

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold or transferred all your shares in **Orange Sky Golden Harvest Entertainment (Holdings) Limited**, you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



**ORANGE SKY GOLDEN HARVEST  
ENTERTAINMENT (HOLDINGS) LIMITED**

**橙天嘉禾娛樂(集團)有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1132)**

**MAJOR TRANSACTION  
CONNECTED TRANSACTION  
AND  
CONTINUING CONNECTED TRANSACTION  
IN RELATION TO  
THE LEASE AGREEMENTS  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

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



Capitalised terms used in this cover page shall have the same meanings as those defined in this circular. A letter from the Board is set out on pages 7 to 26 of this circular. A letter from the Independent Board Committee is set out on pages 27 to 28 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 41 of this circular. A notice convening the SGM to be held at 11 a.m. on Thursday, 5 September 2019 at 24th Floor, Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong is set out on pages 77 to 78 of this circular.

A form of proxy for the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish.

\* For identification purposes only

<b>CONTENTS</b>
-----------------

	<i>Page</i>
<b>DEFINITIONS .....</b>	<b>1</b>
<b>LETTER FROM THE BOARD .....</b>	<b>7</b>
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE .....</b>	<b>27</b>
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER .....</b>	<b>29</b>
<b>APPENDIX I — FINANCIAL INFORMATION OF THE GROUP .....</b>	<b>42</b>
<b>APPENDIX II — UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP .....</b>	<b>45</b>
<b>APPENDIX III — VALUATION REPORT .....</b>	<b>55</b>
<b>APPENDIX IV — GENERAL INFORMATION .....</b>	<b>69</b>
<b>NOTICE OF THE SGM .....</b>	<b>77</b>

## DEFINITIONS

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

“Acquisition”	the acquisition of the Complex and the respective land use rights
“Announcement”	the announcement of the Company dated 1 July 2019 in respect of the entering into of the Lease Agreements
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Beijing Orange Land”	Beijing Orange Land Cinema Investment Management Company Limited* (北京橙地影院投資管理有限公司), a company established in the PRC with limited liability and is owned as to 100% by Beijing Orange Sky
“Beijing Orange Sky”	Beijing Orange Sky Cinema Investment Management Company Limited* (北京橙天影院投資管理有限公司), a company established in the PRC with limited liability. Zeng Qingxin (who holds the shareholding interests in Beijing Orange Sky in accordance to the instructions of Mr. Wu) and Ms. Wu hold as to 99% and 1% of the equity interest of Beijing Orange Sky respectively
“Board”	the board of Directors
“Box Office”	the revenue generated from the cinema operation of the Cinema Premises, based on the calculation method of box office revenue set out by the Film Administration of the State Administration of Press, Publication, Radio, Film and Television in the PRC (國家廣播電影電視總局電影管理局), which includes but is not limited the revenue generated from third-party networks, mobile applications, merchants, prepaid coupons and on-site tickets sales
“Business Day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong and PRC
“Cinema Commission Amount”	as the case may be, the amount which is equivalent to: (i) 14% of the annual Net Box Office for each rental year during the first to the fifth rental year of the Cinema Lease Term; (ii) 15% of the annual Net Box Office for each rental year during the sixth to the tenth rental year of the Cinema Lease Term; or (iii) 16% of the annual Net Box Office for each rental year during the eleventh to the fifteenth rental year of the Cinema Lease Term

