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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)

CONTINUING CONNECTED TRANSACTIONS THE ENTERING INTO OF THE NEW STRUCTURE CONTRACTS

Reference is made to the sections headed “History and Development” and “Connected Transactions” in the Prospectus in relation to, among other things, the Existing VIE Structure. The Board hereby announces that, the relevant parties as detailed below have entered into the following agreements to change one of the registered shareholders of Huadong Feitian from Mr. Liu, our executive Director and one of the Controlling Shareholders, to Mr. Liu Xiaofeng, the brother of Mr. Liu:

- (1) the Equity Transfer Agreement dated 27 February 2020, pursuant to which Mr. Liu agreed to transfer 75% of the equity interests in Huadong Feitian to Mr. Liu Xiaofeng at a consideration of RMB40,368,125;
- (2) the Termination Agreement dated 13 March 2020, pursuant to which the Existing Registered Shareholders, Cash River and Huadong Feitian agreed that the Existing Structure Contracts in relation to Huadong Feitian shall be terminated; and
- (3) the New Structure Contracts dated 13 March 2020, pursuant to which the Group established the New VIE Structure.

IMPLICATIONS UNDER THE LISTING RULES

Upon the signing of the New Structure Contracts, the financial results of Huadong Feitian will continue to be accounted for and consolidated in the accounts of the Group as if it is a wholly-owned subsidiary of the Company. Mr. Liu is the executive Director and one of the Controlling Shareholders. Given Mr. Liu Xiaofeng, who entered into the New Structure Contracts as one of the New Registered Shareholders of Huadong Feitian, is the brother and accordingly an associate of Mr. Liu, Mr. Liu Xiaofeng is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the New Structure Contracts constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the New Structure Contracts are reproduced from the Existing Structure Contracts as provided under one of the conditions of the IPO Waiver and are on substantially the same terms as those currently in place under the Existing Structure Contracts, the Company has sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed, that the transactions contemplated under the New Structure Contracts would continue to fall within the scope of the IPO Waiver.

BACKGROUND

Reference is made to the sections headed “History and Development” and “Connected Transactions” in the Prospectus in relation to, among other things, the Existing VIE Structure.

The Board hereby announces that, the relevant parties as detailed below have entered into the following agreements to change one of the registered shareholders of Huadong Feitian from Mr. Liu, our executive Director and one of the Controlling Shareholders, to Mr. Liu Xiaofeng, the brother of Mr. Liu:

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- (iii) the New Structure Contracts dated 13 March 2020, pursuant to which the Group established the New VIE Structure.

Accordingly, Huadong Feitian will remain a consolidated affiliated entity of the Company and its financial results will continue to be accounted for and consolidated in the accounts of the Group.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

As disclosed in the Prospectus and as of the date of this announcement, the businesses operated by the Group include the provision of telecommunications value-added services business in the PRC. Pursuant to applicable PRC laws and regulations, foreign investors are restricted to conduct telecommunications value-added services business, and accordingly, the Group has adopted the Existing VIE Structure, which have enabled the Group, through its wholly-owned subsidiary, Cash River, to exercise control over Huadong Feitian that holds the relevant license required for carrying out the such services and operating the aforementioned business) and to consolidate its financial results into the Group’s results.

The reasons for replacing Mr. Liu with Mr. Liu Xiaofeng as one of the New Registered Shareholders of Huadong Feitian are as follows:

(i) Improving the administration efficiency of Huadong Feitian

As Mr. Liu, one of the Existing Registered Shareholders of Huadong Feitian, is responsible for the overall strategic planning and the business operation and management of the Group and travels outside of Shenzhen on a regular basis, there have been practical difficulties to arrange signing of all the relevant documents of Huadong Feitian. For administration efficiency purpose, various administrative matters or filings of Huadong Feitian could be more efficiently and effectively managed by Mr. Liu Xiaofeng, who will work as a full-time consultant of Huadong Feitian.

(ii) Leveraging on Mr. Liu Xiaofeng's management expertise to facilitate the internal control and management of Huadong Feitian and align the interests of Huadong Feitian with that of the Group

The Directors are of the view that Mr. Liu Xiaofeng, who has extensive management experience and in-depth insight in the information technology industry and property management industry, would facilitate the internal control and management of Huadong Feitian. In addition, Mr. Liu Xiaofeng was named as a beneficiary of the Mr. Liu Family Trust on 7 January 2020. With beneficial interests in the Group, the interests of Mr. Liu Xiaofeng are aligned with the management and long-term development of Huadong Feitian as part of the Group.

