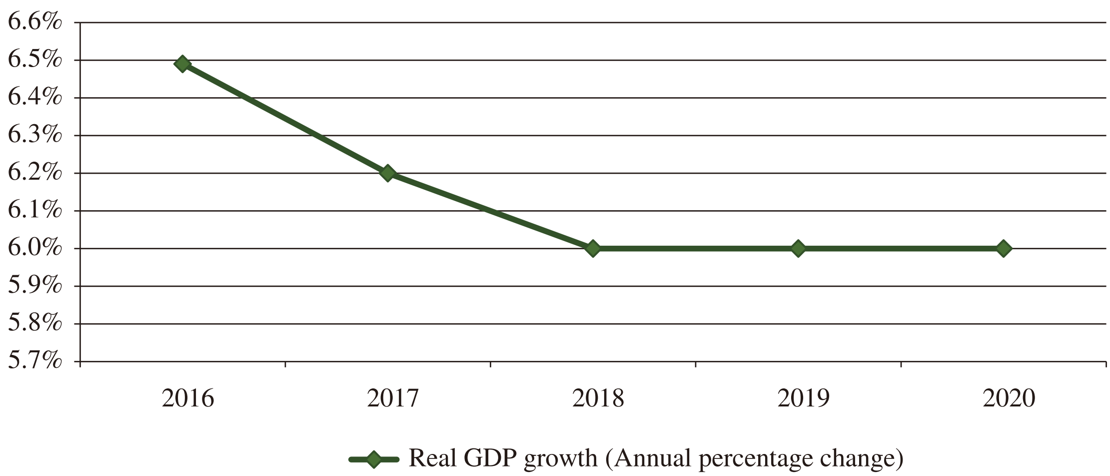
	2012A	2013A	2014A	2015A	2016F
Real GDP Annual Growth Rate (%)	7.70	7.70	7.30	6.90	6.49
Inflation (%)	2.65	2.62	1.99	1.44	1.80

Source: World Economic Outlook Database (April 2016), International Monetary Fund

According to analysts' comment of Barclays bank, the Likonomics will put Chinese economy into a sustainable path, and it was estimated the annual growth for the next 10 years would lie at between 6% and 7%. In accordance with the forecast published by International Monetary Fund ("IMF"), the overall real GDP growth is at 6.90% in 2015, while the projection of the real GDP growth in the next five year would follow a steady decline from 6.49% in 2016 to 6.0% in 2020, which is in line with Mr Li's administration direction.

The following diagram shows the real GDP annual growth rate forecasts from 2016 to 2020.

<Figure 7–1> Forecasts of Real GDP Annual Growth Rate of China



Source: World Economic Outlook Database (April 2016), International Monetary Fund

According to "World Economic Outlook Database (April 2016)" by IMF, the Chinese economy was ranked 2nd in terms of size in 2015, it possesses the greatest growth prospect among top six economies in the world; the Chinese economy was forecasted to grow from USD10,982 billion in 2015 to USD17,762 billion in 2021 with a compound annual growth rate ("CAGR") of 8.3%. It is worth noting that the gap between the United States and China was projected to be narrowing over time.

<Table 7–1b> Worldwide GDP

Country GDP		2015A	2016F	2017F	2018F	2019F	2020F	2021F
1	US	17,947	18,558	19,285	20,145	21,016	21,874	22,766
2	China	10,982	11,383	12,263	13,338	14,605	16,144	17,762
3	Japan	4,123	4,412	4,514	4,562	4,676	4,800	4,895
4	Germany	3,358	3,468	3,592	3,697	3,822	3,959	4,066
5	UK	2,849	2,761	2,885	2,999	3,123	3,256	3,874
6	France	2,421	2,465	2,538	2,609	2,700	2,804	2,895

Source: World Economic Outlook Database (April 2016), International Monetary Fund, in Billions of USD

In the near-term outlook, there are several challenges affecting the China's economy. The rapid growth in credit financing has derived a so-called 'shadow banking system', raising concerns about the quality of investment and the ability on repayment, especially when capital is flowing through less-well supervised parts of the financial system. Furthermore, China suffered from the first corporate bond default in March

2014. It sent a warning signal to the bond investors regarding the creditability of the borrowers and the stability of the market.

In addition, China's economic growth in the past was highly depends on continuous investment in infrastructure projects. Redundant and duplicate developments resulted in a mismatch and wastage of resources. The recovery of these substantial investments which mainly financed by borrowing is challenging. In 2013, when the China's government tried to tighten the funding channel, the capital market has immediately quaked. Not only the GDP growth rate but also the stability of the entire capital market system in China would potentially be impacted if the problem cannot be handled properly.

Furthermore, President Xi's campaign against corruption and extravagant spending will improve the image of the government and increase the operational efficiency. On the other hand, it will affect the customer spending sector, especially, the luxury goods, fine dining and business travelling which used to be the unofficial fringe benefits of the government officers.

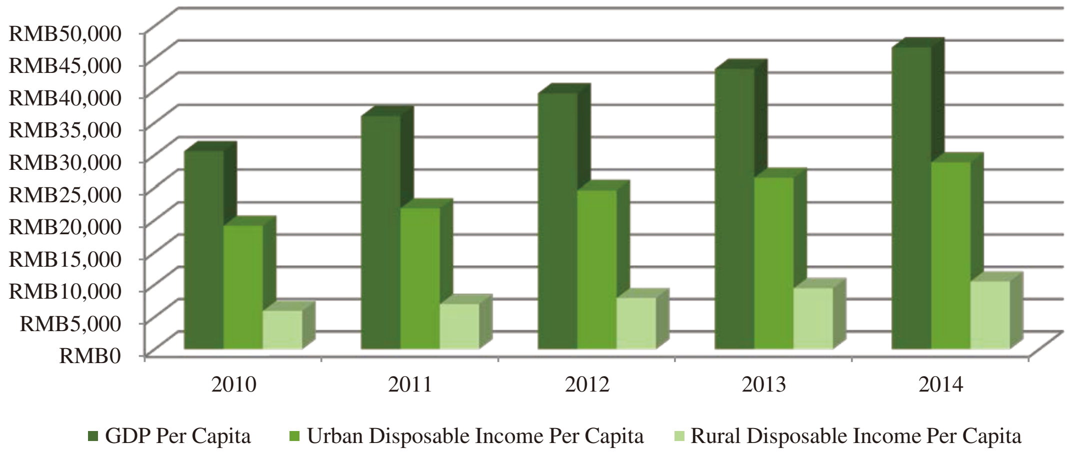
While the GDP growth of China's market stalls, the other markets start recovering. The World Bank commented that the major obstacles to the recovery, including a Eurozone meltdown have been overcome. The Chinese policymaker must clamp down on lending to prevent asset bubbles. Unless the Chinese economy faces imminent risk collapse, the "temporary hard-landing" will not deter the long-term growth prospect of China.

7.2 GDP per Capita in China

Improving standard of living was one of the main issues in social aspect of the 12th Five-year plan. The disposable income level, being a good measure, has grown significantly over the past few years. According to the National Bureau of Statistics of China, annual disposable income per capita of urban households in China has increased from RMB19,109 in 2010 to RMB28,844 in the 2014, representing a CAGR of approximately 10.8%; annual disposable income per capita of rural households has increased from RMB5,919 in 2010 to RMB10,489 in 2014, representing a CAGR approximate to 15.4%. In comparison to the inflationary figures, the annual inflation rate is between 1.99% and 5.40%. Hence, there were improvement of the standard of living of Chinese people overall in the period from 2010 to 2014.

The following diagram shows the GDP per capita, annual urban and rural disposal income per capita from 2010 to 2014.