## DEFINITIONS

“Cinema Delivery Date”	30 September 2019, being the expected date which the delivery of the Cinema Premises to the Tenant shall take place, and in any event, the date of the actual delivery of the Cinema Premises by the Landlord to the Tenant should be no later than 31 December 2019, unless otherwise agreed by the Landlord and the Tenant
“Cinema Lease Agreement”	the lease agreement dated 28 June 2019 entered into between the Landlord and the Tenant in respect of the leasing of the Cinema Premises
“Cinema Lease Deposit”	a rental deposit of RMB4,219,046.22 is payable by the Tenant to the Landlord within 10 Business Days from the date of the Cinema Lease Agreement being Effective
“Cinema Lease Term”	the term of 15 years commencing from the date following the Cinema Delivery Date
“Cinema Premises”	floor 5, 6 and 7 of the building units 597 and 599, located at Wuxing Road, Xiagang Street, Jiangyin, PRC (中國江陰市夏港街道五星路), with a total gross floor area of approximately 17,124.49 square meters
“Cinema Premises Delivery”	the delivery of the Cinema Premises from the Landlord to the Tenant subject to certain delivery conditions as stated in the Cinema Lease Agreements
“Cinema Property Management Fee”	the amount pre-paid by the Tenant to the Landlord based on the Initial Property Management Service Fee Rate or the Increased Property Management Service Fee Rate (as the case may be) every three months during the Cinema Lease Term
“Cinema Rent Exemption Period”	the period of four months from the date following the Cinema Delivery Date
“Company”	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)
“Complex”	the complex with total gross floor area of approximately 93,137.68 square meters, located at Wuxing South Road, Xiagang Street, Jiangyin, PRC and west to Xiadong Road (中國江陰市夏港街道五星路南、夏東路西側)
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules

## DEFINITIONS

“Determination Date”	15 days after the end of each rental year during the Cinema Lease Term, which during such period, the Tenant will agree on the annual Net Box Office for such rental year with the Landlord
“De Minimis Amount”	the maximum amount which would render the entering into of the Cinema Lease Agreement with the payment of the Variable Cinema Lease Amount for a particular rental year during the Cinema Lease Term by the Tenant to the Landlord being constituted as a fully exempt continuing connected transaction under Rule 14A.76 of the Listing Rules
“Director(s)”	director(s) of the Company
“Disposal”	means the disposal of the entire issued share capital of the City Entertainment Corporation Limited by Giant Harvest Limited to True Vision Limited
“Effective”	the Lease Agreements being effective upon obtaining of the necessary approvals from the Directors and the Independent Shareholders in respect of the Lease Agreements and the transactions contemplated thereunder
“Fixed Cinema Lease Amount”	the amount pre-paid by the Tenant to the Landlord based on the Initial Cinema Rent Rate or the Subsequent Cinema Rent Rate (as the case may be) every three months during the Cinema Lease Term
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	The Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accounts
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hotel Delivery Date”	30 September 2019, being the expected date which the delivery of the Hotel Premises to the Tenant shall take place, and in any event, the date of the actual delivery of the Hotel Premises by the Landlord to the Tenant should be no later than 31 December 2019, unless otherwise agreed by the Landlord and the Tenant
“Hotel Lease Agreement”	the lease agreement dated 28 June 2019 entered into between the Landlord and the Tenant in respect of the leasing of the Hotel Premises

## DEFINITIONS

“Hotel Lease Deposit”	a rental deposit of RMB3,625,179.64 is payable by the Tenant to the Landlord within 10 Business Days from the date of the Hotel Lease Agreement being Effective
“Hotel Lease Term”	the term of 15 years commencing from the date following the Hotel Delivery Date
“Hotel Premises”	Orange Sky Land Square One, Jiangyin, PRC* (中國江陰市橙天地廣場1號), with a total gross floor area of approximately 14,188.57 square meters
“Hotel Premises Delivery”	the delivery of the Hotel Premises from the Landlord to the Tenant subject to certain delivery conditions as stated in the Hotel Lease Agreement
“Hotel Rent”	the amount pre-paid by the Tenant to the Landlord based on the Initial Hotel Rent Rate or the Subsequent Hotel Rent Rate (as the case may be) every three months during the Hotel Lease Term
“Hotel Rent Exemption Period”	the period of four months from the date following the Hotel Delivery Date
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors (namely, Mr. Leung Man Kit, Ms. Wong Sze Wing and Mr. Fung Chi Man, Henry)
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Lease Agreements and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders other than Mr. Wu and Ms. Wu
“Landlord”	Jiangyin Orange Land Cinema Development Management Co., Ltd.* (江陰橙地影院開發管理有限公司), a company established in the PRC with limited liability, which is owned as to 25% by Beijing Orange Land and 75% by Orange Sky Land
“Latest Practicable Date”	19 August 2019, which is the latest practicable date for inclusion of information in this circular