The PRC Legal Adviser has confirmed that (i) the New Structure Contracts are narrowly tailored to minimise the potential conflict with relevant PRC laws and regulations; (ii) the use of the New VIE Structure and the New Structure Contracts are not in violation of applicable laws and regulations in the PRC; (iii) the New Structure Contracts do not contravene the current articles of association of either Cash River or Huadong Feitian; (iv) the New Structure Contracts would not be deemed as concealing illegal intentions with a lawful form and void under the PRC contract law; and (v) except for the clause providing that an arbitral body may award injunctive relief or winding up orders and that courts in Hong Kong and the Cayman Islands may grant interim remedies which may not be enforceable under the PRC laws, the New Structure Contracts are enforceable under the laws of the PRC. Based on the above and as advised by the PRC Legal Adviser, the Directors are of the view that each of the arrangements under the New VIE Structure conferring significant control and economic benefits from Huadong Feitian is enforceable under the relevant laws and regulations.

The Directors (including the independent non-executive Directors) are of the view that the New VIE Structure is fundamental to the Group's legal structure and business operations in respect of the Group's business, and that each of the New Structure Contracts is on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole. Mr. Liu had material interest in the New Structure Contracts, and accordingly Mr. Liu had abstained from voting at the meeting of the Board to approve the establishment of the New VIE Structure and the entering into of the New Structure Contracts.

As of the date of this announcement, the Company has not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through Huadong Feitian under the New VIE Structure.

EQUITY TRANSFER AGREEMENT

Date: 27 February 2020

Parties: (i) Mr. Liu
(ii) Mr. Liu Xiaofeng

Subject matter: Mr. Liu agreed to transfer 75% of the equity interests in Huadong Feitian to Mr. Liu Xiaofeng at a consideration of RMB40,368,125. The consideration was determined based on arm's length negotiation with reference to the initial investment amount paid by Mr. Liu when he subscribed for the 75% of the equity interests in Huadong Feitian.

Mr. Liu Xiaofeng further undertook to enter into the New Structure Contracts to assume all the rights and obligations of Mr. Liu under the Existing Structure Contracts.

TERMINATION AGREEMENT

Date: 13 March 2020

Parties: (i) Existing Registered Shareholders
(ii) Cash River
(iii) Huadong Feitian

Subject matter: Immediately after the execution of the Equity Transfer Agreement and the completion of registration of change in shareholding at the relevant PRC authority, the parties thereto entered into a series of termination agreements with respect to each of the Existing Structure Contracts and agreed that the Existing Structure Contracts shall be terminated upon the New Structure Contracts becoming effective.

NEW STRUCTURE CONTRACTS

On 13 March 2020, and immediately following the execution of the Equity Transfer Agreement, the completion of registration of change in shareholding at the relevant PRC authority and the termination of the Existing Structure Contracts, Cash River, Huadong Feitian and the New Registered Shareholders entered into a series of agreements comprising of the following to establish the New VIE Structure:

- (i) Exclusive Business Cooperation and Service Agreement;
- (ii) Proxy Agreement;
- (iii) Share Disposal and Exclusive Option to Purchase Agreement; and

(iv) Equity Interest Pledge Agreement.

The New Structure Contracts are in substance a renewal of the Existing Structure Contracts with the following amendments:

- (i) the registered shareholders of Huadong Feitian will be changed from the Existing Registered Shareholders to the New Registered Shareholders, and Mr. Liu Xiaofeng would accordingly assume all rights and obligations of Mr. Liu under the Existing Structure Contracts, including pledging his newly obtained equity interest in Huadong Feitian in favor of Cash River and completing the registration of pledge with the competent PRC governmental authorities; and
- (ii) relevant provisions are modified or inserted in observance of the requirements under HKEx-GL77-14, including the dispute resolution provision which is modified to include the courts of Hong Kong as a competent jurisdiction to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases.

Following the signing of the New Structure Contracts, the financial results of Huadong Feitian will continue to be accounted for and consolidated in the accounts of the Group as if it is a wholly-owned subsidiary of the Company, and Cash River will continue to maintain and exercise control over the operation of Huadong Feitian.

The principal terms of the New Structure Contracts are set out below:

1. Exclusive Business Cooperation and Service Agreement

Date: 13 March 2020

Parties: (i) Cash River
(ii) Huadong Feitian

Subject matter: (i) each of Cash River, the New Registered Shareholders and Huadong Feitian shall cooperate with each other in technical support, business support and related consultancy services which include but not limited to technical service, business consultation, equipment leasing, market consultation, system integration, product research and development and system maintenance, and intellectual property rights;

(ii) Cash River shall provide certain technical and business support and consultancy services to Huadong Feitian in return for the service fee;

(iii) Huadong Feitian shall not have any similar cooperation with any third party;

(iv) Huadong Feitian 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; and

- (v) Huadong Feitian granted Cash River 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 Huadong Feitian at the lowest purchase price as permitted by the PRC laws.

Term: The Exclusive Business Cooperation and Service Agreement is valid for 20 years from the date of signing and Cash River shall be entitled to renew the Exclusive Business Cooperation and Service Agreement by written notice to Huadong Feitian.