<Figure 7–2> GDP per Capita of China



Source: National Bureau of Statistics of China

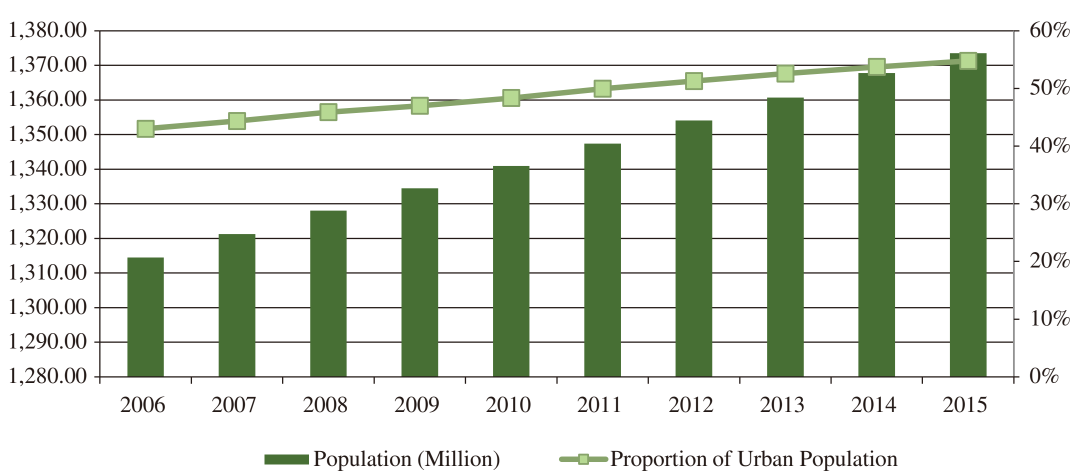
7.3 Population Growth

The population of China accounts for almost one fifth of the world's population. According to the National Bureau of Statistics of China, the population has grown from 1.31 billion in 2006 to 1.37 billion in 2015, representing a CAGR of approximately 0.44%.

The proportion of urban population in China increased from 44.34% in 2006 to 55.88% in 2015, representing a CAGR of approximately 2.37%.

The following diagram shows the population growth and corresponding urban population growth in China from 2006 to 2015.

<Figure 7–3> Population and Portion of Urban Population in China



Source: National Bureau of Statistics of China

Population growth is expected to be steady in this decade. Population growth along with increasing urbanization and expansion of the middle class are particularly important to support the future growth of the domestic demand on affordable luxury goods, such as vehicles, luxury watches, etc. Steady growth in population together with improving living standard continuously derives a strong demand on housing and transportation. On the other hand, the unemployment rate was recorded at around 4.1% for the past few years, and it is estimated the status will not change from 2015 to 2020.

<Table 7–3a> Population Forecast of China

	2015A	2016F	2017F	2018F	2019F	2020F
Population (Million)	1,374.620	1,381.45	1,388.32	1,395.22	1,402.16	1,409.13
Unemployment rate (%)	4.05	4.05	4.05	4.05	4.05	4.05

Source: World Economic Outlook Database (April 2016), International Monetary Fund

Although the one-child policy has curbed the growth of birth rate in China, the rising trend of China's population has not been slowed down in few decades. At the same time, the side effect of the policy has started to take effect in the current decade; the number of elderly people is rising and this age group is forecasted to grow in the next few decades. However, the Government now has realized this trend and introduced Two-child policy which comes into effect throughout the country since October 2015. Hopefully this policy will offset the aging population structure in next few decades.

<Table 7–3b> Age Distribution of China

Age distribution	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
0-14 (Million)	260	257	252	247	223	222	223	223	226	227
15-64 (Million)	951	958	967	974	999	1,003	1,004	1,006	1,005	1003
>=65 (Million)	104	106	110	113	119	123	127	132	138	144

Source: National Bureau of Statistics of China

7.4 Inflation

Managing inflation risk has been one of the key missions for the China's government since 2010. The latest economic data released by National Bureau of Statistics of China indicated that the inflation rate was reported at 1.50% in May 2015 on year-over-year basis, as compared with that of 1.99% in June 2014. China is expected to continue a prudent monetary policy, keep money supply, delever the state-led investment to a reasonable level, and optimize financing and credit structures in the future.

In comparison to the inflation of world's average and of emerging and developing economies, the outlook of China's inflation is far left behind. The continual appreciation on Chinese currency as well as the dominating role of export in China economy was the primary reasons. On one hand, with the Federal Reserve raising interest in December 2015, a new round of currency depreciation is expected to incur in emerging countries; on the other hand, in domestic, the A-share experienced four fusing at the beginning of 2016 with severe volatility, thus investors have strong hedging desires. Due to these two factors, expectation for RMB depreciation becomes much stronger.

<Table 7–4> Annual Inflation Forecasts of China

	Inflation, Average Consumer Prices Changes (%)						
	2015A	2016F	2017F	2018F	2019F	2020F	2021F
World	2.78	2.82	3.04	3.14	3.16	3.17	3.16
Emerging and developing economies	4.71	4.45	4.20	4.05	3.99	4.00	3.95
China	1.44	1.80	2.00	2.20	2.60	3.00	3.00

Source: World Economic Outlook Database (April 2016), International Monetary Fund

7.5 Government Policy

During the end of the period of 12th Five-year plan, China will maintain stable economic policies and a prudent monetary policy, the GDP growth is rebalancing at an achievable rate of 7.1% amid lower export demand in 2015, said by Premier Li. A report issued by The World Bank in June 2014 has reconfirmed that the expectation is achievable.

The Chinese government is currently drafting the blueprint of the 13th Five-year plan which will begin in 2016. More or less, the plan will inherit the spirit of the previous in developing science and technology, deepening environmental protection policies, but to solidify the whole economy. Under the slump of crude oil price and raising deflation risk of the European Union countries, it is estimated that the Chinese government will adopt a stable and conservative economic policies in 2016, the government will continue the ongoing plans and focus on resolving the imminent problem within the nation, such as modifying the financial system and intensifying anti-corruption measures.

In the Central Economic Work Conference held in Beijing at the end of 2015, the top leaders of the Communist Party of China emphasised that the main tasks in 2016 were as follows:

- Reducing housing inventories;
- Resolving industrial overcapacity;
- Lowering corporate costs;
- Prevention of financial risks; and
- Broadening effective supply.

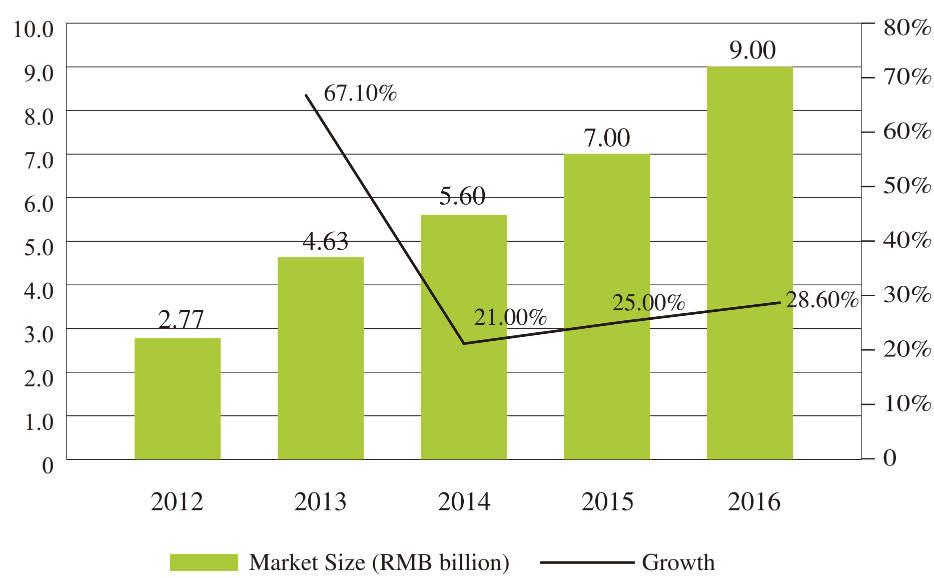
Overall speaking, inflation was mild and the economy may suffer a short-term slowdown, but it is just the part of the structural reform of the economy as stated in Likonomics. Currently, it leaves policy makers sufficient flexibility if they believe the economy needs any stimulation policies.

VIII. INDUSTRY OVERVIEW

8.1 Market Overview[2]

The China online literature market size reached RMB7 billion in 2015, an increase of 25% from 2014. With more development on China online literature market, the market size would be expected to increase to RMB9 billion, representing a rise of 28.6%. During 2015, the industry players compete with each other to struggle on slice of cake and eager to adapt the literature product into drama, games or comics to strengthen its position. The fast-forward development in entertainment industry would certainly push the growth in online literature market and bring more revenue into the authors.

