THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Nan Hai Corporation Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

南海控股有限公司*

NAN HAI CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 680)

MAJOR TRANSACTIONS IN RELATION TO THE ACQUISITION

* *For identification purpose only*

23 June 2017

CONTENTS

In this circular, unless the contents otherwise requires, the following expressions have the meanings as set out below:

"Acquisition"	the Sale Shares Acquisition, the Xin Ye Share Transfer and the Loan Repayment
"Additional Leases"	has the meaning as set out in the section headed "Leases"
"Adjustment Amount"	the absolute dollar amount of the difference between the Joint Amount and the Third Guarantee Amount
"Adjustments"	has the meaning as set out in the section headed "Adjustments to the Consideration"
"Agreed Lease Terms"	has the meaning as set out in the section headed "Leases"
"Agreed Renewal Terms"	has the meaning as set out in the section headed "Leases"
"Amended SPA"	the SPA as amended by the Supplemental Agreement
"Amount Payable"	has the meaning as set out in the section headed "Default of Xin Ye"
"Audited Accounts"	the audited consolidated financial statements of OSGH (China) Group as at 31 December 2016
"Authorised Trademarks"	the trademarks which are granted by the Remaining Vendor Group for the use of the Purchaser in respect of the operation of cinema in the PRC
"Board"	the board of Directors
"Business Day(s)"	a day on which commercial banks in the PRC and Hong Kong are open for business (excluding Saturdays, Sundays and public holidays)
"China" or "PRC"	the People's Republic of China, for the purposes of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Clearance Date"	has the meaning as set out in the section headed "Conditions Precedent to Completion"

"Closing Accounts"	the audited (i) consolidated balance sheet as at the Completion Date, and (ii) consolidated profit or loss statement and cash flow statement for the period from 1 January 2017 to the Completion Date of the OSGH (China) Group conducted by an independent auditor agreed by the Purchaser and the Vendor within 6 months from the Completion Date
"Company"	Nan Hai Corporation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the Stock Exchange (stock code: 680)
"Completion"	satisfaction (or waiver) of the Conditions Precedent
"Completion Date"	the Business Day following the Registration Date (if condition (e) under the section headed "Conditions Precedent to Completion" in the Letter from the Board has not been waived by the Purchaser); or the tenth Business Day following the Completion Date (if condition (e) under the section headed "Conditions Precedent to Completion" in the Letter from the Board has been waived by the Purchaser)
"Conditions Precedent"	the conditions precedents to Completion as set out in the section headed "Conditions Precedent to Completion"
"connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"Consideration"	the estimated amount of approximately RMB3.286 billion, subject to the Adjustments
"Controlling Shareholder Group"	Rosewood Assets Ltd., Pippen Limited, Staverley Assets Limited and First Best Assets Limited, companies indirectly wholly-owned by Mr. Yu Pun Hoi (an executive Director) through Dadi Holdings Limited, which each holds 7,904,600,210 Shares, 14,830,245,497 Shares, 4,893,197,974 Shares and 9,544,736,998 Shares, respectively, and together hold 37,172,780,679 Shares, representing 54.15% of the issued share capital of the Company as at the Latest Practicable Date
"Corporate Income Tax"	the corporate income tax in the PRC payable by the Vendor Guarantor pursuant to the Sale Shares Acquisition
"Creditors"	the Target Group's creditors

"Dadi Cinema Management"	Dadi Cinema Management Limited* (大地影院管理有限公司), being an indirect subsidiary of the Company and the nominee of the Purchaser
"Deposit"	the amount equivalent in USD of RMB200 million payable by the Purchaser to the Offshore Bank Account on the Business Day following the Signing Date and which is non-refundable subject to the terms set out under the section headed "Conditions Precedent to Completion"
"Director(s)"	the director(s) of the Company
"Disposed Companies"	Beijing Orange Sky Golden Harvest Food Limited Company* (北京橙天嘉禾橙食品有限公司), Jiashi, Orange Sky Golden Harvest Sanlitun (Beijing) Cinema Management Company Limited* (北京橙天嘉禾三里屯影城管理有限公司), Beijing Sixiang Wuxian Culture Media Limited Company* (北京司響無限文化傳媒有限公司), Shenzhen City Phoenix Digital Company Limited* (深圳市粵凰數碼科技有限公司) and OSGH Finance Limited (BVI)
"Earnest Sum"	a sum of RMB10 million which has been paid by the Purchaser to the Vendor pursuant to the Memorandum of Understanding
"Enlarged Group"	the Group and the Target Group
"Escrow Account"	the bank account designated by the Escrow Agent
"Escrow Agent"	the escrow agent, being an independent third party, appointed by the Vendor and the Purchaser for the purpose of managing the Escrow Account
"EV/S Ratio"	has the meaning as set out in the section headed "Consideration and payment terms"
"Expiry Date"	has the meaning as set out in the section headed "Leases"
"Extended Long Stop Date"	the last Business Day of the month after the Long Stop Date, or any other date as agreed by the Purchaser and the Vendor
"First Guarantee Amount"	the deposit amounting to RMB190 million payable by the Purchaser to the Security Account on the Business Day following the Signing Date
"Five New Leases"	has the meaning as set out in the section headed "Leases"

"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Identified Lease"	one particular existing lease of the Target Group
"Jiashi"	Shanghai Orange Sky Jiaying Shiye Limited Company* (上海橙天嘉影實業有限公司), being the subsidiary company of the Vendor
"Jining Cinema"	Jining Cinema* (濟寧影城) located at Guhuai Road, Shi Zhong District, Jining City, Shandong Province, the PRC
"Joint Amount"	the amount of RMB300 million being paid to the Joint Bank Account by the Purchaser to the Vendor on the Completion Date
"Joint Bank Account"	the onshore bank account designated by the Vendor and the Purchaser
"Latest Practicable Date"	means 19 June 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Repayment"	the loan repayment of RMB250 million on the Business Day following the Completion Date, which comprises of repayment of shareholder loans of (i) RMB219.9 million by OSGH (China) to Jiashi, and (ii) RMB30.1 million by Beijing Golden Harvest Cinemas Management Consulting Company Limited* (北京嘉禾影城管理諮詢有限公司), a related party of OSGH (China), to Jiashi
"Loan Repayment Agreement"	the loan repayment agreement dated 25 January 2017 entered into between the Company, OSGH (China) and Jiashi in respect of the Loan Repayment
"Long Stop Date"	being 12 months from the Signing Date
"Management Accounts"	the management accounts of OSGH (China) Group as at 31 December 2016

"Memorandum of Understanding"	the memorandum of understanding dated 21 December 2016 entered into between the Vendor and Dadi Cinema (HK) Limited, an indirect wholly-owned subsidiary of the Company
"Net Debt Adjustment Amount"	means the absolute value of the difference between the Net Debt Value in the Audited Accounts and the Closing Accounts
"Net Debt Value"	means the amount equivalent to the aggregate value of bank loans, finance leases and amount payable for the completed acquisition of cinemas, which such acquisitions have been completed, of the OSGH (China) Group, deducting the aggregate value of cash equivalents (excluding the Xin Ye Shares Consideration) and advanced payment for the acquisition of cinemas, which such acquisitions have not been completed, of the OSGH (China) Group
"Offshore Bank Account"	the offshore bank account designated by the Vendor
"Offshore Consideration Payment"	the amount equivalent in USD of not less than RMB1.92 billion to the Escrow Account
"Online Appointment Notice"	the online appointment notice received upon submission of the application for the registration of the change of shareholder of OSGH (China)
"OSGH (China)"	Orange Sky Golden Harvest Cinemas (China) Company Limited* (橙天嘉禾影城(中國)有限公司), a company with limited liability established in the PRC, which is owned as to 92.59% by the Target Company and 7.41% by Xin Ye
"OSGH (China) Group"	OSGH (China) and its subsidiaries
"P/S Ratio"	has the meaning as set out in the section headed "Consideration and payment terms"
"Outstanding Amount"	the outstanding amount in the Security Account which has not been transferred to the Offshore Bank Account after 12 months from the Completion Date
"Payment Obligation"	has the meaning as set out in the section headed "Default of Xin Ye"
"Period"	has the meaning as set out in the section headed "Leases"
"PRC Tax Payment"	the amount equivalent to the Corporate Income Tax which will be paid by the Purchaser

"Purchaser"	True Vision Limited, a company incorporated under the laws of Hong Kong, an indirect wholly-owned subsidiary of the Company
"Registration"	the applicable registration procedures with local authorities to effect the Xin Ye Share Transfer
"Registration Date"	the date of completion of the Registration
"Remaining Vendor Group"	the Vendor Group (excluding the Target Company and its subsidiaries)
"Renewal Period"	has the meaning as set out in the section headed "Leases"
"Repurchase"	has the meaning as set out in the section headed "Default of the Target Company"
"Repurchase Date"	has the meaning as set out in the section headed "Default of the Target Company"
"RMB"	Renminbi, the lawful currency of the PRC
"Sale"	has the meaning as set out in the section headed "Default of the Target Company"
"Sale Date"	has the meaning as set out in the section headed "Default of the Target Company"
"Sale Shares"	the entire issued and fully paid-up share capital of the Target Company
"Sale Shares Acquisition"	the acquisition of the Sale Shares by the Purchaser pursuant to the terms and conditions of the Amended SPA
"Second Guarantee Amount"	the deposit, the amount of which equals to the Consideration deducting the Offshore Consideration Payment, the Deposit, the Total First Guarantee Amount, the Joint Amount and the PRC Tax Payment
"Security Account"	the onshore bank account of Jiashi
"Security Deposit"	has the meaning as set out in the section headed "Xin Ye Agreement"

"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company, or if there has been a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company
"Shareholder(s)"	the holder(s) of the Shares
"Signing Date"	the date of the signing of the SPA
"SPA"	the sale and purchase agreement dated 25 January 2017 entered into by the Vendor, the Vendor Guarantor, the Purchaser and the Company, pursuant to which the Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the Sale Shares at the Consideration (subject to the Adjustments)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental sale and purchase agreement dated 7 March 2017 entered into by the Vendor, the Vendor Guarantor, the Purchaser and the Company, pursuant to which the parties agreed that, conditional upon the Target Company, Xin Ye, Dadi Cinema Management (being the nominee of the Purchaser) and the Company entering into the Xin Ye Agreement, to amend and add certain terms to the SPA
"Target Company"	City Entertainment Corporation Limited (橙天嘉禾影城有限公司), a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Vendor Guarantor, and holds approximately 92.59% of the issued share capital of OSGH (China)
"Target Group"	the Target Company and its subsidiaries (excluding the Disposed Companies), and upon Completion, the Target Company and the OSGH (China) Group
"Tenancy Agreement"	the tenancy agreement dated 2 November 2015 entered into by M Cinemas Company Limited and Foxton Investments Limited
"Third Guarantee Amount"	the deposit, the amount of which equals to the Consideration (as adjusted pursuant to the Adjustments) deducting the Deposit, the Offshore Consideration Payment, the Total First Guarantee Amount, the Second Guarantee Amount and the PRC Tax Payment

"Total First Guarantee Amount"	the aggregate amount of the First Guarantee Amount and the Earnest Sum (which will be transferred to the Security Account on the Business Day following the Signing Date)
"Total Guarantee Amount"	has the meaning as set out in the section headed "Payment of Third Guarantee Amount"
"Trademark License Agreement"	the trademark licence agreement to be entered into between the licensor under the Remaining Vendor Group and the licensee under the Target Group
"Transaction Documents"	the SPA, the Supplemental Agreement and the Trademark License Agreement
"Transfer"	has the meaning as set out in the section headed "Payment of Third Guarantee Amount"
"USD"	United States dollar, the lawful currency of the United States of America
"Vendor"	Giant Harvest Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Vendor Guarantor
"Vendor Group"	the Vendor Guarantor, the Vendor and their respective subsidiaries from time to time (but excluding, after the Completion, the Target Group)
"Vendor Guarantor"	Orange Sky Golden Harvest Entertainment (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1132)
"Wan Ke Hong Cinema"	Wan Ke Hong Cinema* (萬科紅影城) located at Wankehong Shenghuo Square, Bujijinlong Road, Long Gang District, Shenzhen, the PRC
"Whampoa Cinema"	GH Whampoa, 2nd and 3rd Floor of the Commercial Podium of Site 8 of Whampoa Garden, Kowloon
"Xin Ye"	Jiaxing Credit Prosperity Investment Enterprise (Limited Partnership)* (嘉興信業創贏肆號投資合夥企業(有限合夥)), a limited partnership established in the PRC

"Xin Ye Agreement"	the agreement dated 19 April 2017 entered into by the Target Company (as the controlling shareholder of OSGH (China), Xin Ye, Dadi Cinema Management (being the nominee of the Purchaser), and the Company in respect of the Xin Ye Share Transfer
"Xin Ye Conditions Precedent"	means the conditions precedent pursuant to the Xin Ye Agreement
"Xin Ye Long Stop Date"	means 24 January 2018, being the long stop date under the Xin Ye Agreement
"Xin Ye Shares"	the 7.41% registered capital of OSGH (China) owned by Xin Ye
"Xin Ye Shares Consideration"	has the meaning as set out in the section headed "Xin Ye Agreement"
"Xin Ye Share Transfer"	the transfer of the Xin Ye Shares from Xin Ye to Dadi Cinema Management (being the nominee of the Purchaser) pursuant to the terms and conditions of the Xin Ye Agreement
"Xin Ye Waiver"	has the meaning as set out in the section headed "Conditions Precedent to Completion"
"%"	per cent.

* *For identification purposes only*

南海控股有限公司*

NAN HAI CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 680)

Executive Directors:
Mr. YU Pun Hoi *(Chairman)*
Ms. LIU Rong
Mr. LUNG King Cheong

Non-executive Director:
Mr. LAM Bing Kwan

Independent non-executive Directors:
Mr. HO Yeung Nang
Mr. LAU Yip Leung
Mr. XIAO Sui Ning

Principal place of business in Hong Kong:
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No. 6 Sha Tsui Road
Tsuen Wan
New Territories
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Registered office:
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23 June 2017

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTIONS IN RELATION TO THE ACQUISITION

I. INTRODUCTION

References are made to the announcements of the Company dated 25 January 2017, 17 February 2017, 7 March 2017 and 15 June 2017 in relation to the acquisition of the Sale Shares and entry of the Loan Repayment Agreement, delay in the despatch of circular, entry of the Supplemental Agreement and the further delay in the despatch of circular, respectively.

On 25 January 2017 (after trading hours), the Vendor, the Vendor Guarantor, the Purchaser and the Company entered into the SPA pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell at Completion the Sale Shares, constituting the entire issued and paid-up share capital of the Target Company at the Consideration (subject to the Adjustments).

* *For identification purpose only*

On 25 January 2017, the Company, OSGH (China) and Jiashi entered into the Loan Repayment Agreement pursuant to which OSGH (China) conditionally agreed to repay the loans in the aggregate amount of RMB250 million owed by it or its related party to Jiashi on the business day following the Completion Date, and the Company conditionally agreed to jointly and severally guarantee the obligations of OSGH (China) thereunder.

On 7 March 2017, the Vendor, the Vendor Guarantor, the Purchaser and the Company entered into the Supplemental Agreement, pursuant to which the parties agreed that, conditional upon the Target Company, Xin Ye, Dadi Cinema Management (being the nominee of the Purchaser) and the Company entering into the Xin Ye Agreement, to amend and add certain terms to the SPA.

On 19 April 2017, the Target Company, Xin Ye, Dadi Cinema Management (being the nominee of the Purchaser) and the Company entered into the Xin Ye Agreement, pursuant to which Xin Ye has conditionally agreed to sell and Dadi Cinema Management has conditionally agreed to purchase the Xin Ye Shares at the Xin Ye Shares Consideration.

The purpose of this circular is to provide the Shareholders with further information in relation to the SPA, the Loan Repayment Agreement, the Xin Ye Agreement and the Supplemental Agreement.

II. THE SUPPLEMENTAL AGREEMENT

On 7 March 2017, the Vendor, the Vendor Guarantor, the Purchaser and the Company entered into the Supplemental Agreement, pursuant to which the parties agreed that, conditional upon the Target Company, Xin Ye, Dadi Cinema Management (being the nominee of the Purchaser) and the Company entering into the Xin Ye Agreement, to amend and add certain terms to the SPA. The principal terms of the Supplemental Agreement are summarised as follows:

Default of Dadi Cinema Management

If Dadi Cinema Management defaults under the Xin Ye Agreement, the Vendor shall be entitled to deem that the Purchaser or its nominee has not paid the consideration in respect of the Xin Ye Shares in accordance to the payment arrangement under the Xin Ye Agreement, and the Vendor shall be entitled to forfeit the Deposit and the Total First Guarantee Amount.

In addition, the Vendor shall be entitled to request to acquire the Xin Ye Shares, i.e. the Vendor (or its nominee) shall become the legal and beneficial owner of the Xin Ye Shares. The Purchaser and the Vendor (or its nominee) shall cooperate to (i) terminate the Xin Ye Share Transfer; and (ii) do all acts and things to complete the transfer of the Xin Ye Shares (including but not limited to executing necessary agreements and legal documents, passing necessary resolutions, completing the registration of the change of shareholder of OSGH (China) in respect of the transfer with the relevant industry and commerce department in the PRC and obtaining the approval from the competent commerce authorities in respect of the transfer) to the Vendor (or its nominee).

Default of Xin Ye

If Xin Ye defaults, Xin Ye has to return the deposit amount to be agreed in the Xin Ye Agreement, or compensate the Purchaser in accordance with the terms of the Xin Ye Agreement (the "**Payment Obligation**").

In the event that Xin Ye fails to perform the Payment Obligation, the Purchaser shall be entitled to serve the payment notice to the Vendor Guarantor requesting the Vendor Guarantor or its nominee to pay an amount equivalent to the amount payable by Xin Ye pursuant to the Payment Obligation (the "**Amount Payable**") to Dadi Cinema Management within ten Business Days following the date of serving the payment notice. Upon paying the Amount Payable to Dadi Cinema Management, the Vendor Guarantor or its nominee shall in turn be entitled to make a claim against Xin Ye in respect of its breach of the Payment Obligation.

Default of the Target Company

If Xin Ye and Dadi Cinema Management terminate the Xin Ye Agreement due to (i) reasons caused by the Target Company, the Vendor or its subsidiaries such that any of the Xin Ye Conditions Precedent is not fulfilled before the Xin Ye Long Stop Date, or (ii) the Target Company's failure to procure OSGH (China) to complete the Registration with the relevant industry and commerce department in the PRC, Dadi Cinema Management shall have the right to require the Target Company to compensate its actual losses incurred under the Xin Ye Agreement.

In such event, the Vendor shall be deemed to have failed to complete the Acquisition under the SPA and, pursuant to the SPA, the Vendor has to (i) return the Deposit and the Total First Guarantee Amount to the Purchaser and (ii) pay the Purchaser an additional amount of RMB400 million.

In the event that the Xin Ye Share Transfer has been completed by the Xin Ye Long Stop Date:

(i) due to the reasons caused by the Target Company, the Vendor or its subsidiaries, the Acquisition under the SPA cannot be completed and the Completion cannot take place by the Xin Ye Long Stop Date, the Vendor Guarantor shall or shall procure the Target Company, to repurchase the Xin Ye Shares at the same consideration agreed under the Xin Ye Agreement (the "**Repurchase**") on the second Business Day following (a) the breach of the Target Company, the Vendor or its subsidiaries, or (b) the Xin Ye Long Stop Date (whichever date is earlier) (the "**Repurchase Date**"). The Repurchase shall be completed within four months from the Repurchase Date (or such date as agreed by the parties if a delay in the completion of the Repurchase is due to the PRC authority approval process of the Repurchase). The Vendor shall procure OSGH (China) to complete the registration of the change of shareholder of OSGH (China) in respect of the Repurchase with the relevant industry and commerce department in the PRC and obtain the approval from the competent commerce authorities in respect of the Repurchase and the Purchaser shall procure Dadi Cinema Management to assist in the registration and approval process by providing necessary legal documents; and

(ii) due to reasons caused by Dadi Cinema Management, its shareholders or its subsidiaries, the Acquisition under the SPA cannot be completed and the Completion cannot take place by the Xin Ye Long Stop Date, the Vendor Guarantor and/or the Vendor shall be entitled to request the Purchaser to procure Dadi Cinema Management to sell the Xin Ye Shares to the Target Company and/or the nominee of the Vendor Guarantor at the same consideration agreed under the Xin Ye Agreement (the "**Sale**") on the second Business Day following (a) the breach of Dadi Cinema Management, its shareholders or its subsidiaries or (b) the Xin Ye Long Stop Date (whichever day is earlier) (the "**Sale Date**"). The Sale shall be completed within four months from the Sale Date (or such date as agreed by the parties if a delay in the completion of the Sale is due to the PRC authority approval process of the Sale). The Vendor shall procure OSGH (China) to complete the registration of the change of shareholder of OSGH (China) in respect of the Sale with the relevant industry and commerce department in the PRC and obtain the approval from the competent commerce authorities in respect of the Sale and the Purchaser shall procure Dadi Cinema Management to assist in the registration and approval process by providing necessary legal documents.

III. THE AMENDED SPA

The principal terms of the SPA are set out in the announcement of the Company dated 25 January 2017. Apart from the adjustments under the Supplemental Agreement, all other terms and conditions of the SPA remain unchanged. The principal terms of the Amended SPA, are as follows:

Date

25 January 2017

Parties

(1)	Vendor:	Giant Harvest Limited;
(2)	Vendor Guarantor:	Orange Sky Golden Harvest Entertainment (Holdings) Limited;
(3)	Purchaser:	True Vision Limited, an indirect wholly-owned subsidiary of the Company; and
(4)	Purchaser Guarantor:	the Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor, the Vendor Guarantor and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Assets to be acquired

The Sale Shares constitute the entire issued and paid-up share capital of the Target Company, free from all encumbrances and with all rights attached thereto. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

The Target Company holds approximately 92.59% of the issued share capital of OSGH (China).