2. Proxy Agreement

Date: 13 March 2020

Parties: (i) Cash River
(ii) New Registered Shareholders
(iii) Huadong Feitian

Subject matter: (i) the New Registered Shareholders agreed to authorise Cash River or the person(s) designated by Cash River 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 New Registered Shareholders;

(ii) the New Registered Shareholders shall not revoke the authorisation and without the consent of Cash River, shall not exercise the shareholder's rights and powers;

(iii) Huadong Feitian shall inform Cash River the relevant information relating to the exercise of the shareholder's rights and shall provide all necessary assistance; and

(iv) Huadong Feitian and the New Registered Shareholders shall not be entitled to any indemnity or compensation under the Proxy Agreement.

Term: The Proxy Agreements shall be effective from the date of signing until the New Registered Shareholders are no longer the shareholders of Huadong Feitian.

3. Share Disposal and Exclusive Option to Purchase Agreement

Date: 13 March 2020

Parties: (i) Cash River
(ii) New Registered Shareholders
(iii) Huadong Feitian

Subject matter: (i) the New Registered Shareholders granted Cash River 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 Huadong Feitian, in one or more transfers as determined by Cash River in its sole discretion at the purchase price(s) of RMB1.00, or if the minimum price allowed by the PRC laws then in effect is higher than RMB1.00, then the equity interest purchase price shall be the lowest price allowed by the PRC laws;

(ii) the New Registered Shareholders covenanted or where applicable, jointly and severally covenanted that he/she will, among others, waive his/her right of first refusal or pre-emptive right to acquire any equity interests in Huadong Feitian being transferred by the other New Registered Shareholder; and

(iii) Huadong Feitian covenanted 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.

Term: Each of the Share Disposal and Exclusive Option to Purchase Agreements shall be effective from their respective date of signing and remain in effect until all the equity interests held by the New Registered Shareholders have been legally transferred to Cash River or its nominee(s) in accordance with the Share Disposal and Exclusive Option to Purchase Agreements.

4. Equity Interest Pledge Agreement

Date: 13 March 2020

Parties: (i) Cash River as pledgee
(ii) New Registered Shareholders as pledgors

Subject matter: (i) the New Registered Shareholders granted to Cash River a continuing security interest of first priority and subject to no other encumbrances in their respective equity interests in Huadong Feitian, as collateral security for the prompt and full performance of the New Registered Shareholders' obligations under the New Structure Contracts; and

- (ii) the New Registered Shareholders warranted to Cash River 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 Interest Pledge Agreement in the event of death, loss of legal capacity, bankruptcy, divorce or any other situation of the New Registered Shareholders.

Term: The pledge of equity interests in Huadong Feitian shall become effective on such date when the pledge has been registered with the relevant administration for industry and commerce. The pledge shall be continuously valid until the pledgors, namely the New Registered Shareholders are no longer the registered shareholders of Huadong Feitian.

Confirmations from the New Registered Shareholders

Each of the New Registered Shareholders has confirmed to the effect that he/she warranted to Cash River 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 New Structure Contracts in the event of death, loss of legal capacity, bankruptcy, divorce or any other situation of the New Registered Shareholders.

Our PRC Legal Adviser is of the view that if the above confirmation is strictly observed by relevant parties, (i) the death of any shareholders of Huadong Feitian would not affect the validity of the New VIE Structure, and (ii) the successors of such shareholders would be bound by the New VIE Structure in respect of the equity interest of Huadong Feitian held by such shareholders.

In addition, the New Registered Shareholders confirmed that, subject to requirement by Cash River, they will unwind the New VIE Structure and transfer all of the shares of Huadong Feitian held by them to Cash River or its designee as soon as the applicable laws of the PRC allows Cash River to operate the business operated by Huadong Feitian without the New VIE Structure. Subject to the applicable PRC laws, the New Registered Shareholders must return to Cash River or its designee any consideration they received from Cash River during its acquisition of the shares of Huadong Feitian.

Succession

The New Structure Contracts contain provisions that, such agreements are binding on the respective successors and permitted assignees of the parties thereto as if the successor was a signing party to the New Structure Contracts.

Under the succession law of the PRC, statutory successors may include the spouse, children, parents, siblings, maternal grandparents and paternal grandparents, and if any successor inherits the rights and obligations under the New Structure Contracts, then any breach by the successors would be deemed to be a breach of the New Structure Contracts, in which case Cash River can enforce its rights against such successors.

Our PRC Legal Adviser is of the view that (i) the New Structure Contracts provide protection to the Group even in the event of death or divorce of any New Registered Shareholders and (ii) the death or divorce of any New Registered Shareholders will not affect the validity of the New Structure Contracts, and Cash River can enforce its rights thereunder against the successors of the New Registered Shareholders.

Bankruptcy

Our PRC Legal Adviser has advised that under the PRC laws, there is no concept of bankruptcy of a natural person and hence it is impossible for the New Registered Shareholders to become bankrupt.

In any event, under the Equity Interest Pledge Agreement, it is one of the events of default where any adverse change occurs to the assets of the New Registered Shareholders so that Cash River considers that their ability to perform their obligations under the Equity Interest Pledge Agreement will be affected. In such case, Cash River shall be entitled to declare an event of default and enforce the pledge on the equity interests of Huadong Feitian. Moreover, Cash River may elect to purchase all or part of the equity interests and/or assets (as the case may be) in Huadong Feitian under the Share Disposal and Exclusive Option to Purchase Agreement.