<Figure 8–1a> China Online Literature Market 2012-2016



Source: Sootoo Research

By December 2015, the monthly user coverage of online literature has reached 141 million for PC terminals and 148 million users for mobile terminals. The daily user coverage of mobile terminals was over 30 thousand, representing triple of that from PC terminals. In terms of readers' total browsing time, mobile browsing has reached 800 million hours in December 2015, representing 5 times of that from PC terminals.

[2] *2016 Chinese online literature industry research report, published by iResearch*

<Figure 8–1b> Summary Statistics of China Online Literature Users in December 2015

China Online Literature Users, 2015 December

	PC Terminal	Mobile Terminal
Monthly user coverage	141 million users	148 million users
Daily user coverage	12 million users	33 million users
Monthly browsing time	162 million hours	803 million hours

Source: iResearch, rounded to the nearest million

In 2015, the data of user coverage and readers' total browsing time have revealed a stable demand of online literature in China across the year, with mobile terminals consistently above the PC terminals.

8.2 Key Success Factors

The China online literature market is in a competitive landscape despite its huge potential demand. In order to retain the popularity of the literature platforms and sustain the recognition from the readers and writers, literature platform service providers has to focus on ongoing development of their capabilities to build up the user/author social base. The following are generally recognised as crucial success factors.

1. Content quality – It is recognised that content quality is among the most important elements for the platforms' success. Successful platforms have to first accumulate a considerable amount of quality literature in place, which in turn requires constant input from its pool of capable authors. Apart from the original authors, the editorial team and platform operators are critical in prioritising the platforms' publications to attract more end readers;

2. Distribution capacity – The distribution capacity is measured by the platforms' collaboration with online portals, terminals and other channels to attract users' attention. The ultimate goal is to acquire and retain a pool of committed and regular readers, either through from PC terminal or mobile devices; and

3. Redevelopment potential – The redevelopment potential is measured by the platforms' capability and experience to redevelop the original artworks into other forms of valuable intellectual properties under the collaboration with developers from other areas, for instance mobile games, dramas and movies. This relies on the platforms' social resources with the industry players from the relevant entertainment content and consumer sectors.

8.3 Key Challenge

According to iResearch, piracy and intellectual property infringement have posed a significant threat to the online literature industry. It was estimated that piracy and infringement have resulted in an indirect loss of RMB4.3 billion and RMB3.4 billion, among the industry players serving the PC terminals and mobile terminals respectively. During 2015, Yuewen Group, being the top industry player, has successfully filed 35 lawsuits against the copyright infringers. It is believed that the tide of lawsuits against infringements can protect the online literature industry.

8.4 Future Outlook

Apart from the current mainstream of pay-to-read business model, the online literature industry is expected to gradually transform into a marketplace for nurturing and licensing raw intellectual copyright contents to their industry partners from entertainment and consumer sectors for redevelopment purpose. It is generally believed that the online literature industry can be substantially benefited from the expected transition into the licensing model going forward.

IX. COMPANY OVERVIEW

9.1 A8 New Media Group Limited (the "Company")

The Company is a listed company on the Hong Kong stock exchange (Bloomberg ticker: 800 HK EQUITY) since 2008. The Company, together with its subsidiaries (the "Group"), are 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.

9.2 北京掌文信息技術有限公司 (Beijing Jiangwen Information Technology Company Limited) (the "Target Company")

The Target Company is a company established in the PRC with limited liability. As at the Valuation Date, the Target Company has two wholly-owned subsidiaries, namely Beijing Heiyan and Tianjin Heiyan. Target Group is principally engaged in incubation and operation of prime copyrights, including but not limited to, the provision of pay-to-read services on the Target Group's websites, and the licensing of authorization to use and adaption to cartoons, comics, audio works, mobile games, network drama, television drama and movies.

9.3 Beijing Heiyan Information Technology Company Limited ("Beijing Heiyan")

Beijing Heiyan is a company established in the PRC with limited liability and a wholly-owned subsidiary of the Target Company.

9.4 Tianjin Heiyan Information Technology Company Limited ("Tianjin Heiyan")

Tianjin Heiyan is a company established in the PRC with limited liability and a wholly-owned subsidiary of the Target Company.

X. TRANSACTION OVERVIEW

In its announcement dated 13 May 2016, the Company announced that after trading hours on 13 May 2016, the Company's indirect wholly-owned subsidiary, another purchaser, the existing shareholders of the Target Company, the guarantor and the Target Company (collectively known as the "Parties") entered into a share purchase agreement, pursuant to which the parties had conditionally agreed to transact the entire 100% equity interest (35% by the Company) of the Target Company in aggregate at the aggregate consideration of RMB550 million in cash. A supplemental agreement was entered into by and among the same parties on 22 July 2016 extend the original Long Stop Date to 31 August 2016.

XI. VALUATION METHODOLOGY

The valuation of any asset can be broadly classified into one of three approaches, namely the Asset Approach, the Market Approach and the Income Approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the fair value analysis of that asset.

11.1 Asset Approach

This is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods based on the value of the assets net of liabilities. Value is established based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach is based on the principle that the price that a buyer in the market would pay for the asset being valued would, unless undue time, inconvenient, risk or other factors are involved, be not more than the cost to purchase or construct an equivalent asset. Often the asset being valued will be less attractive than the alternative that could be purchased or constructed because of age or obsolescence. Where this is the case, adjustments may need to be made to the cost of the alternative asset depending on the required basis of value.

11.2 Income Approach

This is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that convert anticipated benefits into a present value amount. In the Income Approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the Valuation Date, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued.

11.3 Market Approach

This is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold. Value is established based on the principle of competition. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. Furthermore, the price of two alike and similar items should be approximate to one another.

11.4 Selected Approach for Valuation

The Target Company was incorporated in the PRC with limited liability. According to the management of the Target Group, it has started to demonstrate its business profitability since 2015. Same as its industry peers, the immediate value of the Target Group is derived from its pay-to-read services on the Target Group's websites. By accumulating a considerable amount of quality literature works over time, the Target Group can adapt the acquired and licensed copyrights of literature works into other forms of multimedia such as cartoons, comics, audio works, mobile games, network drama, television drama and movies from which further revenue and licensing fees can be generated. The long term sustainable value of the Target Group depends on the effort of its core development team to accurately identify the latest reading habits and market tastes and attract the corresponding authors to produce relevant literature works that would in turn boost popularity and generate sustainable revenue.

Under the Asset Approach, the Equity Interest in the Target Group is determined based on the replacement cost or reproduction cost rather than the ability to generate streams of benefits in the future. For the Target Group, future economic benefits will be generated from the pay-to-read services and licensing arrangement of the network literature copyrights written by the network authors, instead of the machinery & equipment held by the Target Group. As such, the value is typically not inferred from the cost of its assets. If the Asset Approach is used, the future economic benefits from the Target Group cannot be reflected in the Equity Interest in the Target Group. As a result, the Asset Approach was rejected.

Under the Income Approach, the Equity Interest in the Target Group is determined by the estimate of projected inputs, such as forecasted revenue, development and maintenance costs of the network literature platforms and risk-adjusted discount rates. While the direct cash flow generated from the pay-to-read services might be forecasted based on the number of active users, the revenue potential from adapting and licensing the quality literature works cannot be independently and separately identified and estimated. In particular, the cash flows of typical network literature works are determined by its popularity and the amount of further multimedia products it would adapted into. The level of success and hence cash flow of a particular network literature is usually difficult to predict. As a result, the Income Approach was rejected.

Under the Market Approach, the Equity Interest in the Target Group is determined by the traded and transaction prices of recently concluded comparable transactions. For the purpose of the Market Approach, we need to identify an adequate number of publicly traded companies and/or target companies in acquisitions which are principally engaged in provision of literature reading platform and development of copyrights. Given the data availability of the comparable publicly traded companies and/or target companies, the Market Approach is the most preferred approach.