## DEFINITIONS

“Lease Agreements”	the Cinema Lease Agreements and the Hotel Lease Agreements
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Wu”	Mr. Wu Kebo, the executive Director and a controlling Shareholder, who is indirectly interested in 71.28% of the entire issued share capital of the Company
“Ms. Wu”	Ms. Wu Keyan, the executive Director and the sister of Mr. Wu;
“Net Box Office”	the Box Office minus the value-added tax and the Special State Film Undertaking Development Fund (國家電影專項資金), amounting to 5% of the Box Office, which may be subject to changes of the relevant regulations of the respective departments in the PRC
“Orange Sky Land”	Orange Sky Land Holdings Company Limited* (橙天地控股有限公司), a company established in the PRC with limited liability, which is indirect wholly-owned by Mr. Wu
“PRC”	the People’s Republic of China, which for the purpose of this circular, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Premises”	the Cinema Premises and the Hotel Premises
“Property Management Service Fee”	the amount pre-paid by the Tenant to the Landlord based on the Initial Cinema Property Management Fee Rate or the Increased Cinema Property Management Fee Rate (as the case maybe) every three months during the Cinema Lease Term
“Purchaser”	Jiangyin Orange Sky Golden Harvest Liuliu Property Co., Ltd* (江陰橙天嘉禾六六房產有限公司), an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 29 August 2018 entered into by the Purchaser and the Landlord in relation to the Acquisition
“SGM”	a special general meeting of the Company to be convened and to approve the Lease Agreements and the transactions contemplated thereunder

## DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder”	the holder of Share(s)
“Shares”	ordinary share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenant”	Jiangyin Orange Sky Golden Harvest Liuliu Enterprise Management Co., Ltd* (江陰橙天嘉禾六六企業管理有限公司), an indirect wholly-owned subsidiary of the Company
“Variable Cinema Lease Amount”	the amount equivalent to the difference between the yearly Cinema Commission Amount and the yearly Fixed Cinema Lease Amount for a particular rental year during the Cinema Lease Term given that the yearly Cinema Commission Amount exceeds the yearly Fixed Cinema Lease Amount for such rental year
“%”	means per cent.

\* *For identification purposes only*



LETTER FROM THE BOARD



Golden Harvest

**ORANGE SKY GOLDEN HARVEST  
ENTERTAINMENT (HOLDINGS) LIMITED**

**橙天嘉禾娛樂(集團)有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1132)**

*Chairman and Executive Director:*

Mr. Wu Kebo

*Executive Directors:*

Mr. Mao Yimin

Mr. Li Pei Sen

Ms. Wu Keyan

Ms. Chow Sau Fong, Fiona

*Independent Non-executive Directors:*

Mr. Leung Man Kit

Ms. Wong Sze Wing

Mr. Fung Chi Man, Henry

*Registered Office:*

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

*Principal Place of Business:*

24th Floor

Capital Centre

151 Gloucester Road

Wan Chai

Hong Kong

21 August 2019

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION  
CONNECTED TRANSACTION  
AND  
CONTINUING CONNECTED TRANSACTION  
IN REALTION TO  
THE LEASE AGREEMENTS  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

**INTRODUCTION**

Reference is made to the Announcement, the announcements of the Company dated 29 August 2018, 10 October 2018, 24 October 2018, 23 November 2018 and 8 March 2019, the circular of the Company dated 23 October 2018 and the notice of the special general meeting of the Company dated 23 October 2018 in relation to the Acquisition.

\* *For identification purposes only*

## LETTER FROM THE BOARD

On 28 June 2019, the Tenant entered into the Cinema Lease Agreement and the Hotel Lease Agreement with the Landlord in respect of leasing the Cinema Premises and the Hotel Premises with a term of 15 years commencing from the date following the Cinema Delivery Date and the Hotel Delivery Date for cinema and hotel operation respectively.