Consideration and payment terms

Consideration

The Consideration is estimated to be approximately RMB3.286 billion, subject to the Adjustments. The Consideration is determined based on the enterprise value of the Target Group, being RMB3.387 billion, which is then adjusted, among other things, upward by cash and cash equivalents of the Target Group amounting to RMB332.7 million, and downward by the Xin Ye Shares Consideration of RMB240 million and bank borrowings of RMB184.6 million. The Consideration (including any Adjustments, as applicable) shall be settled by the Purchaser in cash.

The Consideration was arrived at arm's length negotiations between the Vendor and the Purchaser with reference to, among other things, the following aspects:

(a) the financial performance and market share of the business of the Target Group (during the year ended 31 December 2016, the Target Group had a market share of approximately 1.8% in terms of box office in China);

(b) the enterprise value to sales ratios ("**EV/S Ratio**") or price to sales ratio ("**P/S Ratio**") of certain comparable listed companies in the PRC cinema industry, and that the EV/S Ratio or P/S Ratio of the Target Group is within the range and close to the average EV/S Ratio of such comparable listed companies;

(c) the P/S Ratio of certain comparable transactions in the PRC cinema industry, and that the P/S Ratio of the Acquisition is within the range and close to the average P/S Ratio of such comparable transactions;

(d) the fact that the Target Group will be opening new cinemas in first- and second-tier cities in the PRC which is expected to increase the revenue of the Target Group after taking into consideration the relevant costs associated with the opening of new cinemas. Based on the Company's experience, a stable amount of revenue will begin to generate starting the second year after opening, which has a positive impact on the valuation; and

(e) the reasons and benefits of the Acquisition as stated under the section headed "Reasons for and Benefits of the Acquisition under the Amended SPA" in this circular.

Below table lists out the P/S Ratio or EV/S Ratio of certain comparable companies that the Company referenced to:

Comparable company	Business of the comparable company	P/S Ratio as at 31 December 2016	EV/S Ratio as at 31 December 2016
Company A	Company A is a company listed in the Stock Exchange and is principally engaged in theater operation, securities trading, investments in production and distribution of films, in-theater counter sales and online shopping. It operates over 250 cinemas and 1,800 screens in first-tier cities as well as in certain second- and third-tier cities in the PRC in 2016. According to market research, in 2016, the cinema chain operated by Company A ranked as the fourth largest cinema chain in the PRC in terms of box office.	2.88	4.44
Company B	Company B is a company listed in the Shenzhen Stock Exchange and is principally engaged in cinema operations both in PRC and overseas. Company B also provides film production, television production, film distribution, film screening, and other services and it also operates cinema construction investments, advertising production, and other businesses. Company B is the largest cinema chain operator in the PRC in terms of box office in 2016. Up to the end of 2016, Company B operated over 400 cinemas and 3,500 screens around the world, of which over 340 cinemas were located in the PRC.	5.66	5.75

Notes:

1. EV/S Ratio of the comparable companies is calculated as the market capitalization plus debt, minority interest and preferred shares minus total cash and cash equivalent, and then divided by sales.

2. P/S Ratio of the comparable companies is calculated as market capitalization divided by sales.

Below table lists out the P/S Ratio of certain comparable transactions that the Company referenced to:

Comparable transaction	**Nature of the comparable transaction**	**P/S Ratio as at date of transaction**
Transaction C	Transaction C involves a company listed in Shenzhen Stock Exchange acquiring 15 cinema management companies located in Chongqing, Beijing, Kunming and other cities in the PRC from a company listed in the Shanghai Stock Exchange in June 2015.	4.56
Transaction D	Transaction D involves an acquisition of a company principally engaged in operating 17 cinemas in 13 cities in the PRC and related business, production of film and other cultural and entertainment business by a company listed in the Shanghai Stock Exchange in August 2014.	5.62

Note:

1. P/S Ratio of the comparable transactions is calculated as consideration divided by sales.

Based on the revenue of the Target Group for the year ended 31 December 2015, the Consideration represents an implied EV/S Ratio of approximately 3.9 for the Target Group, which is within the range of the EV/S Ratio or P/S Ratio of the comparables that the Company considered.

Adjustments to the Consideration

The Consideration is subject to the following adjustments (the "**Adjustments**"), including, amongst others:

(a) the addition of the Net Debt Adjustment Amount in the event that the Net Debt Value in the Audited Accounts exceeds the Net Debt Value in the Closing Accounts;

(b) the deduction of the Net Debt Adjustment Amount in the event that the Net Debt Value in the Closing Accounts exceeds the Net Debt Value in the Audited Accounts;

(c) the addition of cash expenditure in respect of the investment on new cinema projects from 31 December 2016 to the Completion Date; and

(d) the deduction of the further amount of consideration for the Xin Ye Shares that the Purchaser should pay pursuant to the Xin Ye Agreement if the Completion occurs after 15 September 2017.

Payment of Deposit and Total First Guarantee Amount

On the Business Day following the Signing Date, the Purchaser shall pay or transfer (as the case may be) (a) the Deposit in the amount equivalent in USD of RMB200 million to the Hong Kong bank account as designated by the Vendor, and (b) the Total First Guarantee Amount, which includes (i) the First Guarantee Amount of RMB190 million, and (ii) the Earnest Sum of RMB10 million received by the Vendor pursuant to the Memorandum of Understanding, shall be paid or transferred (as the case may be), to the Security Account.

Payment of Offshore Consideration Payment, Second Guarantee Amount and Joint Amount

In the event the Purchaser does not exercise the Xin Ye Waiver, on the Business Day following the Purchaser's receipt of the Online Appointment Notice from the Vendor, the Purchaser shall pay the Offshore Consideration Payment in the amount equivalent in USD of not less than RMB1.92 billion to the Escrow Account.

In the event the Purchaser exercises the Xin Ye Waiver, on the Completion Date, the Purchaser shall transfer the Offshore Consideration Payment in the amount equivalent in USD of not less than RMB1.92 billion to the Offshore Bank Account.

In addition, on the Completion Date, regardless of whether the Purchaser exercised the Xin Ye Waiver, the Purchaser shall pay (i) the Second Guarantee Amount to the Security Account, and (ii) the Joint Amount of RMB300 million to the Joint Bank Account.

Payment of Third Guarantee Amount

On the Business Day following six months from the Completion Date:

(a) in the event that the Third Guarantee Amount is equivalent to the Joint Amount, the Joint Amount shall be transferred from the Joint Bank Account to the Security Account;

(b) in the event that the Third Guarantee Amount exceeds the Joint Amount, the Joint Amount shall be transferred from the Joint Bank Account to the Security Account and the Purchaser shall pay immediately the Adjustment Amount to the Security Account;

(c) in the event that the Joint Amount exceeds the Third Guarantee Amount, an amount equivalent to the Third Guarantee Amount shall be transferred from the Joint Bank Account to the Security Account and the amount remaining in the Joint Bank Account shall immediately be returned to the Purchaser; and

(d) in the event that the Third Guarantee Amount is a negative value, the Vendor shall pay an amount equivalent to the absolute value of the Third Guarantee Amount to the Purchaser and the Joint Amount in the Joint Bank Account shall be returned to the Purchaser.

The Total First Guarantee Amount, the Second Guarantee Amount and the Third Guarantee Amount (the "**Total Guarantee Amount**") shall be used to guarantee the Purchaser's transfer (in full or in part) of the amount equivalent in USD of the Total Guarantee Amount from the Security Account to the Offshore Bank Account (the "**Transfer**") within 12 months from the Completion Date subject to the obtaining of the approval in respect of the Transfer from the relevant foreign exchange authority in the PRC and the confirmation from the handling bank in respect of having sufficient foreign exchange in USD. If the Transfer does not take place within 12 months from the Completion Date, the Purchaser shall pay interest of 0.02% per day in respect of the Outstanding Amount, until the transfer of the full amount equivalent in USD of the Total Guarantee Amount from the Security Account to the Offshore Bank Account.

Upon the receipt by the Vendor of the payment of the amount equivalent in USD of not less than the Total Guarantee Amount from the Purchaser, the Purchaser's payment obligation of the Consideration (as adjusted pursuant to the Adjustments) under the SPA will be fulfilled.

Conditions Precedent to Completion

Completion of the Amended SPA is conditional upon the following conditions (the "**Conditions Precedent**") having been satisfied:

(a) the Acquisition having been considered and approved by the Shareholders and the shareholders of the Vendor Guarantor, respectively, in accordance with the Listing Rules;

(b) no obligation on the part of the Vendor Guarantor being triggered in respect of any matters concerning the sufficient level of operation or asset value and/or cash company issue under the Listing Rules and no indication has been received from the Stock Exchange concerning the objection, suspension, cancellation, revocation and withdrawal of the continuous listing status of the shares of the Vendor Guarantor for any reason due to the Sale Shares Acquisition contemplated by the Transaction Documents (under (including but not limited to) Rules 13.24 and 14.82 of the Listing Rules) or no enquiry has been raised by the Stock Exchange in respect of the foregoing matters;

(c) the Vendor having obtained all necessary consents and approvals from third parties, including but not limited to the Vendor Group's creditors, parties to which the Vendor Group has entered into any contracts with, investors of the Vendor Group (other than the Vendor) (if necessary), in respect of the Sale Shares Acquisition, and such consents and approvals remaining effective;

(d) the anti-trust approval, if required, from the competent PRC authority in respect of the Sale Shares Acquisition having been obtained;

(e) the Target Company, Dadi Cinema Management (being the nominee of the Purchaser) and the Company having signed the Xin Ye Agreement with Xin Ye and the Xin Ye Share Transfer having been approved by the competent commerce authorities of the foreign investment enterprise in the PRC;

(f) the completion of the transfer of the following members of the Target Group to a third party outside of the Target Group designated by the Vendor and the change of shareholder registration of the following members of the Target Group:

i. Beijing Orange Sky Golden Harvest Food Limited Company* (北京橙天嘉禾橙食品有限公司);

ii. Jiashi;

iii. Orange Sky Golden Harvest Sanlitun (Beijing) Cinema Management Company Limited* (北京橙天嘉禾三里屯影城管理有限公司); and

iv. Beijing Sixiang Wuxian Culture Media Limited Company* (北京司響無限文化傳媒有限公司);

(g) the following companies becoming a subsidiary of the OSGH (China) Group:

i. Meilin Huaying (Beijing) Cinema Management Company Limited* (北京美林華映影院管理有限公司) (which holds 51% shareholding interest of Orange Sky Golden Harvest Jinding (Jingdezhen) Cinema Company LLC* (景德鎮橙天嘉禾金鼎影城有限責任公司)；and

ii. Orange Sky Golden Harvest Shangdi (Beijing) Cinema Company Limited* (北京橙天嘉禾上地影城有限公司)；

(h) the Target Group having entered into the termination agreement in respect of the acquisition of Wan Ke Hong Cinema and Jining Cinema;

(i) the Target Company having completed the following:

i. the relevant financial accounting treatment, including but not limited to the clearance of all outstanding debts (excluding payments and shareholders' loan between the Target Company and OSGH (China)). Upon the clearance of all outstanding debts (the "**Clearance Date**"), the Vendor and the Purchaser shall appoint an independent auditor to audit or review the accounts of the Target Company and such accounts will be binding on the parties provided that no additional debt has been incurred from the Clearance Date to the Completion Date;

ii. the disposal of assets which (i) the Vendor plans to dispose of, (ii) are held by the Target Company and (iii) are irrelevant to the usual daily operation of the OSGH (China) Group;

iii. the transfer of Shenzhen City Phoenix Digital Company Limited* (深圳市粵凰數碼科技有限公司) and OSGH Finance Limited (BVI) to a third party;

iv. the signing of the novation agreement to the Tenancy Agreement of the Whampoa Cinema with Foxton Investments Limited and M Cinemas Company Limited, both of which are third parties independent of the Company and its connected persons, and having signed the management services agreement in respect of the management of Whampoa Cinema with M Cinemas Company Limited; and

v. the termination of the assignment of dividends and guarantee agreements entered into between the Target Company with CCB International (Holdings) Limited and Standard Chartered Bank, respectively.

In respect of condition (c) above, the Vendor and the Purchaser shall liaise with the Target Group's creditors (the "**Creditors**") under the bank loan agreements and finance lease agreements, which are guaranteed by the Vendor, in respect of the changing of guarantors in such agreements to the Purchaser or its related party before Completion Date. If the Creditors disagree with the change of the guarantor, the Target Company shall repay the debts (including interests) under the bank loan agreements and finance lease agreements. The Purchaser shall bear any penalty interest and additional costs incurred due to early repayment.

In the event that all the Conditions Precedent (apart from condition (e) above) have been satisfied, the Purchaser shall be entitled to waive condition (e) above before the Long Stop Date (the "**Xin Ye Waiver**"). Aside from condition (e) above, the Conditions Precedent cannot be waived by the parties.

The Purchaser shall assist in obtaining the approval from the competent commerce authorities of the foreign investment enterprise in the PRC in respect of the Xin Ye Share Transfer and the Company shall continue to be the guarantor of Dadi Cinema Management (being the nominee of the Purchaser) pursuant to the Xin Ye Agreement. The Purchaser shall also indemnify losses incurred by the Vendor or the Vendor Guarantor in connection to any claims from Xin Ye against the Vendor.

If as a result of:

(a) the Purchaser's act or omission, either (i) any of the Conditions Precedent is not fulfilled by the Long Stop Date, or (ii) when all the Conditions Precedent are fulfilled (including where the Purchaser has exercised the Xin Ye Waiver and all the other Conditions Precedent (except for waiver of condition (e)) are fulfilled), (1) the Sale Shares Acquisition cannot be completed, or (2) the

Purchaser or its nominee has not paid the consideration of the Xin Ye Shares in accordance to the terms under the Xin Ye Agreement, the Vendor shall be entitled to forfeit the Deposit and the Total First Guarantee Amount;

(b) the Vendor's act or omission, either (i) any of the Conditions Precedent is not fulfilled by the Long Stop Date, or (ii) when all the Conditions Precedent are fulfilled, the Sale Shares Acquisition cannot be completed, the Vendor shall return the Deposit and the Total First Guarantee Amount to the Purchaser and has to pay the Purchaser an amount of RMB400 million; and

(c) reasons other than the Purchaser's or the Vendor's act or omission, either the Conditions Precedent are not fulfilled or the Registration has not been completed by the Long Stop Date, (such as not being able to obtain the anti-trust approval from the competent PRC authority in respect of the Acquisition for reasons other than the Purchaser's act or omission) the Vendor shall return the Deposit and the Total First Guarantee Amount to the Purchaser,

the Vendor and the Purchaser shall have no obligation to proceed with the Sale Shares Acquisition and the Amended SPA shall be terminated and shall cease to be of effect, unless the Purchaser and Vendor agrees in writing to extend the Long Stop Date to the Extended Long Stop Date.

As at the Latest Practicable Date, (i) the transfer of Beijing Orange Sky Golden Harvest Food Limited Company* (北京橙天嘉禾橙食品有限公司), Orange Sky Golden Harvest Sanlitun (Beijing) Cinema Management Company Limited* (北京橙天嘉禾三里屯影城管理有限公司) and Beijing Sixiang Wuxian Culture Media Limited Company* (北京司響無限文化傳媒有限公司) to a third party outside of the Target Group designated by the Vendor and the necessary change of shareholder registrations have been completed, (ii) the Xin Ye Agreement have been entered into by the Target Company, Xin Ye, Dadi Cinema Management (being the nominee of the Purchaser) and the Company, and (iii) the Target Company has cleared all outstanding debts, including the amount borrowed from the Vendor for (x) capital investment in OSGH (China) of approximately RMB560 million, and (y) the shareholder's loan to OSGH (China) of approximately HK$411 million. Save as disclosed above, none of the other conditions under the section headed "Conditions Precedent to Completion" has been fulfilled.

Leases

Pursuant to the Amended SPA, the Vendor shall procure the renewal of one particular lease of the Target Group (the "**Identified Lease**") on such terms which are not less favourable than the renewal terms set out in the Amended SPA (the "**Agreed Renewal Terms**") during the period from the Signing Date to the Completion Date (unless otherwise agreed by the Purchaser) (the "**Renewal Period**") and the Vendor and the Purchaser shall procure the renewal of the Identified Lease from the Completion Date to the expiry of the Identified Lease (the "**Expiry Date**") in such terms as agreed by the Vendor and the Purchaser.

The Vendor shall also procure the entering into of five new lease agreements of certain cinemas (the "**Five New Leases**") by the Target Group on such terms which are not less favourable than the lease terms of certain cinemas as set out in the Amended SPA (the "**Agreed Lease Terms**") and other lease agreements of other cinemas (which are subject to the agreement with the Purchaser) (the "**Additional Leases**") during the period from the Signing Date to 31 December 2018 (the "**Period**").

A payment will be made to, or received from the Purchaser, depending on (1) whether (i) the Vendor is able to renew the Identified Lease in accordance with the Agreed Renewal Terms within the Renewal Period, (ii) the Vendor or the Purchaser is able to reach an agreement with the lessors on the renewal of the Identified Lease in such terms as agreed by the parties from the Signing Date and the Expiry Date, and (iii) the Five New Leases is entered into by the Target Group in accordance with the Agreed Lease Terms and the Additional Leases within the Period; and (2) the agreed economic value of the Identified Lease, the Five New Leases and the Additional Leases.

Non-compete Undertaking

Other than for (i) the business operation of the Target Group, (ii) the Renewal of the Identified Lease, and (iii) the entering into of the Five New Leases and the Additional Leases as set out in the paragraph headed "Leases" above:

(a) within 24 months from the Completion Date, unless otherwise agreed by the Purchaser in writing, the Vendor Guarantor shall not and shall procure its subsidiaries not to engage in the investment and the operation of the cinema business in the PRC; and

(b) from the Completion Date to the termination of the Trademark License Agreement, unless otherwise agreed by the Purchaser in writing, the Vendor Guarantor shall not, through other entities which are not its subsidiaries, use any Authorised Trademarks to engage in the investment and operation of any cinema business in the PRC.

Post-completion Obligations

Pursuant to the Amended SPA, the Vendor and/or the Purchaser has/have agreed to perform the following post-completion obligations in respect of certain operational arrangements, including, among others:

(a) the Vendor and the Purchaser shall liaise with the landlord of one particular lease for discharging the guarantee of the Vendor Guarantor under such lease;

(b) the Vendor shall be responsible for handling the ongoing litigation between OSGH (China) and certain lessors. The Vendor shall be responsible for the payment of damages (if any) or shall be entitled to the compensation fees (if any) arising from such litigations;

(c) the Vendor and the Purchaser shall enter into amicable negotiations in respect of the cinema circuit alliance agreements entered into by the Target Group;

(d) the Vendor and the Purchaser shall notify the landlords of all the existing leases of the Target Group in respect of the Acquisition (if required); and

(e) the Vendor shall be entitled to the continual use of certain vehicles, which were owned by the Remaining Vendor Group but were registered under the name of the Target Company and the Purchaser, and the Vendor shall ensure the effective renewal of such license plates.

Completion

Subject to the fulfillment or satisfaction of the Conditions Precedent (which is subject to the exercise of the Xin Ye Waiver), Completion of the Sale Shares Acquisition shall take place at 10:00 a.m., or such time as may be agreed by the Vendor and the Purchaser, on the Completion Date, at the Hong Kong office and the Beijing office of the Vendor's legal counsel.

Guarantee provided by the Vendor Guarantor

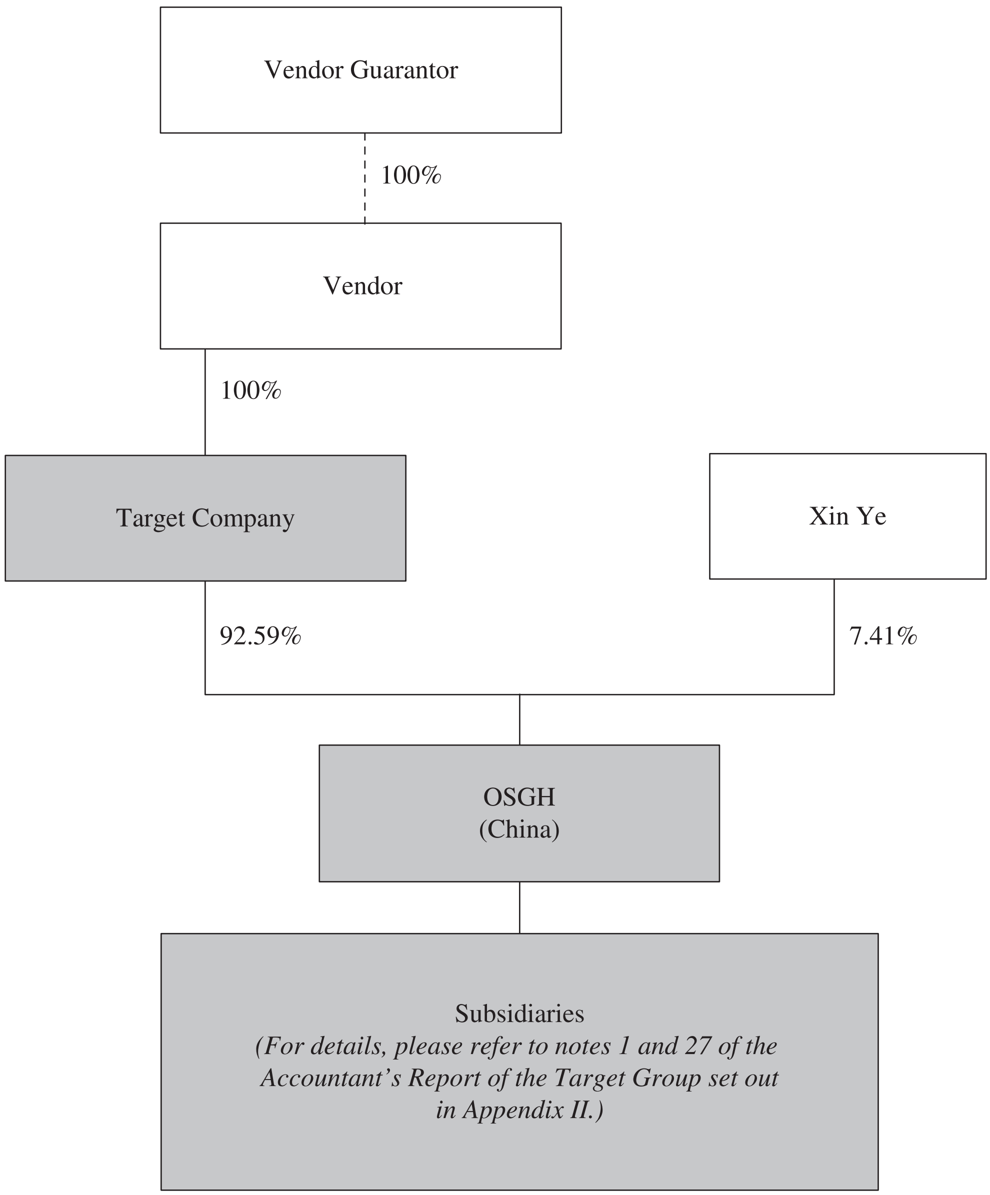
The Vendor Guarantor unconditionally and irrevocably guarantees to the Purchaser as a continuing obligation (a) the performance of obligations of (i) the Vendor arising under or pursuant to, amongst others, the Amended SPA, and (ii) the licensor under the Remaining Vendor Group pursuant to the Trademark License Agreement, and (b) warrant to compensate the Purchaser's losses, damages, litigation costs and expenses in connection with, amongst others, the breach of obligations of (i) the Vendor under the Amended SPA, and (ii) the licensor under the Remaining Vendor Group pursuant to the Trademark License Agreement. The obligations of the Vendor Guarantor shall continue until the obligations of the Vendor under the Amended SPA have all been satisfied or waived.