XII. GENERAL ASSUMPTIONS

A number of general assumptions have to be established in order to sufficiently support our conclusion of fair value. The general assumptions adopted in this valuation as of the Valuation Date were:

1. There would be no material change in the existing political, legal, fiscal, foreign trade and economic conditions in the countries where the Target Group is carrying on its businesses;

2. There would be no significant deviation in the industry trends and market conditions from the current market expectation;

3. There would be no material change in interest rates or foreign currency exchange rates from those currently prevailing;

4. There would be no major change in the current taxation law in the country where the Target Group and the comparable companies were operated;

5. All relevant legal approvals, business certificates or licenses for the normal course of operation are formally obtained, in good standing and that no additional costs or fees are needed to procure such during the application;

6. The core management would sustain the technical capability and vision to develop new network literature works to support the ongoing cash flow and earnings of the Target Group;

7. The Target Group will continue to access to the legitimate copyrights of the literature works produced by the platform authors for further development and adaptation purpose;

8. Future revenue growth for the Target Group would not deviate significantly from its industry; and

9. The Target Group will retain competent management, key personnel, and technical staff to support the ongoing business operations.

XIII. MARKET APPROACH

We have selected the Market Approach as the appropriate and most preferred valuation approach. There are 2 major methods under the Market Approach:

- Guideline Publicly Traded Company ("GPTC") Method:

  Under the GPTC Method, the fair market value is derived from trading multiples of a selected set of comparable companies (i.e. guideline companies). The trading multiple is a value measure computed by dividing the market capitalisation or enterprise value of the guideline company by some relevant economic variable(s) observed or calculated from guideline company's financial fundamental data (such as net profit, earnings before interest and tax, book value, etc) as at the Valuation Date. A major challenge in applying the GPTC Method is to identify an adequate number of public companies that are comparable to the subject company in terms of principal business and associated business risks.

- Guideline Merger and Acquisition ("GMA") Method:

  Under the GMA Method, the fair market value is derived from the consideration transferred at which business similar to that of the Target Group are exchanged. GMA provides an indication of value by comparing the prices at which business with similar properties (business nature and risk assumed) are being exchanged between willing buyers and sellers. When GMA is applied, an indicative value is derived by referring to the consideration multiples for acquisition of comparable companies. Application of GMA Method is subject to the following requirements:

  1. Existence of historical (and recent) comparable transactions;

  2. Availability of open information on comparable transactions; and

  3. Arm's length transaction between the independent uncontrolled parties.

  The GPTC method was not applied since it is difficult to identify an adequate number of publicly traded companies which are principally engaged in provision of literature reading platform and development of copyrights. The GMA method was applied since comparable transactions were identified. Given the data availability of the GMA transactions and the highly relevant business nature of the comparable targets, the GMA Method under Market Approach was the most preferred method.

13.1 Application of the Guideline Merger and Acquisition Method

The premises behind GMA Method is that consideration amounts transferred in similar transactions in a similar industry of the Target Group can provide objective evidences on the range of values at which investors are willing to buy and sell the Equity Interest of the Target Group.

For the purpose of identifying comparable transactions, we have initiated our search through various public and online data sources. Ideally, transaction details from credible sources, such as public announcements from listed companies via the stock exchanges, are the most preferred. However, some of the transactions might only involve private sellers and acquirers that have limited public disclosure. In such case, we relied on the public news and reporters' interview to comparable companies for market consensus on transaction details.

For the subject valuation, the 8 identified comparable transactions were presumed to have been conducted and arranged in an arm's length manner under the willingness and well-knowledge of all the parties involved. The comparable transactions were completed within 3 years from the Valuation Date. Accordingly, we have derived the subject valuation using the GMA Method under the Market Approach.

In applying GMA Method, we will identify the key value drivers and compute the relevant valuation multiples (i.e. price-to-revenue and price-to-daily active users), then apply the selected median multiples to the Target Group being valued to arrive at an estimate of value of the Equity Interest. In determining the comparability of the transactions, we will make reference to the information and circumstances surrounding the completed transactions, including but not limited to, principal business activities, products and services rendered, asset and risk profile, types of network literature platforms and profit sharing mechanism with the network authors. These attributes are considered relevant in deciding the comparability of the transaction.

An underlying assumption of the GMA Method is that the price negotiations of the comparable transactions have made reference to their latest financial and operating performance (i.e. the value drivers) and future expectations at the time of the transactions. In other words, the GMA Method assumes that the comparable transactions were priced under similar growth expectation and level of perceived risk as the Target Group was as at the Valuation Date.

13.2 Determination of the Key Value Driver(s)

As previous discussed, online literature platforms typically derives their primary source of revenue from provision of pay-to-read services to online readers. As the platform gradually matures, it will further derive their secondary source of revenue from licensing and authorising the use of prime copyrights for adaptation to other multimedia products. As of the Valuation Date, the Target Group principally derived its revenue from provision of pay-to-read services, as shown in the segmental financial summary below:

<Table 13–1> Segmental Financial Summary of the Target Group as of the Valuation Date

30 April 2016 (4 months)	Segmental Revenue (RMB)	%
Pay-to-read services	16,870,654	70%
Licensing services	7,399,929	30%
Total	24,270,583	100%

Source: Management

The total revenue of an online literature platform can reflect its current performance in monetarising the popularity of the platform among the active readers and the popularity of the acquired quality copyrights from the platform authors among the multimedia licensees. As such, we have selected the total platform revenue as the first value driver.

The number of Daily Active Users ("DAU") of an online literature platform can reflect its performance in attracting and retaining the number of committed readers and authors. The DAU can reflect the popularity of the literature works and the copyrights' licensing/ commercialising potential in other multimedia arenas, such as online games, film works, plays and dramas. As such, we have selected the DAU as the second value driver.

With reference to the GMA Method, we have extracted the data from recent comparable transactions to form a range of acquisition price-to-revenue and price-to-DAU multiples as defined below:

Price-to-revenue = Transacted price / Revenue (annualised)

Price-to-DAU = Transacted price / DAU (recent operating records)

Apart from the acquisition price-to-revenue and price-to-DAU, other typical relevant numerical and descriptive indicators were considered. Given that the comparable transactions had only limited disclosure of this data, we would only make secondary reference to them if available.

- Stage of development of the literature platforms;
- Main category of the literature works produced from the platforms;
- Arrangements on profit sharing and licensing between the author and the platform;
- Quality and quantity of the acquired copyrights in the library.

From our observation, there was no noticeable evidence showing that the quality and performance of the Target Group was below the acquired targets in the comparable transactions.

13.3 Selection of Guideline Merger and Acquisition Transactions

In choosing the comparable transactions in this case, we focused on the primary business activities of the Target Group. We have selected transactions with targets engaging in similar business activities as that of the Target Group. We have identified 8 completed comparable PRC transactions from 2013 to 2016 with readily available transaction data. Given that most of these transactions involved a listed company purchasing a target company or investment fund holding a target company operating literature platform, the transaction data were readily accessible from the news announcements and circular documents of the listed purchasers.

Ideally, the comparable target companies should be engaged in the development of same type of network literature platform as the Target Group did (i.e. Mystery fiction). However, due to the limited number of transactions with targets of exact product mix, we decided to consider all network literature platform transactions relevant. Based on our available resources and given the selection criteria as set below, on a best and unbiased basis and to the best of our knowledge, these samples were sufficient for conclusion of fair value but may not be exhaustive.

The following list shows the comparable transactions and valuation metrics we have reviewed (in RMB).

<Table 13–3>

COMPARABLE TRANSACTIONS

#	Reference Date	Current status	Acquirer	Target Platform	Revenue[3]	DAU[4]
1	Oct 2013	Completed	人民網 (Renminwang*)	成都看書網 (Chengdukanshuwang*))	82,425,600	300,000
2	Dec 2013	Completed	百度 (Baidu*)	縱橫文學 (Zonghengwenxue*)	44,255,398	2,600,000
3	Apr 2014	Completed	奧飛動漫 (Aofeidongman*)	魔屏科技 (Mopingkeji*)	6,000,000	20,000
4	Nov 2015	Completed	嵐悅科技 (Lanyuekeji)	童石網絡 (Tongshiwangluo*)	70,051,918	1,000,000
5	Dec 2015	Completed	奧飛動漫 (Aofeidongman*)	有妖氣 (Youyaoqi*)	65,984,200	584,000
6	Jan 2016	Completed	Multiple Investors[5]	掌閱書城 (Zhangyueshucheng*)	500,000,000	15,000,000
7	Jan 2016	Completed	掌趣科技 (Zhangqukeji)	掌閱書城 (Zhangyueshucheng*)[6]	500,000,000	15,000,000
8	Feb 2016	Completed	Multiple Investors	童石網絡 (Tongshiwangluo*)	70,051,918	1,000,000

