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SinoMedia[®]

SINOMEDIA HOLDING LIMITED
中視金橋國際傳媒控股有限公司
(incorporated in Hong Kong with limited liability)
(Stock Code: 623)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2016

Reference is made to the annual report (the "Annual Report") of the Company for the year ended 31 December 2016 published on 28 April 2017. Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Annual Report.

In addition to the information provided in the Annual Report, the Company would like to further inform the shareholders and potential investors of the Company the following additional information in relation to the Structure Contracts.

INFORMATION ON VIE STRUCTURE

Background

As disclosed in the announcement of the Company dated 27 October 2011, CTV Media (Shanghai) has on 27 October 2011 entered into the Structure Contracts with the Legal Owners thereby adopting the VIE Structure. Under the VIE Structure, the Group is able to exercise 100% control over Culture Development in substance notwithstanding the absence of legal ownership. Culture Development was established on 24 November 2011 and has since been accounted as a subsidiary of the Group by virtue of the VIE Structure.

Summary of major terms of the Structure Contracts

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

1 The Loan Agreement

- Date: 27 October 2011
- Parties: (i) CTV Media (Shanghai)
- (ii) Mr. Chen
- (iii) Ms. Liu

Major Terms: CTV Media (Shanghai) as the lender shall lend to each of Mr. Chen and Ms. Liu, as the borrowers, RMB15,000,000 (i.e. RMB30,000,000 in total) for their onward investment in Culture Development such that they will together have 100% equity interest in Culture Development.

The Loan Agreement stipulates that:

- (i) the loan must only be repaid by way of the Legal Owners transferring their respective equity interest in Culture Development to CTV Media (Shanghai) or CTV Media (Shanghai)'s nominee;
- (ii) the loan is interest-free and may only be used by the Legal Owners for the purpose of investing in Culture Development; and
- (iii) none of the Legal Owners can transfer their respective interest in Culture Development to any third party.

2 *The Voting Trust and Share Purchase Option Agreement*

Date: 27 October 2011

Parties: (i) CTV Media (Shanghai)
(ii) Mr. Chen
(iii) Ms. Liu

Period: 10 years with effect from 27 October 2011, which shall be renewed for another 10 years if CTV Media (Shanghai) elected to do so.

Major Terms: The Legal Owners, being the shareholders of Culture Development, have granted the full power and authority to CTV Media (Shanghai) and its nominee to:

- (i) exercise the shareholder's voting rights in Culture Development in accordance with applicable laws and the articles of Culture Development;
- (ii) appoint and remove the legal representative, company secretary and director of Culture Development; and
- (iii) change the bank signatories of Culture Development.

CTV Media (Shanghai) or its nominee shall be entitled to exercise an option to purchase the Legal Owners' equity interest in Culture Development at the consideration being either the net assets value of Culture Development or the minimum price allowed by applicable laws if such transfer of equity interest is allowed by the applicable PRC laws.

3 *The Equity Pledge Agreement*

Date: 27 October 2011

Parties: (i) CTV Media (Shanghai)

(ii) Mr. Chen

(iii) Ms. Liu

Major Terms: The Legal Owners pledge their respective interest in Culture Development as well as any dividend generated from such interests to CTV Media (Shanghai) to secure Culture Development's due performance of its obligations under the Exclusive Consulting Service Agreement and the Non-exclusive Trademark Licence Agreement.

4 *The Exclusive Consulting Service Agreement*

Date: 27 October 2011

Parties: (i) CTV Media (Shanghai)

(ii) Culture Development

Period: 10 years with effect from 27 October 2011, which shall be automatically renewed for another 10 years unless CTV Media (Shanghai) serves notice in writing to Culture Development prior to expiry of the initial term.