Guarantee provided by the Company

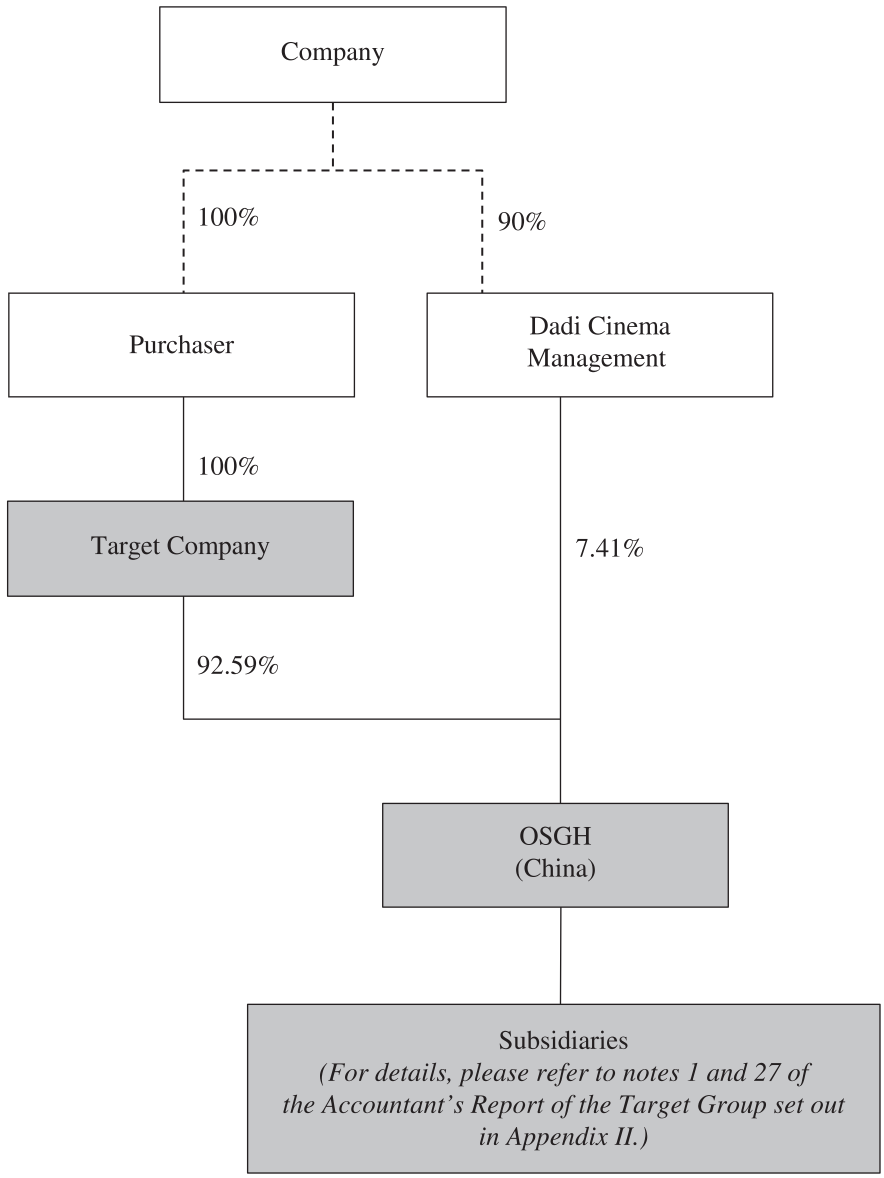
The Company unconditionally and irrevocably guarantees to the Vendor as a continuing obligation (a) the performance of obligations of (i) the Purchaser arising under or pursuant to, amongst others, the Amended SPA, and (ii) the licensee under the Target Group pursuant to the Trademark License Agreement, and (b) warrant to compensate the Vendor's losses, damages, litigation costs and expenses in connection with, amongst others, the breach of obligations of (i) the Purchaser under the Amended SPA, and (ii) the licensee under the Target Group pursuant to the Trademark License Agreement. The obligations of the Company shall continue until the obligations of the Purchaser under the Amended SPA have all been satisfied or waived.

STRUCTURE OF THE TARGET GROUP PRIOR AND UPON COMPLETION OF THE ACQUISITION

(a) Structure of the Target Group immediately prior to the Acquisition



(b) Structure of the Target Group upon Completion



Note: *Boxes shaded in grey together constitutes the Target Group.*

IV. XIN YE SHARE TRANSFER

Xin Ye Agreement

As a condition precedent to the Completion, on 19 April 2017, the Target Company (as the controlling shareholder of OSGH (China)), Xin Ye, Dadi Cinema Management (being the nominee of the Purchaser) and the Company entered into the Xin Ye Agreement pursuant to which Xin Ye has conditionally agreed to sell, and Dadi Cinema Management (being the nominee of the Purchaser) has conditionally agreed to purchase, the Xin Ye Shares. In addition, it is agreed that the Target Company shall waive its pre-emptive rights on the Xin Ye Shares.

The Purchaser and Xin Ye have agreed that consideration of the Xin Ye Shares shall be RMB240 million (the "**Xin Ye Shares Consideration**") provided that the Xin Ye Share Transfer will be completed no later than 15 September 2017 and if the Xin Ye Share Transfer will be completed on or after 16 September 2017, the consideration of the Xin Ye Shares shall be RMB240 million, with the additional amount equivalent to a rate of return of 20% per annum based on the amount of RMB200 million charged on a daily basis for the period from 16 September 2017 to the actual date of completion of the Xin Ye Share Transfer.

In addition, pursuant to the Xin Ye Agreement, Dadi Cinema Management shall pay a security deposit amounting to RMB5 million (the "**Security Deposit**") into a specific bank account jointly controlled by Dadi Cinema Management and Xin Ye within 30 days of the date of the Xin Ye Agreement in order to secure Dadi Cinema Management's performance under the Xin Ye Agreement. On the Registration Date or the Business Day following the Registration Date, Dadi Cinema Management shall pay the Xin Ye Shares Consideration to Xin Ye, and the Security Deposit shall be withdrawn to form part of the Xin Ye Shares Consideration.

V. LOAN REPAYMENT

On 25 January 2017, the Company, OSGH (China) and Jiashi entered into the Loan Repayment Agreement pursuant to which OSGH (China) conditionally agreed to repay the loans in the aggregate amount of RMB250 million owed by it or its related party to Jiashi on the business day following the Completion Date, and the Company conditionally agreed to jointly and severally guarantee the obligations of OSGH (China) thereunder.

VI. INFORMATION ON THE PARTIES

The Vendor and the Vendor Guarantor

The Vendor is an investment holding company and an indirect wholly-owned subsidiary of the Vendor Guarantor, the shares of which are listed and traded on the Main Board of the Stock Exchange. The Vendor Group is principally engaged in theatrical exhibition, cinema operation, film, video and television production and distribution business in Hong Kong, the PRC, Taiwan and Singapore.

The Purchaser

The Purchaser is an indirect wholly-owned subsidiary of the Company. It is primarily engaged in investment holding.

The Company

The Company is an investment holding company whose securities are listed and traded on the Main Board of the Stock Exchange. The Group is principally engaged in (i) culture and media services (mainly in cinemas business on a nationwide basis in the PRC in addition to film distribution and other media related businesses); (ii) property development; and (iii) corporate IT application services (through its listed subsidiary, Sino-i Technology Limited (‘‘**Sino-i**’’) (stock code: 250), a company having its shares listed and traded on the Main Board of the Stock Exchange) as at the date of this circular. In 2015, the Group also started to tap into new business segments such as ‘‘New Media’’ and ‘‘Innovative Business’’ and it plans to step up its efforts in establishing these two business segments as the new growth points of the Company.

The Target Company

The Target Company is an investment holding company which is indirectly wholly-owned by the Vendor Guarantor. The Target Group engages in the theatrical exhibition, cinema operation, management and investment holding business in the PRC.

The Target Company holds approximately 92.59% of the issued share capital of OSGH (China).

VII. REASONS FOR AND BENEFITS OF THE ACQUISITION UNDER THE AMENDED SPA

The Company is a diversified investment holding enterprise group, and owns the nationwide cinema brand of ‘‘Dadi Cinema’’ in China. The Target Group operates and manages over 70 cinemas and over 500 screens in first- and second-tier cities in the PRC (with 22 cinemas in Eastern China, 19 cinemas in Southern China, 17 cinemas in Central-western China and 18 cinemas in Northern China). These cities include, among others, Beijing, Shanghai, Guangzhou, Chongqing, Shenzhen, Shenyang and Xi'an.

The similarities of the business model between the Company and the Target Group include the following:

(a) The cinema facilities are mostly operated through leases and the lease terms and rental payment terms are similar;

(b) The revenue composition, including revenue generated from box office, goods, pre-packaged food, production and sales of food (including cold and hot drinks, popcorns and other snacks), advertisements played prior to movie screening and advertisements placed at the cinema facility; and

(c) The costs composition, including sharing of box office with film distributors and film investors, procurement of goods, pre-packaged food, production and sales of food (including cold and hot drinks, popcorns and other snacks), rental and employees.

Through the Acquisition, the Company anticipates to be able to achieve the following:

(a) the Company's influence in the PRC cinema industry will further increase, in particular, the Company will be able to strengthen its position as the second leading investor in the PRC cinema industry;

(b) the number of cinemas and screens that the Company will be operating and managing in the PRC will increase significantly as well as expand geographically, which will in turn increase the Company's business bargaining power and decrease the overall operation costs;

(c) increase the Company's cinema and film distribution points in first and second-tier cities in the PRC, which will in turn enhance the Company's reputation, brand and overall image; and

(d) the Company will be able to integrate and expand its membership program to provide more and better services to its members, and promote the Company's reputation, brand and overall image.

In particular, the Target Group's profit margin is expected to improve because after the Acquisition, the geographical spread of the cinemas of the Enlarged Group is enhanced covering first-, second-, third- and fourth-tier cities in the PRC, which in turn "create cost synergies, stronger brand name and streamline management".

(a) *Cost synergies:* With a wider geographical spread, the Enlarged Group will be able to negotiate with film distributors and film investors to share a lower percentage of box office with them. In addition, the Enlarged Group will be able to better negotiate with advertising companies on the pricing of the advertisements as the advertisements will be played or displayed in more cinema outlets in the PRC, as well as with landlords on the rental fees of cinemas. The Enlarged Group will also be able to lower its procurements costs on goods, pre-packaged food, production and sales of food (including cold and hot drinks, popcorns and other snacks), as well as procurements costs for equipment and maintenance costs.

(b) *Stronger brand name:* With a stronger brand name after the Acquisition, the Enlarged Group will be able to secure better locations for its cinemas with more favourable lease terms, thereby increasing revenue.

(c) *Streamline management:* The Company will apply its operation model on the Target Group, which is expected to streamline the employee structure at both the Target Group's management and individual cinema levels, and as a result to further reduce employment costs.

In view of the above, the Directors are of the view that the terms of the SPA, the Supplemental Agreement, the Xin Ye Agreement and the Loan Repayment Agreement, including the Consideration (subject to Adjustments), the consideration for the Xin Ye Shares and the Loan Repayment, are fair and reasonable so far as the Shareholders are concerned and the Acquisition are in the interests of the Company and the Shareholders as a whole. If a general meeting were to be convened, the Board would recommend the Shareholders to vote in favor of the resolutions to approve the SPA, the Supplemental Agreement, the Xin Ye Agreement and the Loan Repayment Agreement, including the Consideration (subject to Adjustments), the consideration for the Xin Ye Shares and the amount of loan repayment at such general meeting.

VIII. FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

Assets and liabilities

The audited consolidated total assets and total liabilities of the Group as at 31 December 2016, as extracted from the annual report for the year ended 31 December 2016 of the Company, were approximately HK$32.7 billion and HK$27.5 billion respectively. As set out in Appendix IV to this circular, assuming Completion had taken place on 31 December 2016, the unaudited pro forma total assets and total liabilities of the Enlarged Group would have been increased to approximately HK$37.9 billion and HK$32.7 billion respectively.

Earnings

The audited net profit of the Group for the financial year ended 31 December 2016 as extracted from the annual report for the year ended 31 December 2016 of the Company was approximately HK$1.3 billion. As set out in Appendix II to this circular, the Target Group recorded an audited net loss of approximately HK$85.5 million for the financial year ended 31 December 2016. Following the Completion, members of the Target Group will become subsidiaries of the Company and their financial results will be consolidated into the consolidated financial statements of the Group after Completion. Based on the consolidated statement of comprehensive income of the Target Group for the years ended 31 December 2014, 2015 and 2016 as set out in Appendix II to this circular, the revenue of the Target Group was approximately HK$821.8 million, HK$991.2 million and HK$1.1 billion, respectively, and the net loss after tax of the Target Group was approximately HK$28.1 million, HK$169.8 million and HK$85.5 million for each of the three years ended 31 December 2014, 2015 and 2016, respectively. As such, it is expected that, after Completion of the Acquisition, the Target Group would contribute positively to the revenue but adversely to the net income after tax of the Enlarged Group.

Further information regarding the financial position and financial performance, as well as the management discussion and analysis of the Target Group can be found in Appendix II and III to this circular respectively.

IX. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition is/are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Written Approval from the Controlling Shareholder Group

Pursuant to Rule 14.44 of the Listing Rules, the Company received the Controlling Shareholder Group's written approvals on 25 January 2017 and 11 May 2017 to approve the SPA, the Xin Ye Agreement, the Loan Repayment Agreement, the Acquisition, the Supplemental Agreement and the transactions contemplated thereunder. As at the dates of the written approvals, the Controlling Shareholder Group held in aggregate 36,622,130,679 Shares and 37,092,780,679 Shares, respectively, representing approximately 53.35% and 54.04% of the issued share capital of the Company, respectively. As (i) no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition; and (ii) the Controlling Shareholder Group holds more than 50% of the voting rights that would be exercisable at any such general meeting, the Controlling Shareholder Group's written approval is acceptable in lieu of holding a general meeting of the Company for approval of the Acquisition pursuant to Rule 14.44 of the Listing Rules.

X. ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Nan Hai Corporation Limited
Liu Rong
Executive Director

* *For identification purpose only*

I. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2014, 2015 and 2016, together with the relevant notes thereto are disclosed in the following documents:

- annual report of the Company for the year ended 31 December 2016 published on 17 April 2017 (pages 121 to 278);

  http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0417/LTN20170417169.pdf

- annual report of the Company for the year ended 31 December 2015 published on 22 April 2016 (pages 76 to 164);

  http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0422/LTN20160422638.pdf

- annual report of the Company for the year ended 31 December 2014 published on 22 April 2015 (pages 43 to 152);

  http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0422/LTN20150422760.pdf

II. INDEBTEDNESS STATEMENT OF THE ENLARGED GROUP

A. The Group

Borrowings, secured

At 30 April 2017, the Group's borrowings were as follows:

	As at 30 April 2017 *HK$'000*
Bank and other borrowings	6,749,469
Bank and other borrowings — guaranteed	10,407,866
Finance lease liabilities	503
Finance lease liabilities — guaranteed	64,823
	17,222,661

Convertible and exchangeable bonds

At 30 April 2017, the carrying value of the convertible and exchangeable bonds was HK$1,052,673,000.

Security and guarantees

At the close of business on 30 April 2017, the Group's borrowings were secured by way of charge over certain assets including property, plant and equipment, prepaid land lease payments under operating leases, financial assets at fair value through profit or loss, investment properties, properties under development and completed properties held for sale and bank deposits with a total net carrying value of approximately HK$10,320,630,000. In addition, the Group's bank and other borrowings were secured by guarantees given by directors of the Company, the Company and certain subsidiaries and also secured by various share mortgages of certain subsidiaries.

Contingent liabilities

Guarantees given in connection with credit facilities granted to:

	As at 30 April 2017
	HK$'000
Associates *(Note)*	18,905
Third parties *(Note)*	—
	18,905

Note:

In February 1993, a Group's associate borrowed a loan of US$5 million from a Filipino bank namely Banco de Oro Unibank (formerly known as Equitable PCI Bank Inc. and then as Banco de Oro-EPCI Inc.) ("**Banco Unibank**"). The loan was secured by a guarantee executed by Sino-i ("**Banco Unibank Guarantee**"), by share mortgage of 74,889,892 shares (the "**Philippines Shares**") of Acesite (Philippines) Hotel Corporation Inc. ("**Acesite Phils.**"). Due to the pending litigation as more particularly set out in section "VII. Litigation" of Appendix V to this circular, the Group is not able to obtain any updated indebtedness information from Banco Unibank. Given the foregoing limitation, it is estimated that the outstanding balance of the total indebtedness owing to Banco Unibank was approximately US$2,430,000 (equivalent to approximately HK$18,905,000) by reference to the unaudited financial statements of the associate as at 30 April 2017.

In addition to the Banco Unibank Guarantee, Sino-i executed another guarantee in favour of Singapore Branch of Industrial and Commercial Bank of China in respect of a loan facility of US$15,000,000 ("**ICBC Loan**") made available to Acesite Phils. in March 1995. Resulting from the purported foreclosure of the Philippines Shares, Acesite Phils. has been now controlled by a third party. The loan was paid in full on 10 March 2016 with reference to the published financial information of Acesite Phils. as at 31 December 2016.

Except for the above, the Group had other litigations as at 30 April 2017 which the Group considered that it would not incur a material outflow of resources as result of these litigations. For details, please refer to section VII. Litigation of Appendix V to this circular.

B. The Target Group

Borrowings

At 30 April 2017, the borrowings were as follows:

	As at 30 April 2017
	HK$'000
Bank borrowings — secured and guaranteed	29,209
Bank borrowings — unsecured and guaranteed	156,620
Finance lease liabilities — guaranteed	50,641
	236,470

Security and guarantees

At the close of business on 30 April 2017, the Target Group's borrowings were secured by the pledged bank deposit with a total net carrying value of approximately HK$12,969,000. In addition, obligation under finance leases are secured by the assets under finance lease.

Contingent liabilities

At 30 April 2017, the Target Group did not have any significant contingent liabilities or non-disclosed obligations.

Saved as aforesaid and apart from intra-group liabilities and normal accounts payable, the Enlarged Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 30 April 2017.

III. WORKING CAPITAL STATEMENT

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources available to the Enlarged Group (including its internally generated funds), the Enlarged Group after completion of the transactions contemplated under the SPA, the Supplemental Agreement, the Xin Ye Agreement, the Loan Repayment Agreement, will have sufficient working capital to satisfy its present requirements and the requirements in the next 12 months from the date of this circular in the absence of unforeseen circumstances.

IV. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in (i) culture and media services (mainly in cinemas business on a nationwide basis in the PRC in addition to film distribution and other media related businesses); (ii) property development; and (iii) corporate IT application services. The Group has also started to tap into new business segments such as "New Media" and "Innovative Business" and it plans to step up its efforts in establishing these two business segments as the new growth points of the Group.

During the year of 2016, turnover of the Group increased by approximately 112.3% to HK$8,915.6 million. Net profit attributable to owners of the Company was approximately HK$1,359.6 million. Net assets attributable to owners of the Company were HK$4,051.8 million. The Group is optimistic about China's macro-economy and the future development of its three main businesses, and is confident that it can achieve better performance in 2017.

In the coming year, the Group will continue to vigorously develop its three main businesses, i.e. culture and media services, property development and corporate IT application services, by adhering to its diversified core business strategy. The Group is committed to pursuing the entire industry chain layout of the film industry through membership management and integration of online and offline operation. The Group will continue to carry out precise marketing campaigns to members and cinema users through big data analysis and perfect the outline of its interactive advertising systems. It will continue to enhance its strengths in cinema terminals and distribution channels, further promote investment in and production of contents to cater different audience with a view to establishing a platform covering entertainment and culture. It will also speed up the development process of the existing property projects, while striving for the exploration of new property projects; and will further improve its operation and management level of corporate IT application services to lay solid foundation for new businesses. In the meantime, the Group will spare no efforts to foster its media business and innovative business so as to facilitate resource sharing and strategic synergy in cross-business fields, striving to establish them as the new growth points of the Group. In addition to creating greater value for its shareholders, the Group will consolidate its foundation for sustainable development in the medium and long run.