VALUATION METRICS

#	Target Platform	Transaction Size	Acquired Interest[7]	Implied Valuation[8]	Price-to-Revenue	Price-to-DAU
1	成都看書網 (Chengdukanshuwang*)	248,819,900	69.25%	342,196,871	4.15x	1,141x
2	縱橫文學 (Zonghengwenxue*)	191,500,000	100.00%	182,380,952	4.12x	*70x (outlier)*
3	魔屏科技 (Mopingkeji*)	25,000,000	60.00%	39,682,540	6.61x	*1,984x (outlier)*
4	童石網絡 (Tongshiwanglu*)	60,040,000	10.01%	599,800,200	8.56x	600x
5	有妖氣 (Youyaoqi*)	904,000,000	100.00%	860,952,381	*13.05x (outlier)*	1,474x
6	掌閱書城 (Zhangyueshucheng*)	650,000,000	10.00%	6,500,000,000	13.00x	433x
7	掌閱書城 (Zhangyueshucheng*)	303,000,000	7.43%	4,080,808,081	8.16x	272x
8	童石網絡 (Tongshiwanglu*)	135,216,600	8.81%	1,534,217,400	*21.90x (outlier)*	1,534x
Summary Statistics[9]			Upper Quartile		8.46x	1,391x
			Median		**7.39x**	**870x**
			Lower Quartile		4.77x	475x

3 Announced revenue in the most recent months prior to the transactions on an annualised basis

4 Announced DAU data in the most recent months around the transactions

5 Multiple investors included 奧飛動漫 (Aofeidongman*) and 國金投資 (Guojintouzhi*) without disclosure on individual spilt of equity investment

6 The transaction was a transfer of equity interest of fund in which the substantial investment (98% net asset value) was 掌閱書城 (Zhangyueshucheng*)

7 With reference to Mergerstat Review 2015, control premium is applied at 5%

8 Implied full 100% valuation of the acquired equity interest, adjusted to reflect the basis of non-marketable minority interest

9 Excluded the two most extreme outliers

Among the selected comparable transactions, some targets in the transactions are the same while the acquirers as well as the transaction sizes may vary. The difference in valuation levels of these transactions may reflect the difference in assessments of the targets by the investors despite the closeness of the transaction dates. Investors in the targets may attach varying levels of importance and place dissimilar emphasis towards different attributes of the targets depending on the investors' particular requirements and accordingly this may result in different implied valuations of targets. It is implied by the founder of a target that different investors might have different assessments of the target and that at the same time the target would view each investor differently for differing strategic purposes[1].

Particularly, number 6 and 7 transactions are determined based on the primary screening factors (i.e. the principal business and operating location of the target) and such primary screening factors in both transactions resemble that of the Target Group and are accordingly sufficient to serve as qualified comparable transactions of the valuation. The calculated implied valuations, though differing, are objective negotiation results of the same target between different pairs of buyers and sellers, with potentially different motive by the respective buyers and sellers in relation to the said deals (i.e. dissimilar emphasis by the investors towards the attributes of the target depending on the respective investors' particular requirements). It must be noted that these are actual transactions announced to have happened in the marketplace in relation to the same target. Statistically, the inclusion of multiple data points essentially reduces the standard error of estimates on the intrinsic fair value of the same target in this fast-growing online literature industry. The fact that the pricing is different for number 6 and 7 transactions cannot empirically justify the exclusion of both estimates where the pricing and output result of the analysis are dependent variables and are not independent input variables unless there are fundamentally conflicting reasons (input variables) leading to non-comparability and exclusion from sample of the target. Thus we have considered that it is practical and reasonable to include both number 6 and 7 transactions as comparable transactions.

We have further tested the sensitivity of the conclusion against the inclusion of number 6 and/or number 7 transactions. Should we exclude both observations from the sample, the valuation result of the Equity Interest would increase by RMB24 million. In this scenario, the median Price-to-DAU will increase to 1,307x while the median Price-to-revenue will decrease to 5.38x. Should we exclude either observation from the sample, the valuation result of the Equity Interest would increase by RMB21 million. In both scenarios, the median Price-to-DAU would increase to 1,141x while the median of Price-to- revenue would decrease to 661x.

1 http://it.people.com.cn/n1/2016/0104/c1009-28010017.html

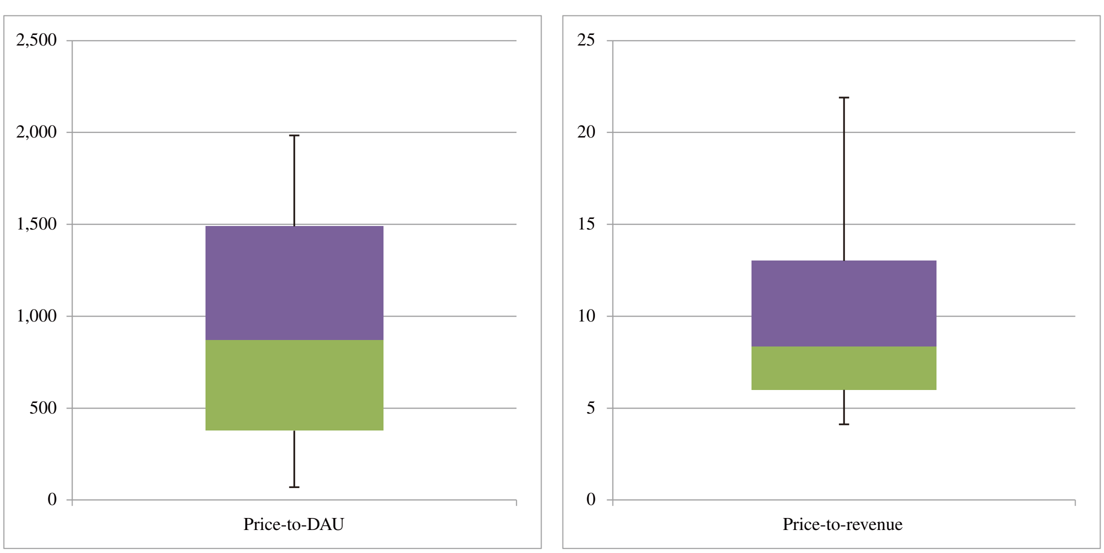
Should number 6 and 7 transactions be excluded, the sample size would be statistically too small with only 6 samples left, such that any potential benefit resulting from the enhanced comparability of the resulting 6 samples would be offset by the increased standard error of estimate due to small sampling. From a market valuation perspective, the trade-off between comparability and sample size should always be considered in an appropriate manner as in the aforementioned selection.

13.4 Determination of Outliers

In order to remove the effect of outliers which may result in distortion in valuation result, the outliers in both key value drivers are excluded. The outliers are observation points that are considered distant from other observations in the distribution. There is no clear-cut definition for determining outliers but the gradually accepted practice would consider outliers as the most distant observations, i.e. extreme numbers no matter high or low that result in sample skewness. The elimination of outliers is a practice of valuation adjustment so that a more robust conclusion of fair value could be obtained.

With reference to the boxplots of two key value drivers of the full dataset including outliers below, it is observable that the distribution of key value drivers Price-to-DAU seems to be evenly distributed while that of Price-to-revenue would be more dispersed in the higher end of dataset. In view of these, outliers for both key value drivers would be chosen according to its characteristics of distribution: both ends are taken out for Price-to-DAU and two largest ends are taken out for Price-to-revenue, as such the remaining dataset would present a less deviated result of valuation metrics.