Major Terms: CTV Media (Shanghai) shall provide to Culture Development certain consulting services, including but not limited to problem-based solution design, business and strategic planning, clientele management and development etc. at the agreed service fees. The service fee will be payable to CTV Media (Shanghai) by Culture Development each year, being 10% of the revenue of Culture Development, and such service fee is determined with reference to (i) the complexity of the services provided; (ii) the time spent on such services; (iii) the value of such services; and (iv) the prevailing market price for such services.

5 *The Non-exclusive Trademark Licence Agreement*

Date: 27 October 2011

Parties: (i) CTV Media (Shanghai)

(ii) Culture Development

- Period: 10 years with effect from 27 October 2011, which shall be automatically renewed for another 10 years unless either party objects in writing prior to expiry of the initial term.
- Major Terms: CTV Media (Shanghai) shall grant to Culture Development a non-exclusive right to use certain trademarks of CTV Media (Shanghai) in the PRC, at a consideration of 10% of the revenue of Culture Development per annum.

Information on Culture Development

Culture Development is a company established under the laws of the PRC and is owned (i) as to 50% by Mr. Chen, an executive Director and the chairman of the Company, and (ii) as to 50% by Ms. Liu, an executive Director and the chief executive officer of the Company. Culture Development is engaging in the business of production and operation of broadcasting and television programs in the PRC.

During the year ended 31 December 2015, Culture Development recorded a revenue of approximately RMB20.97 million and a loss of approximately RMB1.01 million. As at 31 December 2015, the total assets and net assets of Culture Development were approximately RMB324.40 million and RMB23.88 million respectively.

During the year ended 31 December 2016, Culture Development recorded a revenue of approximately RMB25.77 million and a loss of approximately RMB7.07 million. As at 31 December 2016, the total assets and net assets of Culture Development were approximately RMB328.36 million and RMB16.90 million respectively.

Reasons for adopting the VIE Structure

As advised by the Company's PRC legal adviser, under the regulations of the Catalogue of Industries for Guiding Foreign Investment (2017 Revision) (《外商投資產業指導目錄 (2017年修訂)》) promulgated by of the National Development and Reform Commission and the Ministry of Commerce of the PRC, the business of production and operation of broadcasting and television programs falls within the "restricted" category which prohibits foreign investment. As such, CTV Media (Shanghai) being a 99.7% owned subsidiary of the Company and a sino-foreign joint venture as well as any subsidiary of the Company are prohibited from engaging in the production and operation of broadcasting and television programs in the PRC owing to the aforesaid restriction. On the other hand, as Culture Development is not a foreign-invested enterprise, Culture Development can obtain and has obtained the Radio and TV Program Production and Business Operation License (廣播電視節目製作經營許可證) in accordance with applicable PRC laws for conducting the business of production and operation of broadcasting and television programs.

Accordingly, CTV Media (Shanghai) entered into the Structure Contracts with Culture Development and the Legal Owners whereby CTV Media (Shanghai) can exercise full control over Culture Development and consolidate the financial results of Culture Development into the accounts of the Company as if it was a subsidiary of the Company, and at the same time addressing the aforementioned foreign ownership restriction. The adoption of the VIE Structure is essential for the Company to engage in the business of production and operation of broadcasting and television programs in the PRC.

Risks related to the VIE Structure

1. *Potential changes in the PRC foreign investment legal regime*

Notwithstanding the PRC legal adviser is of the view that the Structure Contracts do not contravene with any applicable laws and regulations, there is uncertainty regarding the interpretation and applicability of the PRC laws and regulations such that the PRC government may determine that the Structure Contracts do not comply with the applicable laws and regulations of the PRC.

Moreover, on 19 January 2015, the Ministry of Commerce of the PRC circulated Foreign Investment Law of the People's Republic of China (Draft for Comment) (中華人民共和國外國投資法 (草案徵求意見稿), “**Draft Law**”), which contains proposed changes to the PRC foreign investment legal regime and the treatment of the variable interest entity (“**VIE**”) structure. The Draft Law (i) expressly specifies that foreign investments include situations where foreign investors obtain direct or indirect control or interests in the PRC enterprises through structured contracts, trust or other ways and (ii) implement a standardized foreign investment system and management system on restrictions on foreign investments under the prohibited and restricted lists. The Draft Law, if adopted, may have material impact on the PRC foreign investment legal regime.