The Board believes that through the Acquisition, the Group will be able to achieve the following results: (a) the Group's influence in the PRC cinema industry will further increase, in particular the Group will be able to strengthen its position as the second leading investor in the PRC cinema industry; (b) the number of cinemas and screens that the Group will be operating and managing in the PRC will increase significantly, which will in turn increase the Group's business bargaining power and decrease the overall operation costs; and (c) increase the Group's cinema and film distribution points in first and second-tier cities in the PRC, which will in turn enhance the Group's reputation, brand and overall image.

In addition, the Acquisition is favorable to the Group's development in the long run, which will be able to create synergies and consolidate benefits with the core capacity and quality resources of the Group, and be beneficial to long-term customer-oriented development strategies, thus laying a solid foundation for the implementation of "Film +" strategy. In view of the above, the Acquisition will be beneficial to the Company and the Shareholders as a whole.

V. MATERIAL ADVERSE CHANGE

The Directors are not aware as at the Latest Practicable Date of any material adverse change in the financing or trading position of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Group were made up.

ACCOUNTANT'S REPORT ON THE TARGET GROUP

The following is the text of the accountant's report on the Target Group prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.

BDO

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2218 8288
Telefax: (852) 2815 2239

23 June 2017

The Board of Directors
Nan Hai Corporation Limited

Dear Sirs,

We set out below our report on the financial information of City Entertainment Corporation Limited (the "**Target Company**") and its subsidiaries (hereinafter collectively referred to as the "**Target Group**") which comprises the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Group for each of the three years ended 31 December 2014, 2015 and 2016 (the "**Relevant Periods**"), and the combined statements of financial position of the Target Group as at 31 December 2014, 2015 and 2016 together with the notes thereto (the "**Combined Financial Information**") prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the circular of Nan Hai Corporation Limited (the "**Company**") dated 23 June 2017 (the "**Circular**") in connection with the proposed acquisition of 100% of the equity interests of the Target Company at a cash consideration of approximately RMB3,526,000,000 (the "**Acquisition**").

City Entertainment Corporation Limited was incorporated in Hong Kong with limited liability on 9 June 1992. The Target Group is principally engaged in the theatrical exhibition, cinema operation, management and investment holding business in the People's Republic of China.

For the purpose of this report, the directors of City Entertainment Corporation Limited have prepared the combined financial statements of the Target Group (the "**Underlying Financial Statements**") in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKAS**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The Underlying Financial Statements for each of the years ended 31 December 2014, 2015 and 2016 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Combined Financial Information set out in this report has been prepared based on the Underlying Financial Statements with no adjustments made thereon.

The audited financial statements of the entities that comprise the Target Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their places of incorporation. The principal entities that comprise the Target Group, together with details of their statutory auditors during the Relevant Periods, are set out in note 27 of Section II below.

DIRECTORS' RESPONSIBILITY

The directors of City Entertainment Corporation Limited are responsible for the preparation of the Underlying Financial Statements and the Combined Financial Information that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of City Entertainment Corporation Limited determine is necessary to enable the preparation of the Underlying Financial Statements and the Combined Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Combined Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures as we consider necessary on the Combined Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE COMBINED FINANCIAL INFORMATION

In our opinion, the Combined Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Target Group and the Target Company as at 31 December 2014, 2015 and 2016 and of the Target Group's financial performance and cash flows for each of the years then ended.

I. FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

		Year ended 31 December		
		2014	2015	2016
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*5*	821,780	991,151	1,062,469
Cost of sales		(322,185)	(404,168)	(453,012)
Gross profit		499,595	586,983	609,457
Other gain and (loss)	*6*	58,105	(7,795)	84,763
Selling and distribution costs		(494,614)	(631,224)	(663,467)
General and administrative expenses		(60,021)	(77,052)	(69,463)
Other operating expenses		(119)	(14,242)	(8,636)
Valuation losses on investment properties		—	(5,141)	(6,049)
Profit/(loss) from operations		2,946	(148,471)	(53,395)
Finance costs	*9*	(25,323)	(25,762)	(37,739)
Share of profits of associates		1,427	1,580	1,204
Loss before taxation	*7*	(20,950)	(172,653)	(89,930)
Income tax (expense)/credit	*10*	(7,143)	2,848	4,387
Loss for the year		(28,093)	(169,805)	(85,543)
Attributable to:				
Equity holders of the Target Company		(29,014)	(169,824)	(84,466)
Non-controlling interests		921	19	(1,077)
		(28,093)	(169,805)	(85,543)
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of financial statements of:				
— Foreign subsidiaries		(8,870)	(33,562)	(57,707)
— Foreign associates		(176)	(706)	(476)
		(9,046)	(34,268)	(58,183)
Total comprehensive income for the year		(37,139)	(204,073)	(143,726)
Total comprehensive income attributable to:				
Equity holders of the Target Company		(37,916)	(203,378)	(141,604)
Non-controlling interests		777	(695)	(2,122)
		(37,139)	(204,073)	(143,726)

Combined Statements of Financial Position

		As at 31 December		
		2014	**2015**	**2016**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	*11*	1,166,521	1,166,073	1,131,225
Investment properties	*12*	109,788	98,459	87,662
Interests in associates	*13*	12,415	11,269	4,613
Other receivables, deposits and prepayments	*14*	83,260	81,937	62,658
Goodwill	*15*	—	17,969	17,324
Deferred tax assets	*24*	31,782	36,211	39,702
Pledged bank deposits	*20*	1,880	13,570	—
Total non-current assets		1,405,646	1,425,488	1,343,184
Current assets				
Inventories	*16*	5,238	5,530	11,710
Trade receivables	*17*	55,437	102,775	70,762
Other receivables, deposits and prepayments	*14*	140,910	168,960	153,874
Derivative financial instruments	*18*	—	—	68,818
Amounts due from related parties	*19*	53,813	52,818	60,682
Pledged bank deposits	*20*	—	23,600	12,880
Deposits and cash	*20*	365,496	135,610	355,762
Total current assets		620,894	489,293	734,488
Current liabilities				
Trade payables	*21*	39,968	45,634	48,830
Other payables and accrued charges		78,589	136,330	117,130
Taxation payable		8,855	6,710	3,446
Amount due to immediate holding company	*19*	939,238	969,176	1,028,578
Amounts due to related parties	*19*	85,750	89,556	312,997
Bank loans	*22*	130,702	198,097	9,891
Obligations under finance leases	*23*	14,311	15,444	8,413
Deferred revenue		143,401	134,515	158,896
Total current liabilities		1,440,814	1,595,462	1,688,181
Net current liabilities		(819,920)	(1,106,169)	(953,693)
Total assets less current liabilities		585,726	319,319	389,491

		As at 31 December		
		2014	**2015**	**2016**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Bank loans	*22*	298,445	212,761	196,822
Obligations under finance leases	*23*	15,380	36,787	42,624
Total non-current liabilities		313,825	249,548	239,446
NET ASSETS		271,901	69,771	150,045
CAPITAL AND RESERVES				
Share capital	*25*	311,400	311,400	311,400
Reserves	*26*	(50,682)	(254,060)	(223,278)
Total equity attributable to the equity holders of the Target Company		260,718	57,340	88,122
Non-controlling interests		11,183	12,431	61,923
TOTAL EQUITY		271,901	69,771	150,045

Statement of Financial Position

		As at 31 December		
		2014	2015	2016
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment		2,931	2,000	1,253
Interests in subsidiaries	*27*	735,192	745,022	690,089
Loan to a subsidiary		390,300	173,400	165,600
Total non-current assets		1,128,423	920,422	856,942
Current assets				
Loan to a subsidiary		—	245,000	245,000
Other receivables, deposits and prepayments		480	658	2,956
Derivative financial instruments		—	—	68,818
Deposits and cash		42,661	166	305
Total current assets		43,141	245,824	317,079
Current liabilities				
Other payables and accruals		203	—	1,146
Bank loans		15,625	—	—
Amount due to a related company		597	603	603
Amount due to immediate holding company		939,238	969,176	1,028,578
Amount due to an intermediate holding company		800	900	—
Total current liabilities		956,463	970,679	1,030,327
Net current liabilities		(913,322)	(724,855)	(713,248)
NET ASSETS		215,101	195,567	143,694
CAPITAL AND RESERVES				
Share capital	*25*	300,000	300,000	300,000
Reserves	*26*	(84,899)	(104,433)	(156,306)
TOTAL EQUITY		215,101	195,567	143,694

Combined Statements of Changes in Equity

	Attributable to the equity holders of the Target Company							
	Share capital *HK$'000*	**Capital reserve** *HK$'000* *Note 26*	**Reserve funds** *HK$'000* *Note 26*	**Exchange reserve** *HK$'000* *Note 26*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total** *HK$'000*
At 1 January 2014	311,400	—	7,997	44,244	(65,007)	298,634	10,406	309,040
(Loss)/profit for the year	—	—	—	—	(29,014)	(29,014)	921	(28,093)
Other comprehensive income:								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences arising on translation of foreign operations	—	—	—	(8,902)	—	(8,902)	(144)	(9,046)
Total comprehensive income	—	—	—	(8,902)	(29,014)	(37,916)	777	(37,139)
Transfer from/(to) reserves	—	—	2,096	—	(2,096)	—	—	—
At 31 December 2014 and 1 January 2015	311,400	—	10,093	35,342	(96,117)	260,718	11,183	271,901
(Loss)/profit for the year	—	—	—	—	(169,824)	(169,824)	19	(169,805)
Other comprehensive income:								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences arising on translation of foreign operations	—	—	—	(33,554)	—	(33,554)	(714)	(34,268)
Total comprehensive income	—	—	—	(33,554)	(169,824)	(203,378)	(695)	(204,073)
Transfer from/(to) reserves	—	—	2,030	—	(2,030)	—	—	—
Acquisition of a subsidiary	—	—	—	—	—	—	4,899	4,899
Capital reduction of a subsidiary	—	—	—	—	—	—	(2,956)	(2,956)
At 31 December 2015 and 1 January 2016	311,400	—	12,123	1,788	(267,971)	57,340	12,431	69,771
Loss for the year	—	—	—	—	(84,466)	(84,466)	(1,077)	(85,543)
Other comprehensive income:								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences arising on translation of foreign operations	—	—	—	(57,138)	—	(57,138)	(1,045)	(58,183)
Total comprehensive income	—	—	—	(57,138)	(84,466)	(141,604)	(2,122)	(143,726)
Transfer from/(to) reserves	—	—	2,280	—	(2,280)	—	—	—
Capital injection to a subsidiary by non-controlling interests	—	172,386	—	—	—	172,386	51,614	224,000
At 31 December 2016	311,400	172,386	14,403	(55,350)	(354,717)	88,122	61,923	150,045

Combined Statements of Cash Flows

		Year ended 31 December		
		2014	**2015**	**2016**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities				
Loss before income tax		(20,950)	(172,653)	(89,930)
Adjustments for:				
Interest income		(24,884)	(3,348)	(1,204)
Finance costs		25,323	25,762	37,739
Depreciation of property, plant and equipment		131,287	157,452	152,449
(Gain)/losses on disposals of property, plant and equipment		(15)	516	—
Impairment of property, plant and equipment		—	14,122	—
Gain on recognition and change in fair value of derivative financial instruments		—	—	(68,818)
Valuation losses on investment properties		—	5,141	6,049
Share of profits of associates		(1,427)	(1,580)	(1,204)
Exchange losses		6,757	29,350	30,370
Operating profit before changes in working capital		116,091	54,762	65,451
Increase in inventories		(1,697)	(361)	(6,180)
(Increase)/decrease in trade receivables		(22,148)	(52,593)	32,013
Decrease/(increase) in other receivables, deposits and prepayments		68,148	(33,030)	34,365
Increase in trade payables		6,317	8,089	3,196
(Decrease)/increase in other payables and accrued charges		(16,797)	21,209	(19,200)
Increase in amounts due to related parties		1,003	4,800	4,607
Increase/(decrease) in deferred revenue		877	(2,835)	24,381
Cash generated from operations		151,794	41	138,633
Interest received		25,277	3,348	1,204
Finance costs paid		(30,569)	(25,291)	(32,933)
Interest element of finance lease rentals paid		(2,695)	(3,243)	(4,806)
Tax paid		(6,136)	(5,864)	(10,337)
Net cash generated from/(used in) operating activities		137,671	(31,009)	91,761

		Year ended 31 December		
		2014	**2015**	**2016**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Investing activities				
Payment for the purchase of property, plant and equipment		(156,724)	(102,058)	(156,287)
Acquisition of subsidiaries, net of cash acquired	*34*	—	(32,602)	(3,652)
Prepayment for the acquisition of a subsidiary		—	(3,540)	—
Proceeds from disposals of property, plant and equipment		94	—	—
Proceeds from disposal of an associate		146	—	—
Investment in an associate		(504)	—	—
(Increase)/decrease in pledged bank deposits		—	(36,900)	10,720
(Increase)/decrease in time deposits with original maturity of more than three months when acquired		—	(8,260)	13,570
Repayment from an associate		2,907	2,020	7,384
Reduction of equity interest by non-controlling interests		—	(2,956)	—
Net cash used in investing activities		(154,081)	(184,296)	(128,265)
Financing activities				
Drawdown of bank loans		76,633	135,300	9,479
Repayment of bank loans		(146,705)	(129,252)	(213,624)
Advance from immediate holding company		143,910	29,938	59,402
Advance from related parties		—	—	218,834
Capital injection from non-controlling interest of a subsidiary		—	—	224,000
Capital element of finance lease rentals paid		(9,149)	(22,792)	(15,444)
Net cash generated from financing activities		64,689	13,194	282,647
Net increase/(decrease) in cash and cash equivalents		48,279	(202,111)	246,143
Cash and cash equivalents at beginning of year		335,617	365,496	127,350
Effect of foreign exchange rate changes, on cash held		(18,400)	(36,035)	(17,731)
Cash and cash equivalents in the combined statements of cash flows		365,496	127,350	355,762
Analysis of the balances of cash and cash equivalents				
Cash and cash equivalents in the combined statements of financial position		365,496	135,610	355,762
Less: Time deposit with original maturity of more than three months when acquired		—	(8,260)	—
Cash and cash equivalents in the combined statements of cash flows		365,496	127,350	355,762

II. NOTES TO THE COMBINED FINANCIAL INFORMATION

1. GENERAL INFORMATION

City Entertainment Corporation Limited (the "**Target Company**") was incorporated in Hong Kong on 9 June 1992. The registered office of City Entertainment Corporation Limited is on 24/F, AXA Centre, 155 Gloucester Road, Wanchai, Hong Kong.

The principal activities of the Target Company and its subsidiaries (together the "**Target Group**") are the theatrical exhibition, cinema operation, management and investment holding business in the People's Republic of China (the "**PRC**").

The directors of the Target Company consider that City Entertainment Corporation Limited's immediate parent is Giant Harvest Limited ("**Giant Harvest**"), a company incorporated in Hong Kong, and the ultimate parent is Orange Sky Golden Harvest Entertainment (Holdings) Limited, a company incorporated in Bermuda.

On 25 January 2017, Giant Harvest entered into an agreement with True Vision Limited, pursuant to which Giant Harvest conditionally agreed to sell, upon completion of an internal reorganisation (the "**Reorganisation**"), the entire equity interest of the Target Company to True Vision Limited (the "**Disposal**").

Under the Reorganisation, the Target Company undertook to form the "Target Group by:

(i) Transferring out entities that were not engaged in film exhibition business from the Target Company including OSGH Finance Limited, 深圳市粵凰數碼科技有限公司 (Shenzhen City Phoenix Digital Company Limited), 北京橙天嘉禾橙食品有限公司 (Beijing Orange Sky Golden Harvest Food Limited Company), 北京橙天嘉禾三里屯影城管理有限公司 (Orange Sky Golden Harvest Sanlitun (Beijing) Cinema Management Company Limited), 北京司響無限文化傳媒有限公司 (Beijing Sixiang Wuxian Culture Media Limited Company) and 上海橙天嘉影實業有限公司 (Shanghai Orange Sky Jiaying Shiye Limited Company); and

(ii) Acquiring an investment holding entity, 北京美林華映影院管理有限公司 (Meilin Huaying (Beijing) Cinema Management Co. Ltd.), and 北京橙天嘉禾上地影城有限公司 (Orange Sky Golden Harvest Shangdi (Beijing) Cinema Company Limited) from the ultimate parent.

2.1. BASIS OF PRESENTATION

The Combined Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong.

Since all entities comprising the Target Group (as detailed in note 27) were under common control of the Target Company during the three years ended 31 December 2014, 2015 and 2016 (or where the companies comprising the Target Group were acquired/established at a date later than 1 January 2014, for the period from the date of acquisition/establishment to 31 December 2016) (the "Relevant Periods") but do not constitute a separate legal consolidated group, the Combined Financial Information has been prepared using the principle of merger accounting, as if the current group structure had been in existence throughout the Relevant Periods, and the entities not engaged in film exhibition business as stated in note 1(i) were transferred out from beginning of the Relevant Periods. The principle of merger accounting has been applied from the first day of the Relevant Periods on 1 January 2014 or the earliest date at which the entities within the Target Group were acquired/incorporated.

The Combined Financial Information of the Target Group has been prepared and measured at the carrying amount of the entities comprising the Target Group reflected in the combined financial statements of the Target Group for the Relevant Periods. It has been prepared by combining the relevant financial statements, including the income statements, statements of comprehensive income, statements of changes in equity and the statements of cash flows of the entities within the Target Group for the Relevant Periods and the statements of financial position of the entities within the Target Group as at 31 December 2014, 2015 and 2016 of the companies comprising the Target Group (collectively, the "**Standalone Financial Statements**") and adjusting for the effects of acquisition of certain entities within the Target Group reflected in the combined financial statements of the Target Group that are directly attributable to the Target Group but are not reflected in the Standalone Financial Statements. All material intra-group transactions and balances have been eliminated when preparing the Combined Financial Information.

The Combined Financial Information has been prepared under the historical cost basis except for investment properties and derivative financial instruments which are stated at fair values as explained in the accounting policies set out below. The Combined Financial Information is presented in Hong Kong Dollars ("**HK$**") and all values are rounded to the nearest thousand ("**HK$'000**") except when otherwise indicated.

For the purpose of preparation of the Combined Financial Information, all HKFRS effective for the accounting period on or after 1 January 2016, together with the relevant transitional provisions, have been early adopted by the Target Group in the preparation of the Combined Financial Information throughout the Relevant Periods.

The adoption of going concern assumption

As at 31 December 2016, the Target Group's current liabilities exceeded current assets by HK$953,693,000, which was primarily due to an amount of HK$1,028,578,000 due to the immediate parent classified as current liabilities.

The above conditions indicated the existence of a material uncertainty which may cast significant doubt on the Target Group's ability to continue as a going concern.

The directors of the Target Company have reviewed the Target Group's cash flow projections, which cover a period of twelve months from the end of the latest reporting period. They are of the opinion that, taking into account the following, the Target Group will have sufficient working capital to meet its financial obligations as and when they fall due:

(i) An amount due to the immediate parent of HK$1,028,578,000 would be capitalised as part of the equity of the Target Group; and

(ii) The immediate parent will not demand repayment of the amount due from the Target Group before completion of the Disposal if it would render the Target Group unable to meet other financial obligations as and when they fall due.

In the opinion of the directors of the Target Company, in light of the above, the Target Group will have sufficient working capital to fulfil its financial obligations as and when they fall due. Accordingly, the directors of the Target Company are satisfied that it is appropriate to prepare the Combined Financial Information on a going concern basis.

2.2. IMPACT OF NEW/AMENDED HONG KONG FINANCIAL REPORTING STANDARDS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

City Entertainment Corporation Limited has not applied the following revised standards and new interpretations, that have been issued but are not yet effective, in this Financial Information.

Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

Amendments to HKAS 7 — Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

Amendments to HKFRS 2 — Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 — Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("**FVTOCI**") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("**FVTPL**").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Amendments HKFRS 15 — Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 ''Leases'' and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Target Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Target Group's accounting policies and financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The Combined Financial Information comprises the financial statements of City Entertainment Corporation Limited and its subsidiaries (excluding subsidiaries not engaged in film exhibition business as stated in note 1(i)) and entities forming the "Target Group" (as set out in note 1). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the combined financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The Target Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Target Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

(b) Subsidiaries

A subsidiary is an investee over which the Target Company is able to exercise control. The Target Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Target Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Target Company considers all relevant facts and circumstances, including:

- The size of the Target Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;

- Substantive potential voting rights held by the Target Company and other parties who hold voting rights;

- Other contractual arrangements; and
- Historic patterns in voting attendance.

In the Target Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

(c) Associates

An associate is an entity over which the Target Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Target Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Target Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Target Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Target Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment, other than construction in progress, are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period throughout the Relevant Periods. The useful lives are as follows:

Buildings	Over the shorter of the lease terms of land or 40 years
Leasehold improvements	Over the shorter of the lease terms or its useful life
Machinery and equipment	5–10 years
Furniture and fixtures	5–12 years
Motor vehicles	5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

(f) Investment properties

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of comprehensive income in the year of the retirement or disposal.

(g) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Target Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(h) Financial instruments

(i) Financial assets

The Target Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, unless the effect of discounting would be immaterial, in which case they are stated at cost, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Target Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Loans and receivables

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) Financial liabilities

The Target Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by City Entertainment Corporation Limited are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Target Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

(i) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in-first out method. Net realisable value represents the estimated costs necessary to make the sale.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less that are readily convertible into known amount of cash and which are subject to an insignificant risk of changes in value.

For the purpose of presentation in the combined statements of cash flows, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

(k) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, rendering of services and the use by others of the Target Group's assets yielding interest and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Ticket income from the sale of tickets owned and controlled by the Target Group is recognised as income when the ticket is issued.

Income from screen advertising and exhibition is recognised at the time when the services are provided.