<Table 13–4a> Boxplots of Full Dataset of Price-to-DAU and Price-to-revenue



It is noticeable that there is a valuation level of Price-to-revenue of 13.00x adopted in the valuation, and it is very close to the selected outliers of 13.05x. As a common practice, we would normally continue to apply a consistent rule to remove the outliers in different valuation metrics. <Please refer to the Base Case in the tables below.>

<Table 13-4b> Sensitivity of the outlier rule on median Price-to-Revenue

	Outlier rule of Price-to-Revenue			
#	Full set <raw data>	**Base case* <adopted>**	Case 1 <reference>	Case 2 <reference>
1	4.15x	4.15x	4.15x	4.15x
2	4.12x	4.12x	4.12x	4.12x
3	6.61x	6.61x	6.61x	6.61x
4	8.56x	8.56x	8.56x	8.56x
5	13.05x	outlier	13.05x	outlier
6	13.00x	13.00x	13.00x	outlier
7	8.16x	8.16x	8.16x	8.16x
8	21.90x	outlier	outlier	outlier
Median	8.36x	**7.39x <adopted>**	8.16x	6.61x

* *The 2 most distant observations are determined as outliers*

<Table 13-4c> Sensitivity of the outlier rule on median Price-to-DAU

	Outlier rule of Price-to-DAU			
#	Full set <raw data>	**Base case* <adopted>**	Case 1 <reference>	Case 2 <reference>
1	1,141x	1,141x	1,141x	1,141x
2	70x	outlier	outlier	outlier
3	1,984x	outlier	outlier	outlier
4	600x	600x	600x	600x
5	1,474x	1,474x	1,474x	1,474x
6	433x	433x	433x	433x
7	272x	272x	272x	272x
8	1,534x	1,534x	1,534x	1,534x
Median	870x	**870x <adopted>**	870x	870x

* *The 2 most distant observations are determined as outliers*

<Table 13-4d> Sensitivity of the outlier rule on the implied 35% Equity Interest

Sensitivity of the outlier rule (RMB million)	Full set <raw data>	**Base case* <adopted>**	Case 1 <reference>	Case 2 <reference>
Implied 35% Equity Interest	206.87	**194.26**	204.28	184.24
Difference against the Base case	12.61	**0.00**	10.02	–10.02

The sensitivity of the conclusion against slight modifications of the outlier rule has been further tested. Should we consider both observations (Price-to-revenue 13.00x and 13.05x) as non-outliers, (the median Price-to-revenue will increase to 8.16x and) the valuation result of the Equity Interest would increase by approximately RMB10 million. Should we consider both observations as outliers, the median Price-to-revenue will decrease to 6.61x and the valuation result of the Equity Interest would decrease by approximately RMB10 million. <Please refer to Case 1 and Case 2 respectively in the above table.>

In either case, the valuation result would only be slightly affected. As there is no further determining factor suggesting which case is empirically more preferred, plus the fact any further exclusion of data points (i.e. Case 2 where price-to revenue of 13.00x is considered as the 3rd outlier) will result in further reduction in number of samples, particularly those from recent transactions, we are of the view that the outlier rule should not be modified from its base case that is excluding the two most extreme outliers. Thus, the rejection of Price-to-revenue of 13.05x (and 21.90x) as outliers is essentially a more reasonable practice considering the sample size and comparability and consistent with the outlier rule basis in Price-to-DAU.

13.5 Determination of the Equity Interest

We made reference to the statistical medians of the adopted valuation multiples for the valuation of the Equity Interest. We have selected a Price-to-Revenue of 7.39x and Price-to-DAU of RMB870 for the subject valuation. According to the recent management revenue accounts, the total revenue in the trailing 6 months (from November 2015 to April 2016) was RMB36,974,322, or annualized RMB73,948,645. The total DAU of the literature platforms has increased stably from around 400,000 in early March to around 700,000 in late April. As such, we took a DAU of 647,817, which is the daily average of the DAUs in March and April (or 61 days), in determination of the fair value of the Equity Interest.

<Table 13–5> Determination of Equity Interest

		Valuation of the Target Group	
Valuation Multiples Selected		Price-to-Revenue	Price-to-DAU
Performance indicators		Revenue annualised	DAU
Subject's performance	A	RMB73,948,645	647,817
Medians of valuation Multiple	B	*7.39x*	*870x*
Implied 100% Equity Interest	C = A x B	RMB546,309,395	RMB563,748,620
Assigned equal weights		50%	50%
Implied 100% Equity Interest		555,029,007	
Implied 35% Equity Interest		**194,260,153**	
Implied 35% Equity Interest	(rounded)	**194,000,000**	

* *Sum of individual figures may not equal to the total amount due to rounding*

Given the fact that the targets acquired in the comparable transactions were all private companies, there is no need to further adjust for lack of marketability.

XIV. RISK FACTORS

Several risk factors are highlighted as follows that may impact the business value of the Target Group:

1. The subject valuation was based on a perpetual business assumption. A significant portion of the value comes from the prerequisite that the Target Group can leverage its current developing capability in maintaining the popularity of the literature platform and maintaining a cultivating environment to attract quality copyrights. Should the Target Group fail to maintain the platform popularity in the future, the business value will be adversely impacted.

2. The subject valuation was based on the assumption on quality of the acquired copyrights and the adaptability of these copyrights to commercialised cartoons, comics, audio works, mobile games, network drama, television drama and movies. Should the Target Group fail to adapt and commercialise these copyrights in the future, the business value will be adversely impacted.

3. The subject valuation was based on the assumption that Target Company can retain its competent management and its core development team. Should the Target Group fail to retain the management and the core development team, the business value will be adversely impacted.

4. The subject valuation was based on the assumption that the target literature platforms can retain the group of active readers and qualified authors and producers. Should the literature platforms fail to retain the active readers and qualified authors and producers, the business value will be adversely impacted.

XV. SENSITIVITY ANALYSIS

The subject valuation conclusion relies on a few major input variables, namely the total annualised revenue and the DAU of the Target Group. The table below illustrates the sensitivity of our conclusion of value with respect to different combinations of total revenue and the DAU variables.

<Table 15>

					DAU		
	Implied 35%		–10%	–5%	**<Base>**	+5%	+10%
	Equity Interest		583,035	615,426	**647,817**	680,208	712,599
Revenue	–10%	66,553,780	175,000,000	180,000,000	185,000,000	190,000,000	195,000,000
	–5%	70,251,212	180,000,000	185,000,000	189,000,000	194,000,000	199,000,000
	<Base>	**73,948,645**	184,000,000	189,000,000	194,000,000	199,000,000	204,000,000
	+5%	77,646,077	189,000,000	194,000,000	199,000,000	204,000,000	209,000,000
	+10%	81,343,509	194,000,000	199,000,000	204,000,000	209,000,000	214,000,000

XVI. SYNTHESIS AND RECONCILIATION

The following comparative data summarizes the methods we have accepted or considered and rejected, along with their respective final values. Each method is rated relative to the applicability of the method relative to the facts and circumstances of the Target Group.

Asset Approach

Application . . . . Rejected

Income Approach

Application . . . . Rejected

Market Approach

Application . . . . Accepted

Guideline Merger and Acquisition Method RMB194,000,000

As the Market Approach is the only applied methodology, we concluded that the fair value of the Equity Interest as at the Valuation Date be RMB194,000,000.

XVII. LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Company and the Target Group.

The opinions expressed in this report have been based on the information supplied to us by the Company and its staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the management of the Company. Readers of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

XVIII. CONCLUSION OF VALUE

In conclusion, based on the analysis stated above and the valuation methods employed, it is our opinion that the fair value of 35% Equity Interest in 北京掌文信息技術有限公司 Beijing Jiangwen Information Technology Company Limited as at 30 April 2016 is as follows:

	Fair Value
35% Equity Interest in 北京掌文信息技術有限公司 Beijing Jiangwen Information Technology Company Limited	RMB194,000,000

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under valuation. Moreover, we have neither personal interests nor bias with respect to the parties involved.

This valuation report is issued subject to our general service conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED

Max K.P. Tsang, *CPA, CFA, FRM*
Director

Jimmy S.K. Wong, *CPA, CFA, FRM, MFin*
Assistant Manager, Business Valuation and Transaction Advisory

Keith Y.K. Lui, *FRM*
Senior Analyst, Business Valuation and Transaction Advisory

INVOLVED STAFF BIOGRAPHY

Max K.P. Tsang, *CPA, CFA, FRM*
Director

Mr Tsang is experienced in business valuation for private and listed companies for the purposes of financial reporting, initial public offerings, mergers and acquisitions, financing, tax and litigation support purposes. The valuation services provided included business valuation, intangible asset valuation (such as trademarks, distribution networks, patents and customer relationship), biological assets valuation, mining valuation and financial instrument valuation. Mr. Tsang has extensive experience in serving private and listed enterprises in Hong Kong, China, Singapore and the United States. His experience covers a wide range of industries including agriculture, financial services, infrastructure, telecommunications, information technology, retail, real estate, mining and multimedia.