Liquidation

Pursuant to the Share Disposal and Exclusive Option to Purchase Agreement, each of the New Registered Shareholders further covenanted with and undertaken to Cash River that, if either New Registered Shareholders receives any dividends, interest, any other forms of capital distributions, residual assets upon liquidation, or proceeds or consideration from the transfer of equity interest as a result of, or in connection with, such New Registered Shareholder's equity interests in Huadong Feitian, the New Registered Shareholder(s) shall, to the extent permitted by applicable PRC laws, remit all such dividends, interest, capital distributions, assets, proceeds or consideration to entrusted party without any compensation.

Dispute Resolution

Each of the New Structure Contracts contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the New Structure Contracts, any party has the right to submit the relevant dispute to the South China International Economic and Trade Arbitration Commission in Shenzhen for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of Huadong Feitian or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of Huadong Feitian; any party may apply to the

courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company), the PRC and the places where the principal assets of Cash River or Huadong Feitian are located for interim remedies or injunctive relief.

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

As a result of the above, in the event that Huadong Feitian or the New Registered Shareholders breach any of the New Structure Contracts, the Company may not be able to obtain sufficient remedies in a timely manner, and the Company's ability to exert effective control over Huadong Feitian and conduct the Company's business could be materially and adversely affected.

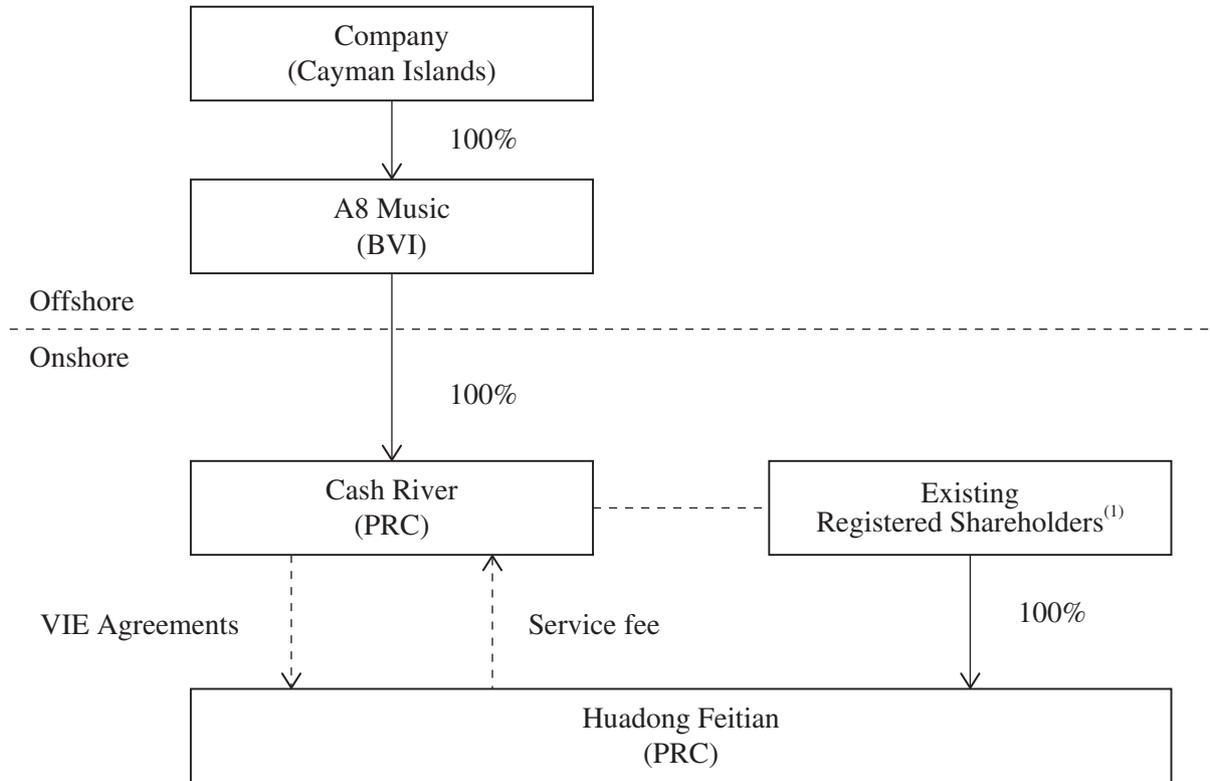
INTERNAL CONTROL MEASURES

To mitigate potential conflict of interests and ensure Cash River's effective control over Huadong Feitian, the following measures have been implemented:

- (i) pursuant to the Share Disposal and Exclusive Option to Purchase Agreements, the New Registered Shareholders and Huadong Feitian irrevocably granted exclusive options to Cash River or its designated nominee(s) to, subject to compliance with applicable PRC laws and regulations, elect to purchase all or part of the equity interests and/or assets (as the case may be) in Huadong Feitian;
- (ii) pursuant to the Proxy Agreements, the New Registered Shareholders irrevocably appointed Cash River or its designee to act as his/her attorney on his/her own behalf to exercise all rights in connection with matters concerning his/her rights as shareholder of Huadong Feitian; and
- (iii) pursuant to the Share Disposal and Exclusive Option to Purchase Agreements, the New Registered Shareholders have undertaken with Cash River not to carry out any actions or omissions which will give rise to conflict of interests between themselves and Cash River (including but not limited to its shareholders) and they shall take appropriate actions as instructed by Cash River in the event a conflict of interests arise (where Cash River has the sole and absolute discretion to determine whether such conflict arise).

DIAGRAMS OF THE GROUP’S EXISTING VIE STRUCTURE AND THE NEW VIE STRUCTURE

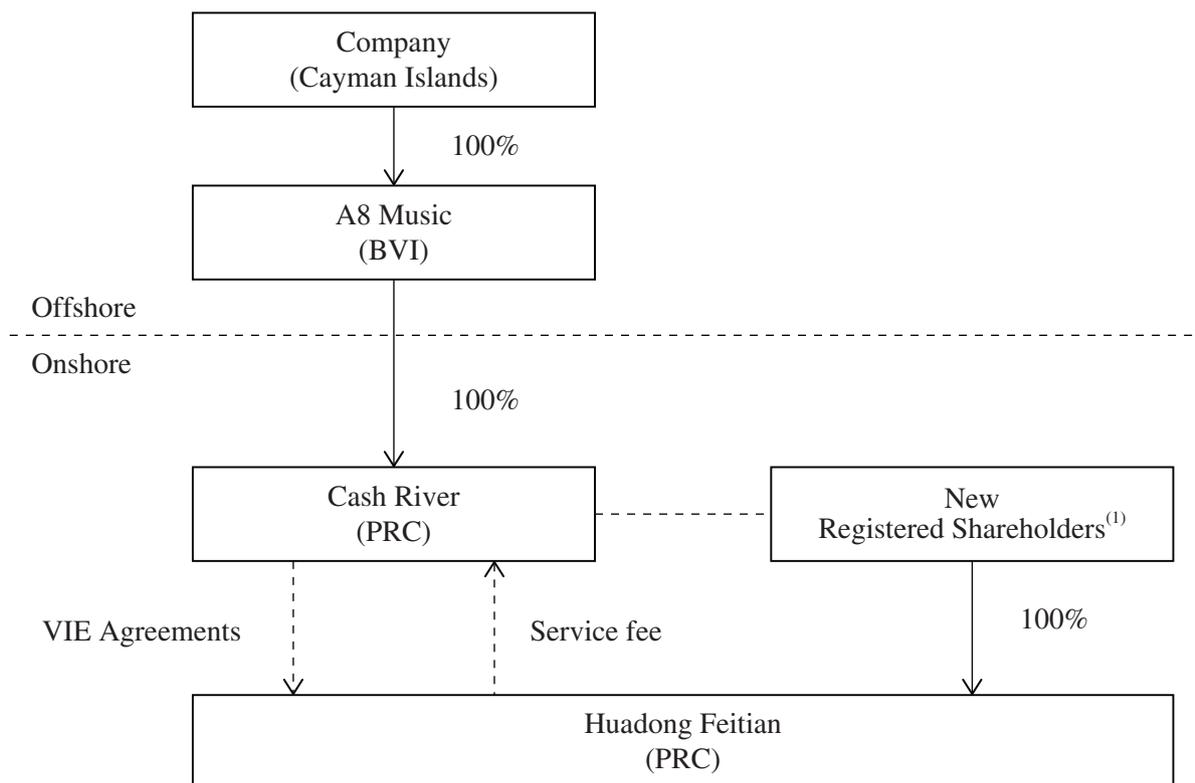
The following simplified diagram illustrates the Group’s Existing VIE Structure prior to the entering of the New Structure Contracts:



Notes:

1. Huadong Feitian is owned by Mr. Liu as to 75% and Ms. Cui Jingtao as to 25%. The shareholding arrangement of Huadong Feitian resulted from the historical fact that Mr. Liu and Ms. Cui Jingtao founded Huadong Feitian and contributed to its early development.
2. “———>” denotes direct legal and beneficial ownership in the equity interest.
3. “----->” denotes contractual relationship.
4. “-----” denotes the control by Cash River over the Existing Registered Shareholders and Huadong Feitian through (1) Proxy Agreements to exercise all shareholders’ rights in Huadong Feitian, (2) exclusive options to acquire all or part of the equity interests in Huadong Feitian and (3) equity pledges over the equity interest in Huadong Feitian.