As advised by the PRC legal adviser, since the Draft Law is not a bill or draft law under the relevant legislative law in the PRC, it does not have the effect of law and therefore poses no material impact on the Structure Contracts.

2. *There may be limitations in exercising the purchase rights to acquire equity interest in Culture Development*

The Company adopted the VIE Structure in order to indirectly participate in the business of production and operation of broadcasting and television programs in the PRC and will unwind the VIE Structure as soon as the law allows such business to be operated by foreign investors in the PRC without the VIE Structure. However, CTV Media (Shanghai)'s acquisition of the shares and equity interest in Culture Development may only be conducted to the extent as permitted by applicable PRC laws and may also be subject to substantial costs. Under the Voting Trust and Share Purchase Option Agreement, CTV Media (Shanghai) or its nominee shall be entitled to exercise an option to purchase the Legal Owners' equity interest in Culture Development at the consideration either the net assets value of Culture Development or the minimum price allowed by applicable laws if such transfer of equity interest is allowed by the applicable PRC laws

3. *The Group depends upon the VIE Structure to control and obtain economic benefits from Culture Development, which may not be as effective as direct ownership*

The Group conducts its business of production and operation of broadcasting and television programs in the PRC indirectly through Culture Development by the VIE Structure, pursuant to which the Group has control over the operations and assets of Culture Development and is entitled to the economic benefits with respect to Culture Development's business. However, the VIE Structure may not be as effective in providing the Group with control over Culture Development as direct ownership.

If the Group had direct ownership of Culture Development, the Group would be able to exercise its rights directly as a registered shareholder to effect changes in the board of directors of Culture Development, which in turn could effect changes at the management level, subject to any applicable fiduciary obligations. However, under the VIE Structure, the Group will rely on Culture Development and its shareholders' (i.e. the Legal Owners) performance of their contractual obligations to exercise effective control.

However, as described in the paragraph headed "The Voting Trust and Share Purchase Option Agreement" of this announcement, CTV Media (Shanghai) is granted with various shareholder's rights which enable CTV Media (Shanghai) to fully control the performance on the part of Culture Development and the Legal Owners of the Structure Contracts without their cooperation. Further, The Company has also put in place the following internal controls to safeguard its assets held through the Structure Contracts:

- the seals, chops, incorporation documents of Culture Development are kept at the office of CTV Media (Shanghai) to the extent permitted by PRC laws;
- CTV Media (Shanghai) is involved in making corporate strategy, business plan and budgets of Culture Development;
- terms of appointment of senior management of Culture Development are subject to review by CTV Media (Shanghai); and
- CTV Media (Shanghai) is involved in assessing material financial matters of Culture Development.

4. *There may be potential conflicts of interest between the Legal Owners and the Company or CTV Media (Shanghai)*

Culture Development and its registered shareholders, the Legal Owners, may fail to take certain actions required for the Group's running of the business of production and operation of broadcasting and television programs in the PRC or to follow the Group's instructions despite their contractual obligations to do so. If they fail to perform their obligations under the relevant Structure Contract, the Group may have to rely on legal remedies under PRC laws which may not be effective.

However, given the Legal Owners are executive Directors as well as controlling shareholders of the Company, the Company is of the view that the Legal Owners' interest align with that of the Company and that the risk of the Legal Owners failing to perform their obligations under the Structure Contracts is remote.