Sales of confectionery, merchandise and souvenir are recognised at the point of sales when the goods are given to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

(l) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or deductible for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(m) Foreign currency translation

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Target Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transaction took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Target Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

(n) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Target Group can no longer withdraw the offer of those benefits and when the Target Group recognises restructuring costs involving the payment of termination benefits.

(o) Impairment of non-financial assets

At the end of each reporting period, the Target Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- Goodwill

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(p) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Related parties

(a) A person or a close member of that person's family is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of key management personnel of the Target Group or the Target Company's parent.

(b) An entity is related to the Target Group if any of the following conditions apply:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Target Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of assets

The Target Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date in the Relevant Periods. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating units ("**CGU**") and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. SEGMENT REPORTING

In the opinion of the management, the Target Group has one operating segment which is film exhibition, film and video distribution and the provision of advertising and exhibition services.

Information about major customers

None of the Target Group's revenue was derived from a customer that individually contributed more than 10% of the Target Group's revenue for each of the Relevant Periods.

5. REVENUE

Revenue represents income from the theatre operation, promotion and advertising services and others.

	Year ended 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Box office income	673,447	851,857	839,953
Confectionery sales	87,070	92,023	107,797
Advertising income	25,991	26,350	52,063
Exhibition income	30,232	14,208	14,175
Others	5,040	6,713	48,481
	821,780	991,151	1,062,469

6. OTHER GAIN AND (LOSS)

	Year ended 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Exchange loss, net	(6,757)	(29,350)	(30,370)
Interest income	24,884	3,348	1,204
Gain/(loss) on disposal of property, plant and equipment	15	(516)	—
Impairment loss on property, plant and equipment	—	(14,122)	—
Gain on recognition and change in fair value of derivative financial instruments	—	—	68,818
Compensation income	—	—	6,685
Government subsidy	26,201	18,541	23,780
Sundry income	13,762	14,304	14,646
	58,105	(7,795)	84,763

7. LOSS BEFORE TAXATION

Loss before income tax is arrived at after charging the following:

	Year ended 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Cost of inventories sold	25,451	29,182	29,560
Depreciation *(note 11)*	131,287	157,452	152,449
Auditors' remuneration			
— For audit services	260	787	530
Employee benefit expense (excluding directors' remuneration *(note 8)*):			
— Wages and salaries	120,584	150,373	149,032
— Pension scheme contributions	13,474	15,000	15,372
	134,058	165,373	164,404

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

During the Relevant Periods, no fees, salaries, allowances and other benefits, discretionary bonuses, and pension scheme contribution were paid to the directors of the Target Group, including Mr. Wu Kebo and Ms. Wu Keyan.

During the Relevant Periods, no remunerations were paid to the directors of the Target Group as an inducement to join or upon joining the Target Group or as compensation for loss of office. In addition, none of the directors of the Target Group waived or agreed to waive any remuneration during the Relevant Periods.

(b) Five highest paid employees

No directors of the Target Group, details of whose remuneration are set out in note 8(a) above, are included in the five highest paid employees during the Relevant Periods. Details of the remuneration of the five non-director, highest paid employees for the Relevant Periods are as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and benefits in kind	3,167	4,293	2,783
Pension scheme contributions	—	—	—
	3,167	4,293	2,783

9. FINANCE COSTS

	Year ended 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Interest expenses for bank loans	21,679	22,518	32,933
Interest element of finance lease payments	3,644	3,244	4,806
	25,323	25,762	37,739

10. INCOME TAX

The amount of taxation in the combined statements of comprehensive income represents:

	Year ended 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Current tax			
— tax for the year	6,158	3,805	7,073
— under-provision for prior years	3,680	—	—
Deferred tax *(note 24)*	(2,695)	(6,653)	(11,460)
Income tax expense/(credit)	7,143	(2,848)	(4,387)

Hong Kong profit tax has been provided on the estimated assessable profits of the Target Company at 16.5% throughout the Relevant Periods.

Corporate profit tax has been provided on the estimated assessable profits of subsidiaries operating in PRC at 10%–25%, unless preferential rates are applicable in the cities where the subsidiaries are located throughout the Relevant Periods.

The income tax for the Relevant Periods can be reconciled to the loss before income tax in the combined statements of comprehensive income as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Loss before taxation	(20,950)	(172,653)	(89,930)
Tax calculated at the applicable domestic tax rates	(3,564)	(24,269)	(8,456)
Tax effect of expenses not deductible for tax purposes	1,933	5,107	3,767
Tax effect of revenue not taxable for tax purposes	(24)	(2,181)	(12,562)
Tax effect of tax losses not recognised	12,588	15,578	23,033
Utilisation of tax losses previously not recognised	(7,616)	(243)	(11,872)
Under provision in respect of prior years	3,680	—	—
Tax effect of deductible temporary differences not recognised	146	3,160	1,703
Income tax expense/(credit)	7,143	(2,848)	(4,387)

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Machinery and equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost							
At 1 January 2014	20,475	602,152	379,605	38,320	1,572	108,507	1,150,631
Additions	86	—	47,169	4,364	—	245,390	297,009
Transfer	—	238,297	—	—	—	(238,297)	—
Disposals	—	—	(26,891)	(527)	—	—	(27,418)
Exchange adjustment	49	1,428	788	71	4	1,116	3,456
At 31 December 2014 and 1 January 2015	20,610	841,877	400,671	42,228	1,576	116,716	1,423,678
Additions	—	—	43,730	380	1,054	141,664	186,828
Additions of subsidiaries	—	38,121	18,728	2,655	38	—	59,542
Transfer	—	98,703	24,062	—	—	(122,765)	—
Disposals	—	—	(3,518)	(146)	—	—	(3,664)
Exchange adjustment	(2,543)	(56,599)	(26,470)	(2,614)	(136)	(6,189)	(94,551)
At 31 December 2015 and 1 January 2016	18,067	922,102	457,203	42,503	2,532	129,426	1,571,833
Additions	—	102,974	27,982	515	301	24,515	156,287
Additions of subsidiaries	—	1,198	1,322	153	—	—	2,673
Transfer	—	118,168	28,268	1,128	—	(147,564)	—
Exchange adjustment	(918)	(37,554)	(27,220)	(1,882)	(143)	(1,323)	(69,040)
At 31 December 2016	17,149	1,106,888	487,555	42,417	2,690	5,054	1,661,753
Accumulated depreciation and impairment							
At 1 January 2014	5,247	440	124,535	12,612	1,136	—	143,970
Charge for the year	1,204	76,064	49,551	4,127	341	—	131,287
Write-off on disposals	—	—	(17,353)	(192)	(270)	—	(17,815)
Exchange adjustment	6	(423)	120	9	3	—	(285)
At 31 December 2014 and 1 January 2015	6,457	76,081	156,853	16,556	1,210	—	257,157
Charge for the year	1,883	89,405	61,437	4,564	163	—	157,452
Impairment losses recognised	—	14,122	—	—	—	—	14,122
Write-off on disposals	—	—	(1,127)	(138)	—	—	(1,265)
Exchange adjustment	(1,113)	(8,601)	(10,254)	(1,144)	(594)	—	(21,706)
At 31 December 2015 and 1 January 2016	7,227	171,007	206,909	19,838	779	—	405,760
Charge for the year	1,791	82,909	61,968	4,678	1,103	—	152,449
Exchange adjustment	414	(11,592)	(15,079)	(1,337)	(87)	—	(27,681)
At 31 December 2016	9,432	242,324	253,798	23,179	1,795	—	530,528
Net carrying amount							
At 31 December 2014	14,153	765,796	243,818	25,672	366	116,716	1,166,521
At 31 December 2015	10,840	751,095	250,294	22,665	1,753	129,426	1,166,073
At 31 December 2016	7,717	864,564	233,757	19,238	895	5,054	1,131,225

12. INVESTMENT PROPERTIES

	As at 31 December		
	2014	2015	2016
	HK$'000	*HK$'000*	*HK$'000*
Fair value			
At 1 January	111,264	109,788	98,459
Fair value change	—	(5,141)	(6,049)
Exchange realignment	(1,476)	(6,188)	(4,748)
At 31 December	109,788	98,459	87,662

The fair value of the Target Group's investment properties at 31 December 2014, 2015 and 2016 have been arrived at on market value basis by Savills Property Services (Shanghai) Co. Ltd, an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Management has reviewed the independent property valuation and compared it with its own assumptions, with reference to comparable sales transaction data where such information is available, and has concluded that the independent property valuation of the Target Group's investment property portfolio is reasonable.

Fair value hierarchy

The Target Group's investment properties are measured at fair value. These investment properties are commercial properties in Mainland China. In 2014, 2015 and 2016, there were no transfers between different levels within the fair value hierarchy.

	As at 31 December		
	2014	2015	2016
	HK$'000	*HK$'000*	*HK$'000*
Fair value hierarchy			
Level 3	109,788	98,459	87,662

Valuation processes and techniques underlying management's the fair value hierarchy

The fair value of investment properties located in Mainland China is determined using the market comparison approach by reference to recent sales prices of comparable properties on a price per square metre basis, adjusted for a premium or a discount specific to the quality of the Target Group's buildings compared to recent sales. A higher premium for higher quality buildings will result in a higher fair value measurement.

Information about fair value measurements using significant unobservable inputs (Level 3)

	Valuation technique(s)	Significant unobservable inputs	Range
At 31 December 2014			
Commercial properties in PRC	Market comparison approach	Location factor	–5% to 0%
		Building specific	–5% to 0%
		Floor level adjustment	45% to 50%
		Level height adjustment	–20% to 20%
At 31 December 2015			
Commercial properties in PRC	Market comparison approach	Location factor	–5% to 0%
		Building specific	–5% to 0%
		Floor level adjustment	45% to 50%
		Level height adjustment	–20% to 20%
At 31 December 2016			
Commercial properties in PRC	Market comparison approach	Location factor	–5% to 0%
		Building specific	–10% to –5%
		Floor level adjustment	45% to 50%
		Level height adjustment	–20% to 20%

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

13. INTERESTS IN ASSOCIATES

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Share of net assets	2,517	3,885	4,613
Amount due from an associate	9,898	7,384	—
	12,415	11,269	4,613

The amount due from an associate was unsecured, interest-free and had no fixed terms of repayment, and was expected to be recovered after more than one year as at 31 December 2014 and 2015.

Particulars of the associates at 31 December 2014, 2015 and 2016 are as follows:

Name	Place of incorporation	Paid-up capital	Percentage of share held by the Target Company 2014	2015	2016	Principal activities
常州幸福藍海橙天嘉禾影城有限公司 (OMNIJOI Orange Sky Golden Harvest (Changzhou) Cinema Co., Ltd.)	PRC	Registered capital of RMB2,000,000	49%	49%	45.37%	Theatre operation
惠州太東橙天嘉禾影城有限公司 (Orange Sky Golden Harvest Taidong (Huizhou) Cinema Co., Ltd.)	PRC	Registered capital of RMB1,000,000	40%	40%	37.04%	Theatre operation

14. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Other receivables, deposits and prepayments	224,170	250,897	216,532
Less: Non-current portion			
Long term rental deposits	57,713	57,395	50,400
Prepaid rental	25,547	24,542	12,258
	83,260	81,937	62,658
	140,910	168,960	153,874

At each of the reporting date in the Relevant Periods, the Target Group's other receivables are individually assessed for impairment. The individually impaired receivables are recognised based on the credit history of its debtors, their financial position and record of delinquency in payments, and current market conditions. Consequently, specific impairment provision was recognised. The Target Group does not hold any collateral over these balances. No provision for impairment has been recognised throughout the Relevant Periods.

15. GOODWILL

	HK$'000
At 1 January 2014, 31 December 2014 and 1 January 2015	
Cost	—
Accumulated impairment	—
Net carrying amount	—
Year ended 31 December 2015	
Opening net carrying amount	—
Additions *(note 34)*	18,874
Exchange adjustment	(905)
Closing net carrying amount	17,969
At 31 December 2015	
Cost	17,969
Accumulated impairment	—
Net carrying amount	17,969
Year ended 31 December 2016	
Opening net carrying amount	17,969
Addition *(note 34)*	1,599
Exchange adjustment	(2,244)
Closing net carrying amount	17,324
At 31 December 2016	
Cost	17,324
Accumulated impairment	—
Net carrying amount	17,324

Goodwill is allocated to the Target Group's CGU – film exhibition segment. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of 12 years using an estimated annual growth rate of 7%–15% which is consistent with forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a pre-tax discount rate of 20%, which reflects specific risks relating to the Target Group's PRC operations.

16. INVENTORIES

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Confectionery goods	5,238	5,530	11,710

17. TRADE RECEIVABLES

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	55,437	102,775	70,762

The Target Group's credit terms with its customers, where applicable, are generally 30 to 60 days.

No provision for impairment of trade receivables was recognised throughout the Relevant Periods.

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of Relevant Periods.

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	53,004	98,457	66,235
Over 1 year but less than 2 years	2,429	4,044	3,443
Over 2 years but less than 3 years	4	274	874
Over 3 years	—	—	210
	55,437	102,775	70,762

The ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Neither past due nor impaired	53,004	98,457	66,235
1 to 2 years past due	2,429	4,044	3,443
2 to 3 years past due	4	274	874
Over 3 years past due	—	—	210
	55,437	102,775	70,762

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track of record with the Target Group. Based on past experience, the directors of the Target Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Target Group does not hold any collateral or other credit enhancements over these balances.

18. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	—	—	—
Issuance of call option	—	—	31,551
Change in fair value	—	—	37,267
At 31 December	—	—	68,818

On 15 March 2016, the Target Company entered into a subscription agreement (the "**Subscription Agreement**") with three investors, pursuant to which the investors agreed to subscribe for 13.79% of the entire equity interest in 橙天嘉禾影城(中國)有限公司 (Orange Sky Golden Harvest Cinemas (China) Company Limited) ("**OSGH (China)**") (as enlarged by completion of the Subscription Agreement) for an aggregate consideration of RMB400 million, subject to conditions precedent under the Subscription Agreement.

On 29 November 2016, the conditions precedent under the Subscription Agreement were fulfilled between the Target Company and one of the three investors, Jiaxing Credit Prosperity Investment Enterprise (Limited Partnership) ("**Xin Ye**") and Xin Ye subscribed for a 7.41% of the entire equity interest in OSGH (China) for a consideration of RMB200 million (the "**Deemed Disposal**").

The Subscription Agreement contains terms and conditions which granted the Target Company and Xin Ye various rights and options. The Target Company has options to call and Xin Ye has options to put the equity interest in OSGH (China) held by Xin Ye under specified circumstances. In addition, anti-dilution rights will come into effect if the Target Company invites investment through subscription for new registered capital in OSGH (China) to new investors within a specified timeframe.

Pursuant to the terms of the call option, the Target Company has options to buy-back the equity interest in OSGH (China) at a consideration of (i) RMB220 million if the Target Company and its parent enter into any written agreement for the disposal of more than 50% of the entire equity interest in OSGH (China) to a third party purchaser within 182 days after the completion of the subscription of equity interest in OSGH (China) by Xin Ye (the "**Completion**") or (ii) RMB240 million if the Target Company enters into any written agreement for the disposal of more than 50% equity interest in OSGH (China) to a third party purchaser between 183 and 365 days after the Completion.

As at the date of the Completion, the fair value of the call option of HK$70,075,388 net of the fair value of the put option of HK$38,524,762 has been recognised as derivative financial instruments in the combined statements of financial position.

Pursuant to the terms of the put option, Xin Ye has options to require the Target Company to purchase its 7.41% equity interest in OSGH (China) if (i) OSGH (China) is unable to satisfy the qualifications for a listing in specified stock exchanges ("**Qualified IPO**") following the expiry of three full calendar years after the Completion; or (ii) OSGH (China) is unable to achieve a Qualified IPO following the expiry of four full calendar years after the Completion; or (iii) OSGH (China) is unable to achieve a Qualified IPO but has commenced trading on National Equities Exchange and Quotations system in the Mainland China following the expiry of four full calendar years after the Completion.

The gain on recognition and change in fair value of the derivative financial instruments is presented in "Other gain and (loss)" in the combined statements of comprehensive income.

Fair value hierarchy

The following table presents the fair value of the Target Group's derivative financial instruments measured at the end of the reporting period throughout the Relevant Periods on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

— Level 3 valuations: Fair value measured using significant unobservable inputs

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Fair value hierarchy			
Level 3	—	—	68,818

During the Relevant Periods, there were no transfers between Level 1, Level 2 and Level 3. The Target Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period throughout the Relevant Periods in which they occur. All of the Target Group's derivative financial instruments were revalued as at 31 December. The valuations were carried out by an independent professional qualified valuer, RHL International Limited. The Target Company's management have discussions with the valuer about the valuation assumptions and valuation results when a valuation is performed at each reporting date throughout the Relevant Periods.

Information about Level 3 fair value measurements

	Valuation technique	**Significant unobservable input**	**Range (weighted average)**
Derivative financial instruments	Binomial model	Expected volatility	55% – 72%

The fair value of the derivative financial instruments was determined using the binomial model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility.

19. AMOUNTS DUE FROM/(TO) RELATED PARTIES/IMMEDIATE HOLDING COMPANY

The amounts were unsecured, non-interest bearing and repayable on demand.

20. DEPOSITS AND CASH AND PLEDGED BANK DEPOSITS

The Target Group's cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

For trade payables, the credit period granted by suppliers and contractors is normally 0 to 90 days.

The ageing analysis of trade payables, based on invoice date, as of the end of each of the Relevant Periods is as follows:

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	38,977	42,978	42,157
Over 1 year but less than 2 years	991	2,656	6,673
	39,968	45,634	48,830

22. BANK LOANS

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Bank loans, secured	429,147	410,858	206,713

The bank loans of the Target Group are repayable as follows:

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
On demand or within one year	130,702	198,097	9,891
In the second year	—	46,468	101,723
In the third to fifth years	298,445	166,293	95,099
Wholly repayable within 5 years	429,147	410,858	206,713
Less: Portion due within one year under current liabilities	(130,702)	(198,097)	(9,891)
Portion due over one year under non-current liabilities	298,445	212,761	196,822
Effective interest rate	2.25%–8.19%	2.25%–6.13%	2.25%–6.13%

23. OBLIGATIONS UNDER FINANCE LEASES

Finance leases

The Target Group leases the majority of its motor vehicles and computer equipment. Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Target Group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

Future lease payments are due as follows:

	Minimum lease payments 2014 *HK$'000*	Interest 2014 *HK$'000*	Present value 2014 *HK$'000*
Not later than one year	15,803	1,492	14,311
Later than one year and not later than two years	9,290	801	8,489
Later than two years and not later than five years	7,329	438	6,891
	32,422	2,731	29,691

	Minimum lease payments 2015 *HK$'000*	Interest 2015 *HK$'000*	Present value 2015 *HK$'000*
Not later than one year	17,645	2,201	15,444
Later than one year and not later than two years	10,947	1,780	9,167
Later than two years and not later than five years	29,029	1,409	27,620
	57,621	5,390	52,231

	Minimum lease payments 2016 *HK$'000*	Interest 2016 *HK$'000*	Present value 2016 *HK$'000*
Not later than one year	9,966	1,553	8,413
Later than one year and not later than two years	18,256	1,794	16,462
Later than two years and not later than five years	27,612	1,450	26,162
	55,834	4,797	51,037

24. DEFERRED TAX ASSETS/(LIABILITIES)

	Temporary difference on provision	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2014	(12,442)	41,954	29,512
(Charge)/credit to profit or loss *(note 10)*	(14,346)	17,041	2,695
Exchange differences	450	(875)	(425)
At 31 December 2014 and 1 January 2015	(26,338)	58,120	31,782
Credit to profit or loss *(note 10)*	1,680	4,973	6,653
Exchange differences	2,329	(4,553)	(2,224)
At 31 December 2015 and 1 January 2016	(22,329)	58,540	36,211
Credit to profit or loss *(note 10)*	4,061	7,399	11,460
Exchange differences	961	(8,930)	(7,969)
At 31 December 2016	(17,307)	57,009	39,702

For the purpose of presentation in combined statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December		
	2014	2015	2016
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax assets	58,120	58,540	57,009
Deferred tax liabilities	(26,338)	(22,329)	(17,307)
	31,782	36,211	39,702

Deferred tax asset has not been recognised for the following:

	As at 31 December		
	2014	2015	2016
	HK$'000	*HK$'000*	*HK$'000*
Unused tax losses	25,518	124,639	196,681

No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The unused tax losses will expire in five years.

25. SHARE CAPITAL

Combined capital for the purposes of this combined financial information represents the combined share capital attributable to the owner of City Entertainment Corporation Limited and Meilin Huaying (Beijing) Cinema Management Co. Ltd.

26. RESERVES

The amounts of the Target Group's reserves and the movements therein for the current and prior years are presented in the combined statements of changes in equity on pages 42 of the Circular.

Note:

Capital reserve

Capital reserve mainly includes the Target Group's share of the capital injection to a subsidiary by non-controlling interests.

Reserve funds

In accordance with the relevant regulations in the PRC, the companies' established therein are required to transfer a certain percentage of their profits after tax to the reserve funds until the balance reaches 50% the registered capital. Subject to certain restrictions set out in the relevant PRC regulations, the reserve funds may be used either to offset losses, or for capitalisation by way of paid-up capital.

Exchange reserve

The translation reserve mainly comprises foreign currency differences arising from the translation of the financial statements of foreign currencies.