The following simplified diagram illustrates the New VIE Structure after entering into the New Structure Contracts:



Notes:

1. New Registered Shareholders refer to Mr. Liu Xiaofeng and Ms. Cui Jingtao, who hold 75% and 25% of the equity interest of Huadong Feitian, respectively.
2. “———>” denotes direct legal and beneficial ownership in the equity interest.
3. “----->” denotes contractual relationship.
4. “-----” denotes the control by Cash River over the New Registered Shareholders and Huadong Feitian through (1) Proxy Agreements to exercise all shareholders’ rights in Huadong Feitian, (2) exclusive options to acquire all or part of the equity interests in Huadong Feitian and (3) equity pledges over the equity interest in Huadong Feitian.

RISKS AND LIMITATIONS RELATING TO THE NEW VIE STRUCTURE

The PRC government may determine that the New Structure Contracts do not comply with the applicable laws and regulations

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**FIL**”), which was adopted at the Second Session of the Thirteenth National People’s Congress of the PRC on 15 March 2019 and came into force as of 1 January 2020, provides that “foreign investment” refers to the investment activities in the PRC carried out directly or indirectly by foreign individuals, enterprises or other organizations (the “**Foreign Investors**”), including the following: (i) Foreign Investors establishing foreign-invested enterprises in the PRC alone or collectively with other investors; (ii) Foreign Investors acquiring shares,

equities, properties or other similar rights of Chinese domestic enterprises; (iii) Foreign Investors investing in new projects in the PRC alone or collectively with other investors; and (iv) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. The State Council adopts the management system of pre-establishment national treatment and negative list for foreign investment. The “pre-establishment national treatment” refers to granting to Foreign Investors and their investments, in the stage of investment access, the treatment no less favorable than that granted to domestic investors and their investments; and the “negative list” refers to special administrative measures for access of foreign investment in specific fields as stipulated by the State Council. The State Council will grant national treatment to foreign investments outside of the negative list. The Negative List 2019 was approved by the State Council and released by the relevant authorities on 30 June 2019. After the FIL came into effect, the FIL replaced the Foreign-Owned Enterprise Law and the Sino-foreign Equity Joint Venture Enterprise Law of the PRC.

Possible impact of the FIL

The FIL does not expressly stipulate the VIE structure as a form of foreign investment, we cannot assure you that future laws, administrative regulations or provisions to be issued by the State Council will not deem the VIE structure as a way of foreign investment, and then whether our New VIE Structure will be deemed to be in violation of the foreign investment access requirements remains uncertain. If the New VIE Structure is classified as a way of foreign investment, the Group may be required to terminate the New Structure Contracts and dispose of the business conducted by Huadong Feitian.

The Board will monitor the development of the FIL and discuss with the PRC Legal Adviser on a regular basis in order to assess its possible impacts on the New Structure Contracts and the business of the Company. In case there would be material impacts on the Group’s or Huadong Feitian’s business, the Company will timely publish announcements in relation to (i) any updates or material changes to the FIL and (ii) if any updates or material changes to the FIL is implemented, a clear description and analysis of the law, any material impact on the Company’s operations and financial position and specific measures to be taken to comply with the law (supported by advice from the PRC Legal Adviser).

The New Structure Contracts may not be as effective as direct ownership in providing control over Huadong Feitian

The Group relies on contractual arrangements under the New Structure Contracts with Huadong Feitian to operate the telecommunications value-added services business in the PRC. The New Structure Contracts may not be as effective as direct ownership in providing the Group with control over Huadong Feitian. For example, if Cash River has direct ownership of Huadong Feitian, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of Huadong Feitian. However, under the New Structure Contracts, the Group relies on the performance by the New Registered Shareholders of their obligations under the New Structure Contracts to exercise control over Huadong Feitian.

In addition, if the New Registered Shareholders or Huadong Feitian fail to perform their respective obligations under the New Structure Contracts or otherwise have disputes with the Group, the Group may have to initiate arbitration or other legal proceedings, which involve significant uncertainty. There can be no assurance that the outcome will be in the Group's favour and it may adversely affect the Group's ability to control Huadong Feitian.

The New Registered Shareholders may potentially have a conflict of interests with the Group

The Group's control over Huadong Feitian is based on the contractual arrangement under the New Structure Contracts. Therefore, conflict of interests of the New Registered Shareholders will adversely affect the interests of the Company. Pursuant to the Proxy Agreements, the New Registered Shareholders irrevocably appointed Cash River or its designee as their exclusive agent and authorised person to exercise their rights as the shareholders of Huadong Feitian. Therefore, it is unlikely that there will be potential conflict of interests between the Group and the New Registered Shareholders. However, in the unlikely event that conflict of interests arises and cannot be resolved, the Group will consider removing and replacing the New Registered Shareholders through procuring Cash River to exercise its option under the Share Disposal and Exclusive Option to Purchase Agreements.

The New Structure Contracts may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed

The Group may face material adverse tax consequence if the PRC tax authorities determine that the arrangement under the New Structure Contracts was not entered into on an arm's length basis. If the PRC tax authorities determine that the New Structure Contracts were not entered into on an arm's length basis, they may adjust income and expenses of Cash River and/or Huadong Feitian for PRC tax purposes, which could result in higher tax liabilities on Cash River and/or Huadong Feitian.