Jimmy S.K. Wong, *CPA, CFA, FRM, MFin*
Assistant Manager, Business Valuation and Transaction Advisory

Mr. Wong is experienced in providing valuation and business consulting services for public and private companies for financial reporting, merger and acquisitions and transfer pricing purposes. He has previously served clients from several multinational groups to formulate their global restructuring strategies and model their financial and operational impacts. His industry exposure covers consumer and industrial, technology, energy, financial services, utility and infrastructure, forestry, agriculture and mining sectors.

Keith Y.K. Lui, *FRM*
Senior Analyst, Business Valuation and Transaction Advisory

Mr. Lui is a graduate of quantitative finance and risk management science. He is experienced in performing business valuation of business for private and public companies. He also has experience in performing business and intangible assets for different industries including food & beverage, retail, manufacturing, financial institutions, property development, technology and public utility industries.

GENERAL SERVICE CONDITIONS

The service(s) provided by Greater China Appraisal Limited will be performed in accordance with professional appraisal standard. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least seven years after completion of the engagement.

Our report is to be used only for the specific purpose stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Greater China Appraisal Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

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

(I) Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short position of the Directors and the chief executive 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 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 or 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 contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long position in the Shares

Name of Director	Nature of Interest	Ordinary Shares	Underlying Shares (equity derivatives of the Company) *(Note 3)*	Total number of Shares (including underlying Shares)	Approximate percentage of shareholding in the Company's issued share capital *(Note 1)*
Mr. Liu Xiaosong	Founder of trust	524,067,398 *(Note 2)*	Nil	551,748,308	30.06%
	Beneficial owner	5,766,000	21,914,910		
Mr. Liu Pun Leung	Beneficial owner	Nil	5,000,000	5,000,000	0.27%
Mr. Chan Yiu Kwong	Beneficial owner	105,000	315,000	420,000	0.02%
Ms. Wu Shihong	Beneficial owner	Nil	420,000	420,000	0.02%

Notes:

(1) The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at the Latest Practicable Date (i.e. 1,835,192,628 Shares).

(2) Mr. Liu Xiaosong is the founder of a family trust which is deemed under the SFO to be interested in all the shares held by Ever Novel Holdings Limited ("**Ever Novel**") and Prime Century Technology Limited ("**Prime Century**") in the Company. As at the Latest Practicable Date, Prime Century directly held 379,496,303 Shares and Ever Novel directly held 144,571,095 Shares.

(3) The underlying Shares in which the Directors are interested are in relation to the share options granted by the Company pursuant to its Share Option Scheme.

(II) Long positions in associated corporations of the Company

Name of associated corporation	Name of Director	Nature of Interest	Registered capital/no. of shares held	Approximate percentage of interest
Shenzhen Huadong Feitian Network Development Co., Ltd. ("**Huadong Feitian**") *(Note 1)*	Mr. Liu Xiaosong	Beneficial owner	RMB21,510,000 *(Note 3)*	75%
Duomi Music Holding Ltd ("**Duomi Music**") *(Note 2)*	Mr. Liu Xiaosong	Interest of controlled corporation	35,435,640 *(Note 4)*	30.13%
北京多米在綫科技股份有限公司 (Beijing Duomi Online Technology Co., Ltd.*) (formerly known as Beijing Caiyun Online Technologies Co. Ltd.) ("**Beijing Duomi**") *(Note 5)*	Mr. Liu Xiaosong	Beneficial owner	23,638,132 *(Note 6)*	27.08%

Notes:

(1) Huadong Feitian is a limited liability company incorporated in the PRC whose financial results are, through a number of Structure Contracts (as defined below), consolidated into the financial statements of the Company and therefore an associated corporation of the Company.

(2) Duomi Music is a company incorporated in the Cayman Islands with limited liability. As at the Latest Practicable Date, the Company was interested in approximately 42.73% of the issued share capital of Duomi Music (assuming after conversion of all the outstanding Preferred Shares in full and no option of Duomi Music has been exercised) through its wholly-owned subsidiary, Phoenix Success Limited, and therefore Duomi Music is an associated corporation of the Company. Mr. Liu, through his wholly-owned company, Fortune Light Investments Limited, held approximately 30.13% of the issued share capital of Duomi Music.

(3) This represents the amount of registered capital of Huadong Feitian held by Mr. Liu.

(4) This represents the number of shares of Duomi Music held by Mr. Liu.

(5) Beijing Duomi is a company incorporated in the PRC with limited liability. As at the Latest Practicable Date, the Company was interested in approximately 22.80% of the registered capital of Beijing Duomi through its wholly-owned subsidiary, Shenzhen Kuaitonglian Technology Co., Ltd. ("Kuaitonglian"), and therefore Beijing Duomi is an associated corporation of the Company. Mr. Liu was interested in approximately 27.08% of the registered capital of Beijing Duomi.

(6) This represents the amount of registered capital of Beijing Duomi held by Mr. Liu.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executives and their respective associates had any interest or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or are required, pursuant to section 352 of the SFO to be entered into the register referred to therein; or are required, pursuant to the Model Code of Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, save for Mr. Liu Xiaosong who is a director of Ever Novel, Prime Century and Knight Bridge Holdings Limited ("**Knight Bridge**"), none of the Directors is a director of a company which has an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

Mr. Liu Xiaosong is the founder of a family trust which is owned by HSBC International Trustee Limited as trustee of such discretionary trust. HSBC International Trustee Limited, through intermediate holding companies (including but not limited to Knight Bridge), exercise or control the exercise of one-third or more voting power at the general meetings of such companies and is deemed under the SFO to be interested in the shares of the Company held by such companies.

3. DIRECTOR'S INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP

The contractual arrangements

For the purpose of operating the Group's relevant businesses in the PRC, the Group has entered into a number of contracts ("**Structure Contracts**") with certain PRC operating companies ("**OPCO(s)**") which are subsidiaries of the Company and/or held by the Directors. A summary of the Group's businesses operating through such OPCOs are set out below.

OPCOs

Huadong Feitian is a limited liability company established in the PRC whose financial results are, through a number of Structure Contracts, consolidated into the financial statements of the Company and therefore an associated corporation of the

Company. The registered shareholders of Huadong Feitian include, among others, Mr. Liu Xiaosong who holds 75% of its interests.

Kuaitonglian is a limited liability company established in the PRC and a subsidiary of the Company.

Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. ("**Yunhai Qingtian**") is a limited liability company established in the PRC and a subsidiary of the Company.

Major terms of the underlying contracts of the contractual arrangement

The following Structure Contracts were made:

(i) between Cash River information Technology (Shenzhen) Co., Ltd. ("**Cash River**"), a wholly-owned subsidiary of the Company, and Huadong Feitian and its registered shareholders;

(ii) between Cash River and Kuaitonglian and its registered shareholders; and

(iii) between Shenzhen Finger Fun Network Technology Co., Ltd. ("**Finger Fun**"), a wholly-owned subsidiary of the Company, and Yunhai Qingtian and its registered shareholder.

The Structure Contracts allows Cash River/Finger Fun to exercise control and enjoy economic benefit generated from the OPCOs.

The major terms of the Structure Contracts are as follows:

a. Exclusive Business Cooperation and Service Agreement

The Exclusive Business Cooperation and Service Agreement provides that, among others:

(1) the parties to the Exclusive Business Cooperation and Service Agreement shall cooperate with each other in technical support, business support and related consultancy services which include but are not limited to technical service, business consultation, equipment leasing, market consultation, system integration, product research and development and system maintenance, and intellectual property rights;

(2) Cash River/Finger Fun shall provide certain technical and business support and the consultancy services to the OPCO in return for the service fee;

(3) the OPCO shall not have any similar cooperation with any third party;

(4) the OPCO shall not transfer any of its rights and/or obligations under the Exclusive Business Cooperation and Service Agreement without the prior consent of Cash River/Finger Fun; and

(5) the OPCO grants Cash River/Finger Fun an irrevocable and exclusive right to purchase, or to designate any person to purchase on its behalf, all or part of its assets and business, including, among others, fixed assets, current assets, intellectual property rights, ownership of equity interests in any person within or outside the PRC and the benefit of all contracts entered into by the OPCO at the lowest purchase price as permitted by the PRC laws.