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

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or scrutiny by the tax authorities within ten years after the taxable year when the transactions are conducted. The Group could face material adverse tax consequences if the PRC tax authorities determine that the Structure Contracts do not represent arm's length negotiations and therefore constitute unfavourable transfer pricing arrangements. Unfavourable transfer pricing arrangements could, among other things, result in an upward adjustment of the amount of tax that CTV Media (Shanghai) or Culture Development is required to pay. In addition, the PRC tax authorities may impose interest on late payments on CTV Media (Shanghai) or Culture Development for the adjusted but unpaid taxes. However, the Structure Contracts have been negotiated and executed based on an equal standing and reflect the true commercial intention of CTV Media (Shanghai) or Culture Development.

Material changes in relation to the Structure Contracts

During the year ended 31 December 2016 and as at the date of this announcement, there has been no material change in the Structure Contracts and/or the circumstances under which they were adopted.

Unwinding the VIE Structure

The Directors confirm that the Company will unwind the VIE Structure as soon as PRC laws and regulations allow the business of Culture Development to be operated without the VIE Structure.

However, for the year ended 31 December 2016 and as at the date of this announcement, none of the Structure Contracts have been unwound as none of laws regulating the business of Culture Development that led to the adoption of the Structure Contracts has been removed.

The above additional information does not affect other information contained in the Annual Report and the content of the Annual Report remains unchanged.

DEFINITION

Unless the context otherwise required, the following terms shall have the meaning set opposite to them in this announcement:

“Board”	the board of Directors
“Company”	SinoMedia Holding Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 623)

“CTV Media (Shanghai)”	CTV Golden Bridge International Media Group Co., Ltd.* (中視金橋國際傳媒集團有限公司), a sino-foreign equity joint venture enterprise which is owned as to 99.7% by the Company
“Culture Development”	CTV Golden Bridge Culture Development (Beijing) Company Limited* (中視金橋文化發展(北京)有限公司), a company established under the laws of the PRC with limited liability which is owned as to 50% by Mr Chen and 50% by Ms. Liu
“Directors”	directors of the Company
“Equity Pledge Agreement”	the equity pledge agreement dated 27 October 2011 entered into among CTV Media (Shanghai) and the Legal Owners
“Exclusive Consulting Service Agreement”	the exclusive consulting service agreement dated 27 October 2011 entered into between CTV Media (Shanghai) and Culture Development
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Legal Owners”	Mr. Chen and Ms. Liu
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Agreement”	the loan agreement dated 27 October 2011 entered into among CTV Media (Shanghai) and the Legal Owners
“Mr. Chen”	Mr. Chen Xin, a Director and the chairman of the Company
“Ms. Liu”	Ms. Liu Jinlan, a Director and the chief executive officer of the Company
“Non-exclusive Trademark Licence Agreement”	the non-exclusive trademark licence agreement dated 27 October 2011 entered into between CTV Media (Shanghai) and Culture Development
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macao Special Administrative Region and Taiwan, for the purposes of this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Structure Contracts”	collectively (1) the Loan Agreement; (2) the Voting Trust and Share Purchase Option Agreement; (3) the Equity Pledge Agreement; (4) the Exclusive Consulting Service Agreement and (5) the Non-exclusive Trademark Licence Agreement
“VIE Structure”	the contractual arrangement pursuant to the Structure Contracts for the Group to indirectly participate in the production and operation of broadcasting and television programs business in the PRC
“Voting Trust and Share Purchase Option Agreement”	the voting trust and share purchase option agreement dated 27 October 2011 entered into among CTV Media (Shanghai), Culture Development and the Legal Owners

On behalf of the Board
SinoMedia Holding Limited
Chen Xin
Chairman

Hong Kong, 14 February 2018

The English translation of Chinese names or words in this announcement, where indicated by “”, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words*

As at the date of this announcement, the Board comprises Mr. Chen Xin, Ms. Liu Jinlan and Mr. Li Zongzhou as executive directors, and Mr. Qi Daqing, Mr. Lian Yuming, Ms. Wang Xin and Mr. He Hui David as independent non-executive directors.