The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of Huadong Feitian or Cash River increase significantly or if they are required to pay interest on late payments and other penalties.

Certain terms of the New Structure Contracts may not be enforceable under PRC laws

The New Structure Contracts are governed by the PRC laws and all disputes which cannot be resolved by negotiations will be submitted for arbitration, whose ruling will be final and binding. Accordingly, the New Structure Contracts would be interpreted in accordance with the PRC laws and disputes would be resolved in accordance with PRC legal procedures. The uncertainties in the PRC legal system could limit the Group's ability to enforce the New Structure Contracts. In the event that the Group is unable to enforce the New Structure Contracts, or if the Group suffers significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert control over Huadong Feitian.

The New Structure Contracts provide that the arbitral tribunal of the PRC may award remedies over the equity interests or assets of Huadong Feitian or injunctive relief (such as for the conduct of business and mandatory transfer of equity interest or assets) or order the winding up of Huadong Feitian. The New Structure Contracts also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the

arbitral tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, the Cayman Islands, the PRC and the locations where the principal assets of Huadong Feitian are located.

However, the PRC Legal Adviser is of the view that pursuant to the PRC laws, the arbitral tribunal may have no power to grant the aforementioned remedies or injunctive relief or to issue a provisional or final liquidation order. In addition, even though the New Structure Contracts provide that overseas courts (e.g. courts in Hong Kong and the Cayman Islands) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC laws. As a result, in the event that Huadong Feitian or any of the New Registered Shareholders breaches the terms of the New Structure Contracts, the Group may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over Huadong Feitian could be materially and adversely affected.

Furthermore, notwithstanding the relevant contractual provisions contained in the New Structure Contracts, courts of competent jurisdiction may grant interim remedies only to the extent permitted under the PRC laws. Therefore, such interim remedies may not be available under the PRC laws.

A substantial amount of costs and time may be involved in transferring the ownership of Huadong Feitian to the Group under the Share Disposal and Exclusive Option to Purchase Agreements

The Share Disposal and Exclusive Option to Purchase Agreements granted Cash River or its designee an irrevocable and exclusive right to purchase all or part of the equity interest in Huadong Feitian through a single or a series of transaction(s) at RMB1.00, or if the minimum price allowed by the PRC laws then in effect is higher than RMB1.00, then the equity interest purchase price shall be the lowest price allowed by the PRC laws.

In case Cash River exercises its option to acquire all or part of the equity interests in Huadong Feitian under the Share Disposal and Exclusive Option to Purchase Agreements, such acquisition may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals and relevant procedures under the PRC laws. In addition, such acquisition may be subject to a minimum price limitation (such as an appraised value for the equity interests in Huadong Feitian) or other price limitations as imposed by the applicable PRC laws. Further, a substantial amount of costs and time may be involved in transferring the ownership of Huadong Feitian to Cash River or its designee, which may have a material adverse impact on the Group's business, prospects and results of operation.

The Company does not have any insurance which covers the risks relating to the New Structure Contracts and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the New Structure Contracts and the transactions thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the New Structure Contracts in the future, such as those affecting the enforceability of the New Structure Contracts and the operation of Huadong Feitian, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply

with the applicable laws and regulations. In addition, the Group will implement relevant internal control measures to reduce the operational risk. The Group will continue evaluating the feasibility, the cost and the benefit of insuring the transactions under the New Structure Contracts.

Economic risks that Cash River bears as the primary beneficiary of Huadong Feitian, financial support to Huadong Feitian and potential exposure of the Group to losses

As the primary beneficiary of Huadong Feitian, Cash River will share both profit and loss of Huadong Feitian and bears economic risks which may arise from difficulties in the operation of Huadong Feitian's business. Cash River may have to provide financial support in the event of financial difficulty of Huadong Feitian. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of Huadong Feitian and the need to provide financial support to it.

INFORMATION OF THE PARTIES

The Group is an integrated pan-entertainment service provider with the principal business of providing digital entertainment service and investment property service.

Cash River is a wholly foreign-owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company. Cash River is principally engaged in the services of development of computer software and provision of technical and management consultancy services in the PRC.

Huadong Feitian is a limited liability company established in the PRC and a consolidated affiliated entity of the Company. Huadong Feitian is principally engaged in provision of internet information service and music performance and property investment business in the PRC.

Mr. Liu Xiaofeng is a PRC national and the brother of Mr. Liu. Mr. Liu Xiaofeng will work as a full-time consultant of Huadong Feitian upon the completion of the transactions contemplated under the Equity Transfer Agreement.