The Exclusive Business Cooperation and Service Agreement is valid for 20 years from their respective signing date and Cash River/Finger Fun shall be entitled to renew the relevant Exclusive Business Cooperation and Service Agreement by written notice to OPCO.

b. Share Disposition and Exclusive Option to Purchase Agreement

Pursuant to the Share Disposition and Exclusive Option to Purchase Agreement:

(1) the shareholder(s) of the OPCO grants Cash River/Finger Fun an irrevocable and exclusive right to purchase, or designate any person to purchase on its behalf, all or part of their respective equity interests in the respective OPCO, in one or more transfers as determined by Cash River/ Finger Fun in its sole discretion at the purchase price(s) of RMB1.00 or such higher amount as required by the PRC laws;

(2) the shareholder(s) of the OPCO covenants or where applicable, jointly and severally covenant that he/she will, among others, waive his/her right of first refusal or pre-emptive right to acquire any equity interests in the OPCO being transferred by another shareholder of the OPCO; and

(3) the OPCO covenants that it will, among others, not distribute profits to its shareholders directly or indirectly, not acquire or make any investment in any person without the prior written consent of Cash River/Finger Fun.

Each of the Share Disposition and Exclusive Option to Purchase Agreements shall be effective from their respective date of signing and remain in effect until all the equity interest held by the registered shareholder(s) of the OPCO has been legally transferred to Cash River/Finger Fun or its nominee(s) in accordance with the Share Disposition and Exclusive Option to Purchase Agreement.

c. Equity Interest Pledge Agreement

Pursuant to the Equity Interest Pledge Agreement:

(1) the shareholder(s) of the OPCO granted to Cash River/Finger Fun a continuing security interest of first priority and subject to no other encumbrances in their respective equity interests in the OPCO, as collateral security for the prompt and full performance of the OPCO's shareholders' obligations under all the Structure Contracts; and

(2) the registered shareholder(s) of the OPCO warranted to Cash River/Finger Fun that all appropriate arrangements had been made and all necessary documents had been executed to ensure that none of their successors, guardians, creditors, spouses and other third parties would adversely impact or hinder the enforcement of the Equity Pledge Agreement in the event of death, loss of legal capacity, bankruptcy, divorce or any other situation of the registered shareholder(s) of the OPCO.

d. Proxy Agreement

The Proxy Agreement, among other things, provides that:

(1) the registered shareholder(s) of the OPCO agrees to authorise Cash River/Finger Fun or the person(s) designated by Cash River/Finger Fun to exercise all of their rights and powers as shareholder, including convening and attending the shareholders' meeting, exercising the voting right and other shareholder's rights and powers, without seeking prior consent from the registered shareholder(s) of the relevant OPCO;

(2) the registered shareholder(s) of the OPCO shall not revoke the authorisation and without the consent of Cash River/Finger Fun, shall not exercise the shareholder's rights and powers;

(3) the OPCO shall inform Cash River/Finger Fun the relevant information relating to the exercise of the shareholder's rights and shall provide all necessary assistance; and

(4) the OPCO and their respective registered shareholder(s) shall not entitled to any indemnity or compensation under the Proxy Agreement.

The Proxy Agreements shall be effective from the date of signing until the registered shareholder(s) of the OPCO ceases to hold equity interests in the OPCO.

The Cooperation Agreement

Reference is made to the announcement of the Company dated 28 December 2015. On 28 December 2015, the Company entered into a Cooperation Agreement in respect of the entrusted development, distribution and operation of mobile games between the Company and Xiamen Mengjia Network Technology Co., Ltd. ("**Xiamen Mengjia**"). Pursuant to the Cooperation Agreement, the Company, through Finger Fun, would entrust Xiamen Mengjia to adapt and develop the animation "Crazy Journey to the West" (「狠西遊」) into a mobile game. After the completion of the game development, Finger Fun would own the software copyrights of such game. At the same time, the Company would act as the exclusive agent for the global distribution and operation of such game through Yunhai Qingtian. Accordingly, the entrusted development fees to Xiamen Mengjia would be paid by the Company, and the operating revenue generated from such game will be shared between the parties of the Cooperation Agreement.

Given that (1) Mr. Liu Xiaosong is the executive Director of the Company and a substantial Shareholder and thus a connected person of the Company; and (2) Xiamen Mengjia is owned as to approximately 36.97% by Mr. Liu Xiaosong and thus an associate of Mr. Liu Xiaosong. Xiamen Mengjia is a connected person of the Company and the transactions conducted under the Cooperation Agreement constitute continuing connected transactions for the Company.

Save as disclosed above, none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2015 (being the date to which the latest audited financial statements of the Group were made up) and up to the Latest Practicable Date, been 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.

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

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company, or any member of the Group which:

(i) was a continuous contract with a notice period of 12 months or more;

(ii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or

(iii) was not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable date, since 31 December 2015, being the date to which the latest audited financial statements of the Group were made up, the Directors confirmed that there has not been any material adverse change in the financial or trading position of the Group.

6. COMPETING INTEREST

As the Latest Practicable Date, none of the Directors nor their respective close associates had any interests in other business, which competes or may compete, either close directly or indirectly with the business of the Group.

7. EXPERTS AND CONSENTS

The following are the names and qualification of the experts who have given its opinions or advice which is included in this circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Greater China Appraisal Limited	independent valuer

As at the Latest Practicable Date, each of the experts named above:

(a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letter, report and/or summary of its opinions and references to its name and logo in the form and context in which they are included;

(b) was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(c) did not have any direct or indirect interest in any assets which had since 31 December 2015 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, from the date of this circular up to and including the date of the EGM:

(a) the Original SP Agreement;

(b) the Supplemental SP Agreement;

(c) the letter from the Independent Board Committee, the text of which is set out in the "Letter from the Independent Board Committee" in this circular;

(d) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the "Letter from Gram Capital" in this circular;

(e) the Valuation Report;

(f) the written consents referred to in the paragraph headed "Experts and consents" in this appendix; and

(g) this circular.

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)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of A8 New Media Group Limited ("**Company**") will be held at 10:30 a.m. on Friday, 12 August 2016 at 23/F, A8 Music Building, No. 1002 Keyuan Road, Hi-tech Park, Nanshan District, Shenzhen, the PRC to consider and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the sale and purchase agreement dated 13 May 2016 and the supplemental agreement dated 22 July 2016 entered into by and among 深圳市雲海情天文化傳播有限公司, a wholly-owned subsidiary of the Company ("**Purchaser A**") and 深圳市浩祥投資有限公司 ("**Purchaser B**", together with Purchaser A, the "**Purchasers**") as purchasers, 畢建偉, 倪凱, 經緯(杭州)創業投資合夥企業(有限合夥) and 北京紅杉信遠股權投資中心(有限合夥) as vendors, Mr. Liu Xiaosong as guarantor and 北京掌文信息技術有限公司 ("**Target**") in relation to the acquisition ("**Acquisition**") of the entire equity interest of the Target by the Purchasers (collectively, the "**SP Agreement**"), at an aggregate consideration of RMB550 million in cash, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) the formation of joint venture company between Purchaser A and Purchaser B as a result of the completion of the Acquisition ("**JV Formation**") be and is hereby approved; and

(c) any one of the directors of the Company ("**Director**") be and is hereby authorised to do all such acts and things as he/she may in his/her discretion consider as necessary, expedient or desirable for the purpose of or in connection with the implementation of the SP Agreement and the transactions contemplated thereunder and the JV Formation and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director consider necessary, appropriate or desirable to implement or give effect to the SP Agreement and the transactions contemplated thereunder and the JV Formation."

On behalf of the Board
A8 New Media Group Limited
Liu Xiaosong
Chairman and Executive Director

Hong Kong, 27 July 2016

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

Principal Place of Business in Hong Kong:
Suite 06-12, 33/F.
Shui On Centre
6-8 Harbour Road, Wanchai
Hong Kong

Notes:

(a) Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

(b) In the case of joint holders of a share, either in person or by proxy, in respect of such shares as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.

(c) To be effective, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(d) The resolution at the Meeting will be taken by poll pursuant to the Listing Rules and the results of the poll will be published on the respective websites of the Stock Exchange and the Company in accordance with the Listing Rules.

As at the date of this notice, the board of Directors comprises:

(1) executive Directors namely Mr. Liu Xiaosong and Mr. Liu Pun Leung; and

(2) independent non-executive Directors namely Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Li Feng.