The Target Company

	Accumulated losses *HK$'000*
At 1 January 2014	(67,540)
Loss and total comprehensive income for the year	(17,359)
At 31 December 2014 and 1 January 2015	(84,899)
Loss and total comprehensive income for the year	(19,534)
At 31 December 2015 and 1 January 2016	(104,433)
Loss and total comprehensive income for the year	(51,873)
At 31 December 2016	(156,306)

27. PRINCIPAL SUBSIDIARIES

Name	Place of incorporation	Paid-up capital (in RMB)	Percentage of share held by the Target Company 2014	2015	2016	Principal activities	Auditor
OSGH (China)	PRC	648,000,000	100%	100%	92.59%	Theatre operation and investment holding	Ruihua Certified Public Accountants (“**Ruihua CPA**”)
東莞橙天嘉禾第一國際影城有限公司 (Orange Sky Golden Harvest First International (Dongguan) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
廣州市橙天嘉禾精都影城有限公司 (Orange Sky Golden Harvest Jingdu (Guangzhou) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
中山橙天嘉禾利和影城有限公司 (Orange Sky Golden Harvest Lihe (Zhongshan) Cinema Co. Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
馬鞍山橙天嘉禾聖茂影院有限公司 (Orange Sky Golden Harvest Shengmao (Maanshan) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
蘇州橙天嘉禾來客茂影城有限公司 (Orange Sky Golden Harvest Laikemao (Suzhou) Cinema Co., Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
蘇州橙天嘉禾影城有限公司 (Orange Sky Golden Harvest (Suzhou) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
吳江橙天嘉禾影城有限公司 (Orange Sky Golden Harvest (Wujiang) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
無錫橙天嘉禾清茂影院有限公司 (Orange Sky Golden Harvest Qingmao (Wuxi) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA

Name	Place of incorporation	Paid-up capital (in RMB)	Percentage of share held by the Target Company 2014	2015	2016	Principal activities	Auditor
無錫橙天嘉禾新之城影院有限公司 (Orange Sky Golden Harvest Shincity (Wuxi) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
上海橙天嘉禾嘉尚坊影城有限公司 (Orange Sky Golden Harvest J.STYLE CENTER (Shanghai) Cinema Co., Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
合肥橙天嘉禾蜀西影城有限公司 (Orange Sky Golden Harvest Shuxi (Hefei) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
常州橙天嘉禾吾悦影城有限公司 (Orange Sky Golden Harvest Wuyue (Changzhou) Cinema Management Co. Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
常州橙天嘉禾豐臣影城有限公司 (Orange Sky Golden Harvest Fengchen (Changzhou) Cinema Co.,Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
南通橙天嘉禾鴻鳴摩爾影城有限公司 (Orange Sky Golden Harvest Gaodian (Hongmingmoer) Cinema Co., Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
東莞橙天嘉禾天一城影城有限公司 (Orange Sky Golden Harvest Top One (Dongguan) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
東莞橙天嘉禾又一城影城有限公司 (Orange Sky Golden Harvest Youyicheng (Dongguan) Cinema Co. Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
南寧橙天嘉禾江南影業有限公司 (Orange Sky Golden Harvest Jiangnan (Nanning) Cinema Co. Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA

Name	Place of incorporation	Paid-up capital (in RMB)	Percentage of share held by the Target Company 2014	2015	2016	Principal activities	Auditor
南寧橙天嘉禾盛天地影城有限公司 (Orange Sky Golden Harvest Shengtiandi (Nanning) Cinema Co.,Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
重慶橙天嘉禾壹街影城有限公司 (Orange Sky Golden Harvest One Street (Chongqing) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
重慶橙天嘉禾日月光影城有限公司 (Orange Sky Golden Harvest Riyueguang (Chongqing) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
銀川橙天嘉禾電影城有限公司 (Orange Sky Golden Harvest (Yinchuan) Cinema Co.Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
成都橙天嘉禾萬國影業有限公司 (Orange Sky Golden Harvest Wanguo (Chengdu) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
成都橙天嘉禾凱丹影業有限公司 (Orange Sky Golden Harvest Kaidan (Chengdu) Cinema Co.Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
成都橙天嘉禾一品影業有限公司 (Orange Sky Golden Harvest Yipin (Chengdu) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
北京橙天嘉禾萬貿影城有限公司 (Orange Sky Golden Harvest Wanmao (Beijing) Cinema Co. Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
北京橙天嘉禾吉彩影城管理有限公司 (Orange Sky Golden Harvest Jicai (Beijing) Cinema Management Co. Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA

Name	Place of incorporation	Paid-up capital (in RMB)	Percentage of share held by the Target Company 2014	2015	2016	Principal activities	Auditor
北京橙天嘉禾鳳凰城影城有限公司 (Orange Sky Golden Harvest Phoenix City (Beijing) Cinema Co. Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
瀋陽橙天嘉禾億豐時代影城有限公司 (Orange Sky Golden Harvest Yifeng Times (Shenyang) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
西安橙天嘉禾青東花園影城有限公司 (Orange Sky Golden Harvest Qingdong Garden (Xian) Cinema Co. Ltd.	PRC	1,000,000	N/A	100%	92.59%	Theatre operation	Ruihua CPA
營口橙天嘉禾財富春天影城有限公司 (Orange Sky Golden Harvest Fortune Spring (Yingkou) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
陽泉市橙天嘉禾新天地影城有限公司 (Orange Sky Golden Harvest New World (Yangquan) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
大連橙天嘉禾新世界影城有限公司 (Orange Sky Golden Harvest New World (Dalian) Cinema Co., Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
大連橙天嘉禾萬和匯影城有限公司 (Orange Sky Golden Harvest I Mall (Dalian) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
天津橙天嘉禾銀河影城有限公司 (Orange Sky Golden Harvest Galaxy Mall (Tianjin) Cinema Co., Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
撫順橙天嘉禾天朗影城有限公司 (Orange Sky Golden Harvest Tianlang (Fushun) Cinema Co. Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA

Name	Place of incorporation	Paid-up capital (in RMB)	Percentage of share held by the Target Company 2014	2015	2016	Principal activities	Auditor
濟南橙天嘉禾環宇城影城有限公司 (Orange Sky Golden Harvest Huanyu City (Jinan) Cinema Co. Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
上饒市橙天嘉禾豐躍影城有限公司 (Orange Sky Golden Harvest Fengyue (Shangrao) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
北京嘉禾影城管理諮詢有限公司 (Golden Harvest (Beijing) Cinema Management Consultancy Co., Ltd.)	PRC	1,000,000	100%	100%	92.59%	Consultancy services	Ruihua CPA
西寧橙天嘉禾創新影城有限公司 (Orange Sky Golden Harvest Chuangxing (Xining) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
惠州橙天嘉禾華貿天地影城有限公司 (Orange Sky Golden Harvest China Central Place (Huizhou) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
惠州橙天嘉禾大欣影城有限公司 (Orange Sky Golden Harvest Daxin (Huizhou) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
河源橙天嘉禾凱旋影城有限公司 (Orange Sky Golden Harvest Kaixuan (Heyuan) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
重慶橙天嘉禾九街電影城有限公司 (Orange Sky Golden Harvest Nine Street (Chongqing) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
西安橙天嘉禾怡豐城影城有限公司 (Orange Sky Golden Harvest Vivocity (Xi'an) Cinema Co. Ltd)	PRC	6,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA

Name	Place of incorporation	Paid-up capital (in RMB)	Percentage of share held by the Target Company 2014	2015	2016	Principal activities	Auditor
蕪湖橙天嘉禾大眾影都有限公司 (Orange Sky Golden Harvest Dazhong (Wuhu) Cinema Co. Ltd)	PRC	17,150,000	70%	70%	64.81%	Theatre operation	Ruihua CPA
成都橙天嘉禾北城映像影業有限公司 (Orange Sky Golden Harvest Beichengyingxiang (Chengdu) Cinema Co., Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
成都橙天嘉禾新業影業有限公司 (Orange Sky Golden Harvest Xinye (Chengdu) Cinema Co., Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
鹽城橙天嘉禾五洲影城有限公司 (Orange Sky Golden Harvest Wuzhou (Yancheng) Cinema Co., Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
瀋陽橙天嘉禾環宇城影城有限公司 (Orange Sky Golden Harvest Huanyu City (Shenyang) Cinema Co. Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
上海橙天嘉禾易家影城有限公司 (YiJia Orange Sky Golden Harvest (Shanghai) Cinema Co. Ltd)	PRC	6,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
成都橙天嘉禾麓鎮影業有限公司 (Orange Sky Golden Harvest Lu town (Chengdu) Cinema Co., Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
天津橙天嘉禾世紀影城有限公司 (Orange Sky Golden Harvest Century (Tianjin) Cinema Co,. Ltd)	PRC	6,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
上海橙天嘉禾五彩城影城有限公司 (Orange Sky Golden Harvest Palette Town (Shanghai) Cinema Co Ltd)	PRC	6,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA

Name	Place of incorporation	Paid-up capital (in RMB)	Percentage of share held by the Target Company 2014	2015	2016	Principal activities	Auditor
無錫橙天嘉禾五洲影城有限公司 (Orange Sky Golden Harvest Wuzhou (Wuxi) Cinema Co Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
無錫橙天嘉禾萬象影城有限公司 (Orange Sky Golden Harvest Wanxiang City (Wuxi) Cinema Co Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
陽江市陽東橙天嘉禾影城有限公司 (Yangjiang Orange Sky Golden Harvest YangDong Cinemas (China) Co., Ltd)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
武漢橙天嘉禾南國西匯影城有限公司 (Orange Sky Golden Harvest Nanguo Xihui (WuHan) Cinema Co., Ltd.)	PRC	1,000,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
北京橙天嘉禾祥雲影城管理有限公司 (The Auspicious Clouds of Orange Sky Golden Harvest (Beijing) Cinema Management Limited)	PRC	1,000,000	100%	100%	92.59%	Theatre operation and investment holding	Ruihua CPA
撫順市星辰影院有限公司 (Fushun City Star Cinema Co., Ltd)	PRC	4,000,000	N/A	100%	92.59%	Theatre operation	Ruihua CPA
深圳市深影橙天達夢影城有限公司 (Shenying Orange Sky Dameng (Shenzhen) Cinema Co Ltd)	PRC	10,500,000	100%	100%	92.59%	Theatre operation	Ruihua CPA
深圳市天潤影城有限公司 (Shen Zhen Tianrun Cinema Co., Ltd.)	PRC	22,920,000	N/A	75%	69.44%	Theatre operation	Ruihua CPA
長春昌達電影放映有限公司 (Changchuan Changda Film screenings Co., Ltd.)	PRC	9,000,000	N/A	100%	92.59%	Theatre operation	Ruihua CPA
上海星濠影城有限公司 (ShangHai XingHao Cinema Co., Ltd.)	PRC	15,000,000	N/A	100%	92.59%	Theatre operation	Ruihua CPA

Name	Place of incorporation	Paid-up capital (in RMB)	Percentage of share held by the Target Company 2014	2015	2016	Principal activities	Auditor
武漢意幻文化傳媒有限公司 (Wuhan Yase Cinema Co., Ltd.)	PRC	3,800,000	N/A	100%	92.59%	Theatre operation	Ruihua CPA
北京美林華映影院管理有限公司 (Meilin Huaying (Beijing) Cinema Management Co., Ltd.)	PRC	10,000,000	100%	100%	100%	Investment holding	Ruihua CPA
景德鎮橙天嘉禾金鼎影城有限責任公司 (Orange Sky Golden Harvest Jingding (Jingdezhen) Cinema, LLC)	PRC	1,000,000	51%	51%	51%	Theatre operation	Ruihua CPA
北京橙天嘉禾上地影城有限公司 (Orange Sky Golden Harvest Shangdi (Beijing) Cinema Co., Ltd.)	PRC	1,000,000	100%	100%	100%	Theatre operation	Ruihua CPA

28. RELATED PARTY TRANSACTIONS

The Target Group entered into the following transactions with related parties during the Relevant Periods:

Name and related party relationship	Type of transaction	Transaction amount Year ended 31 December 2014	2015	2016
		HK$'000	*HK$'000*	*HK$'000*
Jiangyin Orange Land Cinema Development Management Co., Ltd				
Company controlled by directors	Lease payment	—	—	52,620
	Interest income	17,168	—	—
Beijing Orange Sky Cinema Investment Management Company Limited				
Company controlled by a director	Rental expenses	2,431	2,875	2,482
Shenzhen City Shenying Orange Sky Cinemas Circuit Company Limited				
Company controlled by a director	Provision of motion pictures	223,155	335,268	420,178
	Service fees	6,322	9,026	11,680
Panasia Cinemedia (Shenzhen) Co. Ltd				
Company controlled by a director	Advertising income	17,229	20,905	20,750
Orange Sky Golden Harvest Entertainment Company Ltd				
Intermediate holding company	Management fee paid	800	900	1,000

29. CONTINGENT LIABILITIES

During the Relevant Periods, the Target Group did not have any significant contingent liabilities or non-disclosed obligations.

30. OPERATING LEASE COMMITMENTS

The Target Group as lessee

The Target Group leases office premises and plant and equipment under operating lease arrangement. The leases run for an initial period of one to twenty years, with options to renew the lease terms at the expiry dates or at days as mutually agreed between the Target Group and the respective landlords. In addition, the Target Group paid additional rental expenses in respect of certain operating leases which are dependent on the level of revenue achieved by particular properties.

The lease payments recognised as expenses are as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Minimum leases payments	117,564	146,676	217,779
Contingent rents	14,602	26,875	21,285
	132,166	173,551	239,064

The total future minimum lease payments under these leases are due as follows:

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	205,126	176,491	203,346
Later than one year and not later than five years	850,494	746,283	844,713
Later than five years	1,776,324	1,407,729	1,489,661
	2,831,944	2,330,503	2,537,720

31. CAPITAL COMMITMENTS

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Commitments for the acquisition of property, plant and equipment:			
— authorised but not contracted for	538,928	450,721	393,240
— contracted but not provided for	65,119	52,141	19,092
	604,047	502,862	412,332

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the each of the Relevant Periods are as follows:

	As at 31 December		
	2014	2015	2016
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Fair value through profit or loss			
— Derivative financial instruments	—	—	68,818
Loans and receivables			
— Trade receivables	55,437	102,775	70,762
— Other receivables, deposits and prepayments	224,170	250,897	216,532
— Amounts due from related parties	53,813	52,818	60,682
— Pledged bank deposits	1,880	37,170	12,880
— Deposits and cash	365,496	135,610	355,762
	700,796	579,270	716,618
Financial liabilities			
Financial liabilities measured at amortised cost			
— Trade payables	39,968	45,634	48,830
— Other payables and accrued charges	78,589	136,330	117,130
— Amount due to immediate holding company	939,238	969,176	1,028,578
— Amounts due to related parties	85,750	89,556	312,997
— Bank loans	429,147	410,858	206,713
— Obligations under finance leases	29,691	52,231	51,037
	1,602,383	1,703,785	1,765,285

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments comprise balances with related parties and immediate holding company, interest-bearing bank loans, bank balances and cash. The main purpose of these financial instruments is to provide finance for the Target Group's operations.

It is, and has been throughout the Relevant Periods under review, the Target Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Target Group's financial instruments are credit risk, interest rate risk, liquidity risk and currency risk. The management reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Target Group trades only with recognised and creditworthy third parties. It is the Target Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Target Group's exposure to bad debts is not significant.

The credit risk of the Target Group's other financial assets, which comprise cash and cash equivalents, amounts due from related parties, and other receivables, deposits and prepayments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Target Group does not obtain collateral from customers. There are no significant concentrations of credit risk with the Target Group as the customer bases of the Target Group's trade receivables are widely dispersed in difference locations.

Further quantitative data in respect of the Target Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the Combined Financial Information.

Interest rate risk

The Target Group's exposure to interest rate risk arises primarily to the Target Group's short and long-term loans. Borrowings at floating rates expose the Target Group to cash flow interest rate risk. Borrowings at fixed rates expose the Target Group to fair value interest rate risk.

The Target Group manages its interest rate risk exposures in accordance with defined policies through regular review with a focus on reducing the Target Group's overall cost of funding as well as having regard to the floating/fixed rate mix appropriate to its current business portfolio.

Interest rate profile

The following table details the interest rate profile of the Target Group's borrowings at the end of the Reporting Periods throughout the Relevant Periods:

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
— Bank loans *(note 22)*	429,147	410,858	206,713
— Obligations under finance leases *(note 23)*	29,691	52,231	51,037
	458,838	463,089	257,750

Sensitivity analysis

The following table illustrates the sensitivity of the loss for the year and accumulated losses to 1% change in interest rates, with effect from the beginning of the year. The calculations are based on the Target Group's bank loans and obligations under finance leases held at each reporting date throughout the Relevant Periods. All other variables are held constant.

	2014			**2015**			**2016**		
	Changes	**(Increase)/ decrease in loss for the year**	**(Decrease)/ Increase In equity**	**Changes**	**(Increase)/ decrease in loss for the year**	**(Decrease)/ Increase In equity**	**Changes**	**(Increase)/ decrease in loss for the year**	**(Decrease)/ Increase In equity**
		HK$'000	*HK$'000*		*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*
Interest rate	+1%	(3,441)	(3,441)	+1%	(3,473)	(3,473)	+1%	(1,933)	(1,933)
	–1%	3,441	3,441	–1%	3,473	3,473	–1%	1,933	1,933

Liquidity risk

The Target Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Target Group's objective is to maintain a balance between continuity of funding and flexibility through the continuous financial support from shareholders and also through other borrowing. The Target Group will consistently maintain a prudent financing policy and ensure that it maintains sufficient liquid funds to meet its liquidity requirements.

The maturity profile of the financial liabilities of the Target Group as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000
31 December 2014				
Trade payables	39,968	39,968	39,968	—
Other payables and accrued charges	78,589	78,589	78,589	—
Amount due to immediate holding company	939,238	939,238	939,238	—
Amounts due to related parties	85,750	85,750	85,750	—
Bank loans	429,147	459,633	148,683	310,950
Obligations under finance leases	29,691	32,422	15,803	16,619
	1,602,383	1,635,600	1,308,031	327,569

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000
31 December 2015				
Trade payables	45,634	45,634	45,634	—
Other payables and accrued charges	136,330	136,330	136,330	—
Amount due to immediate holding company	969,176	969,176	969,176	—
Amounts due to related parties	89,556	89,556	89,556	—
Bank loans	410,858	436,988	215,312	221,676
Obligations under finance leases	52,231	57,621	17,645	39,976
	1,703,785	1,735,305	1,473,653	261,652

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000
31 December 2016				
Trade payables	48,830	48,830	48,830	—
Other payables and accruals	117,130	117,130	117,130	—
Amount due to immediate holding company	1,028,578	1,028,578	1,028,578	—
Amounts due to related parties	312,997	312,997	312,997	—
Bank loans	206,713	223,621	18,552	205,069
Obligations under finance leases	51,037	55,834	9,966	45,868
	1,765,285	1,786,990	1,536,053	250,937

Currency risk

The Target Group mainly operated in PRC with most of the transactions settled in the functional currency (i.e. Renminbi) and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt includes obligations under finance leases and bank loans, less bank balances and cash. Capital includes the equity attributable to owners of the Target Group.

	As at 31 December		
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Bank loans	429,147	410,858	206,713
Obligations under finance leases	29,691	52,231	51,037
Less: Deposits and cash and pledged bank deposits	(367,376)	(172,780)	(368,642)
Net debt	91,462	290,309	(110,892)
Total equity	271,901	69,771	150,045
Total equity and net debt	363,363	360,080	39,153
Gearing ratio	25.17%	80.62%	N/A

34. BUSINESS COMBINATIONS

During the year ended 31 December 2015, the Target Group acquired 100% of the issued share capital of Shenying Orange Sky Dameng (Shenzhen) Cinema Company Ltd ("深圳市深影橙天達夢影城有限公司"), 75% of the issued share capital of Shenzhen Tianrun Cinema Company Ltd ("深圳天潤影城有限公司"), 100% of the issued share capital of Fushun City Star Company Ltd ("撫順星辰影院有限公司"), 100% of the issued share capital of Changchun Changda Film Screening Company Ltd ("長春昌達電影放映有限公司") and 100% of the issued share capital of Shanghai Xinghao Cinema Company Ltd ("上海星濠影城有限公司"), from certain independent third parties for a total cash consideration of RMB61,420,000 (equivalent to HK$75,775,000) in order to expand its exhibition business. These companies are principally engaged in theatre operation in PRC.

The fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition dates were as follows:

	HK$'000
Property, plant and equipment	59,542
Cash and cash equivalents	420
Trade and other receivables	5,405
Inventories	261
Trade and other payables	(1,547)
Deferred revenue	(2,281)
Fair value of net assets acquired	61,800
Goodwill *(note (a))*	18,874
Non-controlling interest	(4,899)
Fair value of consideration *(note (b))*	75,775
Less: Consideration payable	(42,753)
Consideration paid, satisfied in cash *(note (b))*	33,022
Less: cash and cash equivalents acquired	(420)
Net cash outflows	32,602

Note (a): The acquisition of the subsidiaries has been accounted for using the purchase method. Goodwill arises from the excess of cost of acquisition over the fair value of identifiable assets and liabilities of the acquired subsidiaries.

Note (b): Partial consideration of RMB26,620,000 (equivalent to HK$33,022,000) was paid upon the acquisition of the five companies. According to the sale and purchase agreements for the acquisition, the remaining consideration of RMB34,800,000 (equivalent to HK$42,753,000) is payable by cash in a number of instalments before 2020.

The revenue included in the combined statements of comprehensive income since the acquisition dates contributed by these companies was HK$30,673,000. These companies contributed a loss of HK$4,091,000 over the same period.

Had the acquisition of these companies been completed on 1 January 2015, the revenue included in the combined statements of comprehensive income for the year ended 31 December 2015 would have been HK$1,049,826,000. The combined loss of the Target Group would have been HK$175,160,000 over the same period on the same basis

On 8 January 2016, the Target Group acquired 100% of the issued share capital of Wuhan Yase Cinema Company Ltd. ("武漢意幻文化傳媒有限公司"), from certain independent third parties for a total cash consideration of RMB3,800,000 (equivalent to HK$4,446,000) in order to expand its exhibition business. The company is principally engaged in theatre operation in PRC.

The fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition dates were as follows:

	HK$'000
Property, plant and equipment	2,673
Cash and cash equivalents	208
Trade and other receivables	384
Inventories	22
Trade and other payables	(316)
Deferred revenue	(124)
Fair value of net assets acquired	2,847
Goodwill *(note (a))*	1,599
Fair value of consideration *(note (b))*	4,446
Less: Consideration payable	(586)
Consideration paid, satisfied in cash *(note (b))*	3,860
Less: cash and cash equivalents acquired	(208)
Net cash outflows	3,652

Note (a): The acquisition of the subsidiaries has been accounted for using the purchase method. Goodwill arises from the excess of cost of acquisition over the fair value of identifiable assets and liabilities of the acquired subsidiaries.

Note (b): According to the sale and purchase agreement for the acquisition, the consideration of RMB3,800,000 (equivalent to HK$4,446,000) is payable by cash in a number of instalments before 2018. The first instalment of RMB3,300,000 (equivalent to HK$3,860,000) was paid during the year ended 31 December 2016.

The revenue included in the combined statements of comprehensive income for the year ended 31 December 2016 since the acquisition date contributed by the company was HK$2,370,000. The company contributed a loss of HK$3,519,000 over the same period.

Had the acquisition of the company been completed on 1 January 2016, the revenue included in the combined statements of comprehensive income for the year ended 31 December 2016 would have been HK$1,064,899,000. The combined loss of the Target Group would have been HK$89,139,000 over the same period on the same basis.

35. SUBSEQUENT EVENTS

On 25 April 2017, the Target Company issued 870,000,000 ordinary shares of HK$1 each to the immediate holding company and the consideration of the Share Issue was settled by the amount due to the immediate holding company of HK$1,028,578,000 in the combined statements of financial position of the Target Group as at 31 December 2016. The immediate holding company also waived the amount due by the Target Company amounted to HK$164,782,522.71 on the same date and such amount was credited to reserve of the Target Company.

36. SUBSEQUENT FINANCIAL STATEMENTS

No combined financial statements have been prepared by the Target Group in respect of any period subsequent to 31 December 2016.

Yours faithfully,

BDO Limited
Certified Public Accountants

Chiu Wing Cheung Ringo
Practising Certificate number: P04434

Hong Kong

The following is the management discussion and analysis on the Target Group, which is based on the financial information of the Target Group as set out in Appendix II to this circular.

Financial and Business Performance

For the three years ended 31 December 2014, 2015 and 2016, the Target Group recorded revenue of HK$821.8 million, HK$991.2 million and HK$1,062.5 million respectively. The Target Group had 59, 67 and 76 cinemas in the PRC as at 31 December 2014, 2015 and 2016, respectively. Notwithstanding the average ticket price drops from RMB32 to RMB29 due to keen competition, the revenue had been increasing mainly due to the increase of admissions from 16.5 million in 2014 to 24.8 million in 2016 as a result of continuous expansion of business.

For the same periods, the Target Group recorded a net loss attributable to shareholders of the Target Company of HK$29.0 million, HK$169.8 million and HK$84.5 million respectively. The gross profit margins were relatively stable throughout the periods while the net losses were primarily attributable to the increasing marketing campaigns launched such as ticket price discount promotions, membership privilege programs as well as online ticket sales to drive admission from keen competition and the depreciation of RMB to HK$ from 1.27 as at 1 January 2014 to 1.12 as at 31 December 2016.

Capital Structure, Liquidity and Financial Resources

As of 31 December 2014, 2015 and 2016, the Target Group had cash and cash equivalents amounting to HK$367.4 million, HK$172.8 million and HK$368.6 million respectively, and outstanding borrowings of HK$458.8 million, HK$463.1 million and HK$257.8 million respectively. All of the borrowings of the Target Group are denominated in RMB, and bear interest at floating interest rates which approximate market rates of interest.

The Target Group has reasonable financial leverage. The Target Group believes that its current cash holding and available financial facilities will provide sufficient resources for its working capital requirements.

The Target Group's gearing ratio, calculated on the basis of the net debt divided by the adjusted capital plus net debt were approximately 25.17%, 80.62% and nil for each of years ended 2014, 2015 and 2016 respectively.

Foreign Currency Risk

During the years ended 31 December 2014, 2015 and 2016, most of the sales and purchases carried out by the Target Group were denominated in RMB. Accordingly, the Target Group is not expected to be exposed to significant foreign exchange risks, and the Target Group did not have any foreign currency hedging activity during the years ended 31 December 2014, 2015 and 2016.

Fair Value Risk

The original cost of the investment properties was HK$59.3 million and their carrying value as of 31 December 2014 was HK$109.8 million, as of 31 December 2015 was HK$98.5 million and as of 31 December 2016 was HK$87.7 million.

The investment properties were revalued at 31 December 2014, 31 December 2015 and 31 December 2016 by independent professionally qualified valuers who held a recognised relevant professional qualification and had recent experience in the locations and segments of the investment properties valued. For the investment properties, their current use equated to the highest and best use. The revaluation gains or losses were shown as ''Valuation losses on investment properties'' in the combined statements of comprehensive income. Fair values of the office buildings and industrial properties were derived using the income capitalisation approach and fair value of the vacant property was derived using the residual method. There were no changes to the valuation techniques during the years ended 31 December 2014, 31 December 2015 and 31 December 2016.

Contingent Liabilities and Capital Commitment

For each of the three years ended 31 December 2014, 2015 and 2016, the Target Group did not have any significant contingent liabilities or non-disclosed obligations.

Charge of Assets

As of 31 December 2014, 2015 and 2016, the Target Group had HK$1.9 million, HK$37.2 million and HK$12.9 million pledged cash balances to secure its banking facilities respectively. Save as aforesaid, the Target Group had no charges on group assets during the years ended 31 December 2014, 2015 and 2016.

Material Acquisitions or Disposals

There were no significant acquisitions or disposals by the Target Group during the years ended 31 December 2014, 2015 and 2016 except as disclosed in note 34 to the Combined Financial Information in Appendix II.

Future Plans

The Target Group has no plans for material investments except for the further expansion of current business network. Within the next two years, the Target Company shall set up nine high quality cinemas in first- and second-tier cities such as Hangzhou, Shanghai, Wuhan and Xiamen. In addition, the Target Group will review and reorganise its current list of cinemas and close down cinemas which have no potential increase in value and business, in order to enhance the Target Group's profit margin.

Employees and Remuneration Policies

As at 31 December 2014, 2015 and 2016, the Target Group had 1,268, 1,263 and 1,458 permanent employees, respectively. The remuneration policy and packages of the Target Group are maintained at market levels, and reviewed annually or as its management considers appropriate. Apart from basic salaries payable to its employees, the Target Group also makes contributions to the state-sponsored retirement scheme operated by the PRC government (the "**State Scheme**"). Contributions to such State Scheme are made based on a percentage of the employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the State Scheme.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The following is an illustrative and unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2016 (the "**Unaudited Pro Forma Financial Information**") of Nan Hai Corporation Limited (the "**Company**") and its subsidiaries (together referred to as the "**Group**") and City Entertainment Corporation Limited (the "**Target Company**") and its subsidiaries (together referred to as the "**Target Group**"), which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the acquisition of the 100% equity interest of the Target Group (the "**Acquisition**") as if it had taken place on 31 December 2016.

The Unaudited Pro Forma Financial Information are prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2016 as set out in the Group's published annual report dated 14 March 2017, the audited statement of financial position of the Target Group as at 31 December 2016 as set out in the Financial Information of the Target Group set out in the Appendix II to this circular, after giving effect to the unaudited pro forma adjustments as described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only and is based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained has the Acquisition been completed on 31 December 2016, nor purport to predict the Enlarged Group's future financial position of operations.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 December 2016, the Financial Information of the Target Group as set out in the Appendix II to this circular, and other financial information included elsewhere in the circular.

UNAUDITED PRO FORMA COMBINED STATEMENTS OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group 31 December 2016 HK$'000 Note 1	The Target Group 31 December 2016 HK$'000 Note 2	Sub-total HK$'000	Unaudited pro forma adjustment HK$'000 Note 3	Unaudited pro forma adjustment HK$'000 Note 4(a)	Unaudited pro forma adjustment HK$'000 Note 4(b)	Unaudited pro forma adjustment HK$'000 Note 4(c)	Unaudited pro forma adjustment HK$'000 Note 5	Unaudited pro forma adjustment HK$'000 Note 6	Unaudited pro forma adjustment HK$'000 Note 7	Pro forma combined statements of assets and liabilities of the Enlarged Group after the Acquisition HK$'000
Non-current assets											
Property, plant and equipment	4,076,090	1,131,225	5,207,315	—	—	(57,907)	—	—	—	—	5,149,408
Investment properties	230,394	87,662	318,056	—	—	—	—	—	—	—	318,056
Prepaid land lease payments under operating leases	23,429	—	23,429	—	—	—	—	—	—	—	23,429
Goodwill	2,459,792	17,324	2,477,116	—	—	—	2,605,895	—	—	—	5,083,011
Investment in subsidiaries	—	—	—	4,125,420	—	—	(2,605,895)	(1,519,525)	—	—	—
Interests in associates	79,963	4,613	84,576	—	—	—	—	—	—	—	84,576
Amounts due from related parties	950	—	950	—	—	—	—	—	—	—	950
Available-for-sale financial assets	324	—	324	—	—	—	—	—	—	—	324
Held-to-maturity investment	111,707	—	111,707	—	—	—	—	—	—	—	111,707
Long term trade receivables	3,303	—	3,303	—	—	—	—	—	—	—	3,303
Deposits, prepayments and other receivables	438,892	62,658	501,550	—	—	—	—	—	—	—	501,550
Other intangible assets	564,968	—	564,968	—	—	471,350	—	—	—	—	1,036,318
Deferred tax assets	161,448	39,702	201,150	—	—	41,129	—	—	—	—	242,279
Pledged and restricted bank deposits	3,489,355	—	3,489,355	—	—	—	—	—	—	—	3,489,355
	11,640,615	1,343,184	12,983,799	4,125,420	—	454,572	—	(1,519,525)	—	—	16,044,266

	The Group 31 December 2016 HK$'000 Note 1	The Target Group 31 December 2016 HK$'000 Note 2	Sub-total HK$'000	Unaudited pro forma adjustment HK$'000 Note 3	Unaudited pro forma adjustment HK$'000 Note 4(a)	Unaudited pro forma adjustment HK$'000 Note 4(b)	Unaudited pro forma adjustment HK$'000 Note 4(c)	Unaudited pro forma adjustment HK$'000 Note 5	Unaudited pro forma adjustment HK$'000 Note 6	Unaudited pro forma adjustment HK$'000 Note 7	Pro forma combined statements of assets and liabilities of the Enlarged Group after the Acquisition HK$'000
Current assets											
Inventories	13,122,375	11,710	13,134,085	—	—	—	—	—	—	—	13,134,085
Financial assets at fair value through profit or loss	24,597	—	24,597	—	—	—	—	—	—	—	24,597
Trade receivables	321,488	70,762	392,250	—	—	—	—	—	—	—	392,250
Deposits, prepayments and other receivables	2,743,457	153,874	2,897,331	—	—	—	—	—	—	—	2,897,331
Amounts due from associates	6,485	—	6,485	—	—	—	—	—	—	—	6,485
Amounts due from related parties	192,190	60,682	252,872	—	—	—	—	—	—	—	252,872
Derivative financial instruments	—	68,818	68,818	—	—	—	—	—	—	—	68,818
Pledged and restricted bank deposits	3,509,457	12,880	3,522,337	—	—	—	—	—	—	—	3,522,337
Cash and cash equivalents	1,172,620	355,762	1,528,382	(4,125,420)	—	—	—	—	(3,600)	4,125,420	1,524,782
	21,092,669	734,488	21,827,157	(4,125,420)	—	—	—	—	(3,600)	4,125,420	21,823,557
Non-current assets held for sale	13,767	—	13,767	—	—	—	—	—	—	—	13,767
	21,106,436	734,488	21,840,924	(4,125,420)	—	—	—	—	(3,600)	4,125,420	21,837,324

	The Group 31 December 2016 HK$'000 Note 1	The Target Group 31 December 2016 HK$'000 Note 2	Sub-total HK$'000	Unaudited pro forma adjustment HK$'000 Note 3	Unaudited pro forma adjustment HK$'000 Note 4(a)	Unaudited pro forma adjustment HK$'000 Note 4(b)	Unaudited pro forma adjustment HK$'000 Note 4(c)	Unaudited pro forma adjustment HK$'000 Note 5	Unaudited pro forma adjustment HK$'000 Note 6	Unaudited pro forma adjustment HK$'000 Note 7	Pro forma combined statements of assets and liabilities of the Enlarged Group after the Acquisition HK$'000
Current liabilities											
Trade payables	1,454,678	48,830	1,503,508	—	—	—	—	—	—	—	1,503,508
Other payables and accruals	1,212,914	117,130	1,330,044	—	—	—	—	—	—	—	1,330,044
Receipt in advance and deferred revenue	6,793,907	158,896	6,952,803	—	—	—	—	—	—	—	6,952,803
Provision for tax	1,410,014	3,446	1,413,460	—	—	—	—	—	—	—	1,413,460
Amount due to immediate holding company	—	1,028,578	1,028,578	—	(1,028,578)	—	—	—	—	—	—
Amounts due to related parties	99,138	312,997	412,135	—	—	—	—	—	—	—	412,135
Amount due to a director	30,108	—	30,108	—	—	—	—	—	—	—	30,108
Amounts due to associates	5,505	—	5,505	—	—	—	—	—	—	—	5,505
Bank and other borrowings	4,784,912	9,891	4,794,803	—	—	—	—	—	—	—	4,794,803
Finance lease liabilities	33,330	8,413	41,743	—	—	—	—	—	—	—	41,743
Finance liabilities at fair value through profit or loss	113,717	—	113,717	—	—	—	—	—	—	—	113,717
Convertible and exchangeable bonds	1,010,036	—	1,010,036	—	—	—	—	—	—	—	1,010,036
	—	—									
	16,948,259	1,688,181	18,636,440	—	(1,028,578)	—	—	—	—	—	17,607,862
	—	—									
Net current assets/(liabilities)	4,158,177	(953,693)	3,204,484	(4,125,420)	1,028,578	—	—	—	(3,600)	4,125,420	4,229,462
	—	—									
Total assets less current liabilities	15,798,792	389,491	16,188,283	—	1,028,578	454,572	—	(1,519,525)	(3,600)	4,125,420	20,273,728

	The Group 31 December 2016 HK$'000 Note 1	The Target Group 31 December 2016 HK$'000 Note 2	Sub-total HK$'000	Unaudited pro forma adjustment HK$'000 Note 3	Unaudited pro forma adjustment HK$'000 Note 4(a)	Unaudited pro forma adjustment HK$'000 Note 4(b)	Unaudited pro forma adjustment HK$'000 Note 4(c)	Unaudited pro forma adjustment HK$'000 Note 5	Unaudited pro forma adjustment HK$'000 Note 6	Unaudited pro forma adjustment HK$'000 Note 7	Pro forma combined statements of assets and liabilities of the Enlarged Group after the Acquisition HK$'000
Non-current liabilities											
Bank and other borrowings	9,596,954	196,822	9,793,776	—	—	—	—	—	—	4,125,420	13,919,196
Finance lease liabilities	42,171	42,624	84,795	—	—	—	—	—	—	—	84,795
Provision for warranty	4,296	—	4,296	—	—	—	—	—	—	—	4,296
Long term trade payables	42,482	—	42,482	—	—	—	—	—	—	—	42,482
Deferred tax liabilities	906,890	—	906,890	—	—	103,361	—	—	—	—	1,010,251
	10,592,793	239,446	10,832,239	—	—	103,361	—	—	—	4,125,420	15,061,020
Net assets	5,205,999	150,045	5,356,044	—	1,028,578	351,211	—	(1,519,525)	(3,600)	—	5,212,708
Equity											
Share capital	686,455	311,400	997,855	—	870,000	—	—	(1,181,400)	—	—	686,455
Reserves	3,365,311	(223,278)	3,142,033	—	158,578	351,211	—	(286,511)	(3,600)	—	3,361,711
Equity attributable to the Company's owners	4,051,766	88,122	4,139,888	—	1,028,578	351,211	—	(1,467,911)	(3,600)	—	4,048,166
Non-controlling interests	1,154,233	61,923	1,216,156	—	—	—	—	(51,614)	—	—	1,164,542
Total equity	5,205,999	150,045	5,356,044	—	1,028,578	351,211	—	(1,519,525)	(3,600)	—	5,212,708

Notes:

(1) The amounts are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2016 as set out in the Group's published annual report dated 14 March 2017.

(2) The amounts are extracted from the Financial Information of the Target Group as set out in Appendix II to this circular.

(3) The pro forma adjustment represents the aggregated cash consideration of approximately RMB3,286,000,000 (approximately HK$3,844,620,000) and RMB240,000,000 (approximately HK$280,800,000) paid by the Group to Giant Harvest Limited and Xin Ye for the acquisition of the 100% equity interest in the Target Group respectively.

(4) Upon completion of the Acquisition, the Company will own 100% equity interest in the Target Group. The identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair value under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard (''**HKFRS**'') 3 ''Business Combination''.

(a) The adjustment represents the issuance of share capital settled by current account with Orange Sky Golden Harvest Entertainment (Holdings) Limited and wavier of amount due to Orange Sky Golden Harvest Entertainment (Holdings) Limited which was the precedent condition for completion of the Acquisition.

(b) This adjustment represents (1) the recognition of the excess of the fair value of identifiable assets acquired, and the liabilities assumed over the book value of the assets and the liabilities in Target Group; and (2) the deferred tax assets arisen from tax losses previously not recognised by the Target Group, but expected to be utilised after the business combination.

The fair value of identifiable assets acquired and liabilities assumed in Target Group is determined in accordance with HKFRS 3, ''Business Combination''. For the purpose of the Unaudited Pro Forma Financial Information and for illustrative purpose only, the directors have assessed the fair values of the identifiable assets and liabilities of the Target Group as at 31 December 2016 by taking reference of the valuation as at 31 December 2016 carried out by Avista Group. The valuation team of Avista Group is composed of members of CFA Institute, Hong Kong Institute of Certified Public Accountants and CPA Australia. Avista Group has conducted numerous independent valuation for transaction and financial reporting purposes for listed and private companies engaged in similar industry as that of the Target Group.

Based on management's expectation, the Target Group will be able to utilise the tax losses brought forward after taken into account the synergy effect with acquirer's business, e.g. following the increase in number of cinema and film distribution points in first- and second-tier cities, the Company will have enhancement in its reputation and business image, which lead to an increase in business bargaining power and decrease in overall operation costs.

(c) The adjustment relating to goodwill arises from the acquisition of the Target Group. Pursuant to the sale and purchase agreement dated 25 January 2017, the consideration for acquisition of 100% equity interest in the Target Group amounted to RMB3,526,000,000 (approximately HK$4,125,420,000). The fair value of Target Group's identifiable assets acquired and liabilities assumed as at 31 December 2016 was its carrying value adjusted by proforma adjustment 4(a) and 4(b) above. Goodwill is determined as the excess of the consideration paid for the Acquisition as follow:

	HK$'000	*HK$'000*
Consideration		4,125,420
Carrying value of net assets acquired	88,122	
Non-controlling interests acquired	51,614	
Proforma adjustment 4(a)	1,028,578	
Proforma adjustment 4(b)	351,211	(1,519,525)
		2,605,895

Since the fair values of the consideration and the assets and liabilities of the Target Group at the actual completion date may be substantially different from the fair values used in the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the final amounts of the identifiable net assets (including intangible assets) and goodwill to be recognised in connection with the Acquisition may be different from the amounts presented here and the differences may be significant. The directors of the Company have assessed whether there is any indication of impairment in respect of property, plant and equipment, intangible assets and goodwill with reference to Hong Kong Accounting Standard 36 "Impairment of Assets". The Directors of the Company are of the view that Target Group's business will have improvements and are not aware of any significant changes with an adverse effect on the Target Group that will take place in the near future.

(5) The adjustments represent the elimination of share capital and pre-acquisition reserves of the Target Group, as if the Acquisition had been completed at the date reported on (i.e. 31 December 2016).

(6) The adjustment reflects the estimated cost of HK$3,600,000 directly attributable to the Acquisition, which mainly comprises professional fees payable to legal advisors, reporting accountants, printers and other professional parties. The expenses are charged to profit or loss directly.

(7) The adjustment reflects the expected bank borrowing of HK$4,125,420,000 to finance the Acquisition.

(8) Apart from the above, no adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 31 December 2016.

B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA COMBINED STATEMENTS OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The Board of Directors
Nan Hai Corporation Limited
12/F., The Octagon,
No. 6 Sha Tsui Road,
Tsuen Wan,
New Territories, Hong Kong

Dear Sirs

We have completed our assurance engagement to report on the compilation of pro forma financial information of Nan Hai Corporation Limited (the ''Company'') and its subsidiaries (collectively the ''Group'') by the directors for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 31 December 2016 and related notes as set out in the section headed ''Unaudited Pro Forma Combined Statements of Assets and Liabilities of the Enlarged Group'' in Appendix IV of the circular issued by the Company dated 23 June 2017 (the ''Circular''). The applicable criteria on the basis of which the directors have compiled the pro forma financial information are also described in section headed ''Unaudited Pro Forma Combined Statements of Assets and Liabilities of the Enlarged Group'' in Appendix IV of the Circular.

The pro forma financial information has been compiled by the directors to illustrate the impact of the proposed acquisition of the 100% shareholding in City Entertainment Corporation Limited (the ''Target Company'') and its subsidiaries (together the ''Target Group'') (the ''Acquisition'') on the Group's financial position as at 31 December 2016 as if the Acquisition had taken place at 31 December 2016. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's audited financial statements for the year ended 31 December 2016 on which an audit report has been published.

Directors' Responsibility for the Pro Forma Financial Information

The directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Listing Rules'') and with reference to Accounting Guideline 7 ''Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars'' (''AG 7'') issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA'').