IMPLICATIONS UNDER THE LISTING RULES

Following the signing of the New Structure Contracts, the financial results of Huadong Feitian will continue to be accounted for and consolidated in the accounts of the Group as if it is a wholly-owned subsidiary of the Company. Mr. Liu is the executive Director and one of the Controlling Shareholders. Given Mr. Liu Xiaofeng, who entered into the New Structure Contracts as one of the New Registered Shareholders of Huadong Feitian, is the brother and accordingly an associate of Mr. Liu, Mr. Liu Xiaofeng is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the New Structure Contracts constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the New Structure Contracts are reproduced from the Existing Structure Contracts as provided under one of the conditions of the IPO Waiver and are on substantially the same terms as those currently in place under the Existing Structure Contracts, the Company has

sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed, that the transactions contemplated under the New Structure Contracts would continue to fall within the scope of the IPO Waiver.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meanings ascribed to them below:

“A8 Music”	A8 Music Group Limited, a company incorporated in the British Virgin Islands, a wholly-owned subsidiary of the Company
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Cash River”	佳仕域信息科技(深圳)有限公司 (Cash River Information Technology (Shenzhen) Co. Ltd.*), a wholly foreign-owned enterprise established in the PRC on 10 December 2003 and an indirect wholly-owned subsidiary of the Company
“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)
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Equity Interest Pledge Agreement”	the equity interest pledge agreement dated 13 March 2020 between Cash River and the New Registered Shareholders as further detailed in the section headed “ Equity Interest Pledge Agreement ”
“Equity Transfer Agreement”	the equity transfer agreement dated 27 February 2020 between Mr. Liu and Mr. Liu Xiaofeng as further detailed in the section headed “ Equity Transfer Agreement ”
“Exclusive Business Cooperation and Service Agreement”	the exclusive business cooperation and service agreement dated 13 March 2020 between Cash River and Huadong Feitian as further detailed in the section headed “ Exclusive Business Cooperation and Service Agreement ”
“Existing Registered Shareholders”	Mr. Liu and Ms. Cui Jingtao

“Existing Structure Contracts”	collectively, the equity interest pledge agreement, the exclusive business cooperation and service agreement, the proxy agreement and the share disposal and exclusive option to purchase agreement by and among the Existing Registered Shareholders, Huadong Feitian and Cash River
“Existing VIE Structure”	the existing structure established through the entering into of the Existing Structure Contracts, which enables Cash River to effectively hold and control Huadong Feitian
“Group” or “our”	the Company and its subsidiaries
“HKEx-GL77-14”	the guidance letter HKEx-GL77-14 “Guidance on listed issuers using contractual arrangements for their businesses” published by the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huadong Feitian”	深圳市華動飛天網絡技術開發有限公司 (Shenzhen Huadong Feitian Network Development Co., Ltd.*), a limited liability company established in the PRC on 22 May 2000
“IPO Waiver”	the waiver granted by the Stock Exchange to the Company from strict compliance with the requirements under in Chapter 14A of the Listing Rules in respect of the transactions under the Existing Structure Contracts, details of which are further described in the sections headed “History and Development” and “Connected Transactions” in the Prospectus
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Liu”	Mr. Liu Xiaosong (劉曉松), the Chairman of the Board, an executive Director and one of the Controlling Shareholders
“Mr. Liu Family Trust”	a family trust set up by Mr. Liu, which wholly owns Ever Novel Holdings Limited (being one of the Controlling Shareholders), with HSBC International Trustee Limited as the trustee
“Negative List 2019”	the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2019 Version) (外商投資准入特別管理措施(負面清單) (2019年版))
“New Registered Shareholders”	Mr. Liu Xiaofeng (劉曉峰) and Ms. Cui Jingtao

“New Structure Contracts”	collectively, the Equity Interest Pledge Agreement, the Exclusive Business Cooperation and Service Agreement, the Proxy Agreement and the Share Disposal and Exclusive Option to Purchase Agreement, details of which are set out in the section headed “ New Structure Contracts ”
“New VIE Structure”	the new structure established through the entering into of the New Structure Contracts, which enables Cash River to effectively hold and control Huadong Feitian
“PRC”	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Adviser”	Tian Yuan Law Firm, the legal adviser to the Company as to the PRC laws
“Prospectus”	the prospectus of the Company dated 28 May 2008
“Proxy Agreement”	the proxy agreement dated 13 March 2020 between Cash River, the New Registered Shareholders and Huadong Feitian as further detailed in the section headed “ Proxy Agreement ”
“Share Disposal and Exclusive Option to Purchase Agreement”	the share disposal and exclusive option to purchase agreement dated 13 March 2020 between Cash River, the New Registered Shareholders and Huadong Feitian as further detailed in the section headed “ Share Disposal and Exclusive Option to Purchase Agreement ”
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Termination Agreement”	the termination agreement dated 13 March 2020 between the Existing Registered Shareholders, Cash River and Huadong Feitian as further detailed in the section headed “ Termination Agreement ”
“VIE”	variable interest entity(ies)
“%”	per cent

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

Hong Kong, 13 March 2020

As at the date of this announcement, the Board of the Company comprises:

- (1) Executive Directors namely Mr. Liu Xiaosong and Mr. Lin Qian; and*
- (2) Independent Non-Executive Directors namely Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Li Feng.*