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

— The related pro forma adjustments give appropriate effect to those criteria; and

— The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

BDO Limited
Certified Public Accountants
Hong Kong

23 June 2017

I. RESPONSIBILITY STATEMENT

This circular, for which the Directors of the Company 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.

II. DISCLOSURE OF INTERESTS

(a) Directors and Chief Executive

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO (i) which were 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 in which they were deemed or taken to have under such provisions of the SFO); or (ii) which were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) which were required pursuant to the Model Code were as follows:

(1) The Company

Long and short positions in Shares in issue

Name of Director	Capacity/ Nature of interest	Number of Shares held[3]	Approximate percentage holding
Yu Pun Hoi (“**Mr. Yu**”)	Corporate interest	37,172,780,679 (L)[1]	54.15%
	Security interest	7,893,091,482 (S)[2]	11.50%

Note:

1. These 37,172,780,679 shares were collectively held by Rosewood Assets Ltd., Pippen Limited, Staverley Assets Limited and First Best Assets Limited, companies indirectly wholly-owned by Mr. Yu through Dadi Holdings Limited, a company wholly-owned by Mr. Yu.

2. These 7,893,091,482 shares were charged by Pippen Limited, a company indirectly wholly owned by Mr. Yu through Dadi Holdings Limited, a company wholly owned by Mr. Yu.

3. (L) denotes long position and (S) denotes short position.

(2) Interests in Sino-i, an associated corporation of the Company

As disclosed above, Mr. Yu are entitled to control the exercise of more than one-third of the voting power at general meetings of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company or its controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO, including interests held by the Company in the shares of Sino-i. Sino-i is a company the shares of which are listed on the Stock Exchange and is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at the Latest Practicable Date, the interests of the Directors in shares and underlying shares of Sino-i were as follows:

Long position in shares in issue of Sino-i

Name of Director	Capacity/ Nature of interest	Number of shares held	Approximate percentage holding
Mr. Yu	Corporate interest	12,835,105,316[1]	64.45%
Mr. Lung King Cheong	Personal interest	150,000	0.00075%

Note:

1. These 12,835,105,316 shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of the Company. Mr. Yu was taken to be interested in these shares by virtue of his controlling interests in the total issued share capital of the Company.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Company, none of the Directors nor chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) 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 or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

(b) Substantial Shareholders

As at the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, the following persons had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

The Company

Name of Shareholders	Capacity/ Nature of interest	Number of Shares held(5)	Approximate percentage holding
Dadi Holdings Limited	Corporate interest	37,172,780,679 (L)(1)	54.15%
		7,893,091,482 (S)(4)	11.50%
Rosewood Assets Ltd.	Beneficial interest	7,904,600,210 (L)(1)	11.52%
Pippen Limited	Beneficial interest	14,830,245,497 (L)(1)	21.60%
		7,893,091,482 (S)(4)	11.50%
Staverley Assets Limited	Beneficial interest	4,893,197,974 (L)(1)	7.13%
First Best Assets Limited	Beneficial interest	9,544,736,998 (L)(1)	13.90%
Kung Ai Ming	Corporate interest	4,340,569,898 (L)(2)	6.32%
Yu Ben Hei	Corporate interest	4,271,243,498 (L)(2)	6.22%
Macro Resources Ltd.	Beneficial interest	4,271,243,498 (L)(2)	6.22%
Lim Siew Choon	Corporate interest	8,819,673,777 (L)(3)	12.85%
Empire Gate Industrial Limited	Beneficial interest	5,514,986,997 (L)(3)	8.03%
Lee Tat Man	Security interest	7,700,000,000 (L)	11.22%
Lee Tat Man	Beneficial interest	28,200,000 (L)	0.04%
Central Huijin Investment Ltd.	Security interest	5,220,000,000 (L)	7.60%
	Corporate interest	63,091,482 (L)	0.09%
China Construction Bank Corporation	Security interest	5,220,000,000 (L)	7.60%
	Corporate interest	63,091,482 (L)	0.09%

Notes:

1. Rosewood Assets Ltd., Pippen Limited, Staverley Assets Limited and First Best Assets Limited are companies indirectly wholly owned by Mr. Yu through Dadi Holdings Limited, a company wholly owned by Mr. Yu. Their interests in shares are disclosed as the corporate interests of Mr. Yu above.

2. Macro Resources Ltd. is held as to 50% each by Ms. Kung Ai Ming and Mr. Yu Ben Hei, the son of Mr. Yu. Its interest in 4,271,243,498 Shares was included as interest held by Ms. Kung Ai Ming. Ms. Kung Ai Ming owns interest of 69,326,400 Shares through Redmap Resources Limited, her wholly-owned Company.

3. Empire Gate Industrial Limited is wholly owned by Mr. Lim Siew Choon. Its interest in Shares was included as interest held by Mr. Lim Siew Choon.

4. These 7,893,091,482 Shares were charged by Pippen Limited, a company indirectly wholly owned by Mr. Yu through Dadi Holdings Limited, a company wholly owned by Mr. Yu.

5. (L) denotes long position, and (S) denotes short position.

Subsidiaries

Name of Shareholders	Name of the company in which interests or short positions were held	Number of shares or extent of interest directly held in the subsidiary of the Company	Approximate percentage of issued registered share capital or registered capital of the subsidiary of the Company
Inner Mongolia Xinhua Distribution Group Co., Ltd.* (內蒙古新華發行集團股份有限公司)	Inner Mongolia Dadi Cinema Construction Limited* (內蒙古大地新華影院建設有限公司)	RMB2,000,000	20%
Li Feng (李楓)	Shenzhen Cuilu Science & Technology Greening Engineering Co., Ltd.* (深圳市翠籙科技綠化工程有限公司)	RMB1,000,000	25%
Orange Blossom Limited	CE Holdings Limited	34,274,848 shares	30%
Beijing Dadi Dreamworks Investment Partnership (Limited Partnership)* (北京大地夢工廠投資合夥企業(有限合夥))	Guangdong Dadi Cinema Construction Limited* (廣東大地影院建設有限公司)	RMB114,642,799	10%
GD Cinema Circuit Company Limited* (廣東大地電影院線股份有限公司)	Beijing Yueying Cinema Management Company Limited* (北京悅影影院管理有限公司)	RMB2,450,000	49%

* *English transliteration of the Chinese company's name*

Save as disclosed above, as at the Latest Practicable Date, the Company was not notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

III. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group other than contracts expiring or determinable by the relevant employer within one year without payment of compensation (except statutory compensation).

IV. COMPETING BUSINESS

To the best knowledge of the Directors, as at the Latest Practicable Date, the director below is deemed to be interested in the business which competes or is likely to compete either directly or indirectly, with business of the Group.

Ms. Liu Rong, an executive Director of the Company, is a director and ultimate shareholder of GD Cinema Circuit Company Limited* (廣東大地電影院線股份有限公司) (previously known as 廣東大地電影院線有限公司) ("**GD Cinema Circuit**"). GD Cinema Circuit is engaged in cinema investment and therefore is deemed to compete with the cinema investment business of the Group. However, the Board believes that the competition does not pose any material threat to the Group's business prospects due to the fact that the target geographic markets of cinemas operated by the Group and the cinemas operated by the above director who is interested in the competing business are different.

V. DIRECTORS' INTEREST IN THE GROUP'S ASSETS

As at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which had been, since 31 December 2016 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

VI. DIRECTORS' INTEREST IN CONTRACTS OR ARRANGEMENT OF SIGNIFICANCE

On 1 January 2014, Digicine Oristar Technology Development (Beijing) Company Limited (數碼辰星科技發展(北京)有限公司) ("**Oristar**") and GD Cinema Circuit entered into the Oristar Cooperation Agreement, pursuant to which Oristar shall use its reasonable endeavours to provide the projection equipment (a projection device and an SMS projection server system) (or any part of it) (including installation and training) to GD Cinema Circuit upon fulfillment of certain conditions for coping with its business development during a fixed term of six (6) years, from 1 January 2014 to 31 December 2019.

On 1 January 2015, Guangdong Dadi Cinema Construction Limited* (廣東大地影院建設有限公司) ("**Guangdong Dadi**") and GD Cinema Circuit entered into the Dadi Cinema Cooperation Agreement, pursuant to which GD Cinema Circuit shall (1) supply various motion pictures and license to Guangdong Dadi to project such motion pictures in its digital cinemas in the PRC; and (2) provide Guangdong Dadi advisory services in respect of interior design and operations of each of its digital cinemas, for a fixed term of five (5) years, having a provision of automatic extension of one (1) year upon the end of the fixed term, i.e. a total period of six (6) years, from 1 January 2015 to 31 December 2020. Guangdong Dadi shall give priority to GD Cinema Circuit in respect of publication of advertisements in the cinemas of Guangdong Dadi (i.e. it will be an income for Guangdong Dadi) on the condition that the terms and conditions offered by GD Cinema Circuit are at least the same as those offered by other clients of Guangdong Dadi.

On 1 January 2015, Dadi Cinema Development Company Limited* (大地影院發展有限公司) ("**Dadi Development**") and GD Cinema Circuit entered into the Dadi Development Cooperation Agreement, pursuant to which GD Cinema Circuit shall (1) supply various motion pictures and license Dadi Development to project such motion pictures in its digital cinemas in the PRC; and (2) provide Dadi Development advisory services in respect of interior design and operations of each of its digital cinemas, for a fixed term of five (5) years, having a provision of automatic extension of one (1) year upon the end of the fixed term, i.e. a total period of six (6) years, from 1 January 2015 to 31 December 2020. Dadi Development shall give priority to GD Cinema Circuit in respect of publication of advertisements in the cinemas of Dadi Development (i.e. it will be an income for Dadi Development) on the condition that the terms and conditions offered by GD Cinema Circuit are at least the same as those offered by other clients of Dadi Development.

On 19 August 2015, Ms. Liu Rong, an executive Director, (1) acquired 80% of Dadi Century Culture Communication (Beijing) Company Limited* (大地時代文化傳播(北京)有限公司) ("**Dadi Century Beijing**") which directly owns 85% equity interest of GD Cinema Circuit; and (2) gained an effective control of 15% equity interest of GD Cinema Circuit through a partnership enterprise which is an associate of Ms. Liu Rong. Given the foregoing, Ms. Liu Rong has gained control in GD Cinema Circuit, and each of Dadi Century Beijing and GD Cinema Circuit has become an associate of Ms. Liu Rong pursuant to the Listing Rules. As such, Ms. Liu Rong has interest in the Dadi Cinema Cooperation Agreement, the Dadi Development Cooperation Agreement and Oristar Cooperation Agreement.

Please refer to the announcement of the Company dated 19 August 2015 and the section "Continuing Connected Transactions" in the Report of the Directors of the 2016 annual report of the Company for further details.

On 11 November 2016, Dadi Century Film Culture Communications (Beijing) Company Limited* (大地時代電影文化傳播(北京)有限公司) ("**Dadi Century Film Culture**"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement ("**Film Culture and Dreamworks Agreement**") with Beijing Dadi Dreamworks Investment Partnership (Limited Partnership) (北京大地夢工廠投資合夥企業(有限合夥)) ("**Dadi Dreamworks**"), pursuant to which Dadi Century Film Culture agreed to sell and Dadi Dreamworks agreed to purchase, 10% equity interest in Guangdong Dadi for a total consideration of RMB150,000,000. Ms. Liu Rong (an executive Director of the Company and the chairlady of Guangdong Dadi) is the general partner of Dadi Dreamworks, and Ms. Yu Xin (a director of certain subsidiaries of the Company and the general manager of Guangdong Dadi) is the limited partner of Dadi Dreamworks. As such, Dadi Dreamworks is an associate of Ms. Liu Rong and Ms. Yu Xin, and thus a connected person of the Company.

Please refer to the announcement and circular of the Company dated 11 November 2016 and 19 December 2016 respectively for further details.

Save as disclosed above, as at the Latest Practicable Date, there was no contract or arrangement subsisting in which any of the Directors was materially interested and which was significant in relation to the business of the Enlarged Group.

VII. LITIGATION

(a) In respect of the purported sale of the Philippines Shares, which were mortgaged by Acesite Limited ("**Acesite**"), by Banco Unibank to Waterfront Philippines Inc. ("**Waterfront**"), a Filipino company, in February 2003, Acesite, a former subsidiary of Sino-i, a listed subsidiary of the Company; Evallon Investment Limited, a wholly-owned subsidiary of Sino-i; Mr. Yu, the chairman and executive director of both the Company and Sino-i; and South Port Development Limited, a former wholly-owned subsidiary of Sino-i as first, second, third and fourth plaintiff respectively issued a claim against Banco Unibank and Waterfront, on the grounds that the purported sale of the Philippines Shares was unlawful as such sale was in breach of the terms of the mortgage; in breach of a compromise agreement reached in January 2003; and in other breaches, for damages; further or other relief; interest and costs and etc. in February 2006 under High Court Number of HCCL 5 of 2006 (the "**Case**"). The Case is still in progress and no date has been fixed for trial.

(b) Dadi Media Limited ("**Dadi Media**"), a wholly-owned subsidiary of Sino-i, as plaintiff, issued a claim against two minority shareholders of Digital Weigu Real Estate Management Company Limited* (數碼慧谷置業管理股份有限公司) (formerly known as CE Dongli Technology Group Company Limited), a subsidiary of Sino-i, for the sum of HK$27,750,498 together with interest thereon and costs in May 2004 under High Court Number of HCA1130 of 2004. The two defendants filed a defence and counterclaim in June 2004 and then an amended defence and counterclaim in September 2004. The counterclaim was further amended and re-amended. In December 2004, the two defendants issued a claim against China Enterprise ASP Limited ("**CE ASP**"), a wholly-owned subsidiary of Dadi Media, under High Court Number HCA2892 of 2004, for (1) the sum of HK$806,250; (2) an award of compensation pursuant to section 32P of the Employment Ordinance; (3) the sum of HK$13,000; and (4) interest and costs. CE ASP filed a defence in March 2005. These two cases are still in progress and no trial date has been fixed.

The Group, after discussion with legal advisors considered that it would not incur a material outflow of resources as a result of the above matters.

Save as disclosed above, neither the Group nor any other member of the Enlarged Group has engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group as at the Latest Practicable Date.

VIII. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Enlarged Group within the two years immediately preceding the issue of this circular, and are material:

(a) the SPA;

(b) Loan Repayment Agreement;

(c) Xin Ye Agreement;

(d) Supplemental Agreement;

(e) the Film Culture and Dreamworks Agreement;

(f) the trust loan agreement dated 10 December 2015 entered into between Guangdong Dadi and Dadi Development (collectively, the "**Borrowers**"); and Hwabao Trust Co., Ltd. (華寶信託有限責任公司) ("**Hwabao Trust**"), pursuant to which Hwabao Trust has agreed to make available to the Borrowers the trust loans in an aggregate principal amount of RMB1,130,000,000 (of which RMB268,000,000 and RMB862,000,000 were provided to Dadi Development and Guangdong Dadi respectively) (the "**Trust Loans**") at an interest rate of 7% per annum. The Trust Loans are for a term of three years following the establishment of Asset-Backed Proposal for the Beneficial Right of Pingyin Huatai Dadi Cinema Trust (平銀華泰大地影院信託受益權資產支持專項計劃). The asset-backed securities in the principal amount of RMB1,130,000,000 was duly listed on the Shenzhen Stock Exchange on 1 February 2016.

Please refer to the announcement of the Company dated 1 February 2016 for further details.

(g) the subscription agreement dated 15 March 2016 entered into between the Target Group, OSGH (China) and the investors, being Xin Ye, Shanghai Huiying Investment Centre (Limited Partnership)* (上海慧影投資中心(有限合夥)) and Beijing Qing Zhong Tong Chuang Asset Management Company Limited* (北京青中同創資產管理有限公司) (collectively, the "**Investors**") in respect of the subscription of the shares of OSGH (China), representing an aggregate 13.79% of the equity interest in OSGH (China) following completion of the subscription, by the Investors in OSGH (China), in consideration for RMB400 million (the "**Subscription Agreement**").

(h) the first supplemental agreement to the Subscription Agreement dated 1 April 2016, entered into by the Target Company, Xin Ye and Beijing Weiying Technology Co. Ltd* (北京微影時代科技有限公司), a company established in the PRC or any of its associates, including Shanghai Huiying Investment Centre (Limited Partnership)* (上海慧影投資中心(有限合夥)) pursuant to which the parties have agreed to amend certain terms of the Subscription Agreement in respect of (i) the rights and obligations of the parties between the date of the Subscription Agreement and the date of the completion of the subscription and (ii) the buy-back options provisions regarding the equity interest in OSGH (China).

(i) the second supplemental agreement to the Subscription Agreement dated 1 April 2016, entered into by the Target Company, OSGH (China), and Beijing Weiying Technology Co. Ltd* (北京微影時代科技有限公司), a company established in the PRC or any of its associates, including Shanghai Huiying Investment Centre (Limited Partnership)* (上海慧影投資中心(有限合夥)), pursuant to which the parties agreed to amend certain terms of the Subscription Agreement in respect of the termination of the Subscription Agreement between the parties.

(j) the subscription agreement dated 9 May 2016 entered into between Dadi Cinema (HK) Limited ("**Dadi Cinema Hong Kong**"), an indirect wholly-subsidiary of the Company and SAC Finance Company Limited ("**SAC Finance**"), pursuant to which Dadi Cinema Hong Kong conditionally agreed to issue and SAC Finance conditionally agreed to subscribe for the convertible and exchangeable bonds due 2018 with an aggregate principal amount of RMB1,000,000,000.

Please refer to the announcement of the Company dated 9 May 2016 for further details.

(k) the sale and purchase agreement dated 9 August 2016, entered into between and among Nai Hai Development Limited, CITIC Real Estate (Hong Kong) Development Limited, Listar Properties Limited and the Company, in relation to the acquisition of the 5,400,000 ordinary shares of US$1.00 each in the issued share capital of Listar Properties Limited and the total amount of shareholder's loan due and owing by Listar Properties Limited to CITIC Real Estate (Hong Kong) Development Limited immediately before completion of the transaction.

Please refer to the announcement of the Company dated 9 August 2016 for further details.

(l) the joint venture agreement dated 5 September 2016 entered into by the Target Company and Xin Ye, which (a) sets out the major terms of the Subscription Agreement as applicable between the Target Company and Xin Ye and the operational arrangements between the Target Company and Xin Ye in relation to OSGH (China), and (b) further supplements the Subscription Agreement.

(m) the third supplemental agreement to the Subscription Agreement dated 5 September 2016 entered into by Beijing Qing Zhong Tong Chuang Asset Management Company Limited* (北京青中同創資產管理有限公司), the Target Company and OSGH (China), whereby it was agreed, amongst others, that all of the rights and obligations under the Subscription Agreement of Beijing Qing Zhong Tong Chuang Asset Management Company Limited* (北京青中同創資產管理有限公司) would be terminated, without any claim or liability towards the other parties.

(n) the sale and purchase agreement dated 15 December 2015, and amended on 16 March 2016 and 17 June 2016, entered into between Glory Grace Corporation Limited ("**GGC**") (now known as Crabtree & Evelyn Investment (HK) Limited), an indirect wholly-owned subsidiary of the Company and Orange Blossom Limited as purchasers, C&E Capital Limited as vendor, Mr. Lim Siew Choon as guarantor of vendor and the Company as guarantor of GGC, in relation the acquisition of (i) the entire issued share capital in CE Holdings Limited, (ii) the entire issued redeemable preferred stock in Crabtree & Evelyn, Ltd., and (iii) the entire issued redeemable preference shares in Crabtree & Evelyn (Overseas) Limited, at a total consideration of US$165 million.

Please refer to the announcements of the Company dated 15 December 2015, 4 March 2016, 16 March 2016, 22 April 2016, 26 May 2016, 16 June 2016 and 17 June 2016 and the circular of the Company dated 25 August 2016 for further details.

(o) the subscription agreement dated 18 May 2017 entered into between Amber Treasure Ventures Limited, a direct wholly-owned subsidiary of the Company, as the issuer, the Company as the guarantor and China CITIC Bank International Limited, BOCI Asia Limited and Huarong International Securities Limited as joint lead managers, in relation to the issuance by Amber Treasures Ventures Limited of US$500 million 3.00% credit enhanced notes due 2020.

Please refer to the announcements of the Company dated 16 May 2017, 18 May 2017 and 25 May 2017 for further details.

IX. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion and advice which are included in this circular:

Name	**Qualification**
BDO Limited ("**BDO**")	Certified Public Accountants

BDO has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter or reports and the references to its name in the form and context in which it appear.

BDO did not have any interests in any Shares or shares in any member of the Group, or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, BDO did not have any direct or indirect interests in any assets which have since 31 December 2016 (being the date to which the latest audited consolidated accounts of the Company have been made up) been acquired or disposed of by or leased to or by any member of the Enlarged Group, or was proposed to be acquired or disposed of by or leased to or by any member of the Enlarged Group.

X. MISCELLANEOUS

(a) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the principal place of business in Hong Kong is situated at 12/F., The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong.

(b) The company secretary of the Company is Mr. Chiu Ming King who currently serves as the executive director of Corporate Services of Vistra Corporate Services (HK) Limited. Mr. Chiu is a fellow member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) In any event of inconsistency, the English version of this circular shall prevail over the Chinese version to the extent of such inconsistency.

XI. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business in Hong Kong of the Company at 12/F., The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong for a period of 14 days (excluding Saturdays and public holidays) from the date of this circular:

(a) this circular;

(b) the memorandum and articles of association of the Company;

(c) the annual reports of the Company for the two financial years ended 31 December 2015 and 31 December 2016;

(d) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(e) the written consents referred to in the section headed "Qualification and Consent of Expert" in this appendix;

(f) the report from BDO in respect of the financial information of the Target Group as set out in Appendix II to this circular;

(g) the report from BDO in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular; and

(h) the written approvals given by the Controlling Shareholder Group dated 25 January 2017 and 11 May 2017.

* *For identification purpose only*