The purpose of this circular is to provide you with, among other things, further details of the Lease Agreements and such other information as required under the Listing Rules.

### THE LEASE AGREEMENTS

#### A. Cinema Lease Agreement

The principal terms of the Cinema Lease Agreement have been entered into are summarized as follows:

Date	28 June 2019
Parties	The Landlord and the Tenant
Premises	Floors 5, 6 and 7 of the building units 597 and 599, located at Wuxing Road, Xiagang Street, Jiangyin, PRC (中國江陰市夏港街道五星路), with a total gross floor area of approximately 17,124.49 square meters. The Cinema Premises is located near the Hotel Premises within the same Complex.
Lease Term	A term of 15 years, commencing from the date following the Cinema Delivery Date.
Rent	The amount payable by the Tenant to the Landlord for a particular rental year during the Cinema Lease Term is equivalent to (1) the yearly Fixed Cinema Lease Amount, (2) the yearly Fixed Cinema Lease Amount and the Variable Cinema Lease Amount or (3) the yearly Fixed Cinema Lease Amount and the De Minimis Amount (as the case may be) (collectively, the “ <b>Cinema Rent</b> ”).

(a) Fixed Cinema Lease Amount

A rate at RMB1.35 per square meter per day (the “**Initial Cinema Rent Rate**”) for the first three years from the date following the Cinema Premises Delivery (the “**Cinema Lease Initial Period**”). During the Cinema Lease Initial Period, the yearly Fixed Cinema Lease Amount (1) for the first rental year during the Cinema Lease Term shall amount to approximately RMB5,625,394.97 (inclusive of tax) taking into consideration of the Cinema Rent Exemption Period and (2) for the second and third rental year during the Cinema Lease Term shall amount to approximately RMB8,438,092.45 (inclusive of tax) per year.

## LETTER FROM THE BOARD

The Initial Cinema Rent Rate will be increased by 8% every three years from the end of the Cinema Lease Initial Period during the Cinema Lease Term (the “**Subsequent Cinema Rent Rate**”).

(b) Variable Lease Amount

In the event that the yearly Cinema Commission Amount exceeds the yearly Fixed Cinema Lease Amount for a particular rental year during the Cinema Lease Term, an amount equivalent to the difference between the yearly Cinema Commission Amount and the yearly Fixed Cinema Lease Amount shall be payable by the Tenant to the Landlord.

(c) De Minimis Amount

Notwithstanding the above, in the event that (1) the yearly Cinema Commission Amount exceeds the yearly Fixed Cinema Lease Amount and (2) the yearly Variable Cinema Lease Amount exceeds the De Minimis Amount for a particular rental year during the Cinema Lease Term, the Tenant shall pay an amount equivalent to (1) the yearly Fixed Cinema Lease Amount and (2) the De Minimis Amount to the Landlord for the relevant rental year. As such, in the event that the Variable Lease Amount exceeds the De Minimis Amount for a particular rental year, the Variable Lease Amount payable by the Tenant for that particular rental year will be no more than the De Minimis Amount. The amount equivalent to the difference between the Variable Lease Amount and the De Minimis Amount will not be payable by the Tenant to the Landlord, unless the Company recomplies with the requirements under the Listing Rules.

Payment of Cinema  
Rent

The Fixed Cinema Lease Amount shall be pre-paid by the Tenant to the Landlord every three months during the Cinema Lease Term.

During the Cinema Rent Exemption Period, no Fixed Cinema Lease Amount is payable by the Tenant to the Landlord for the first four rental months from the date following the Cinema Delivery Date. Within 3 Business Days prior to the end of the third rental month of the Cinema Lease Term, the Tenant shall pre-pay the Landlord the Fixed Cinema Lease Amount for the fifth and the sixth rental month of the Cinema Lease Term, an amount equivalent to two-third of the Fixed Cinema Lease Amount, amounting to RMB1,406,348.74.

## LETTER FROM THE BOARD

The Fixed Cinema Lease Amount for the seventh to the ninth rental month of the Cinema Lease Term, amounting to RMB2,109,523.11, shall be pre-paid by the Tenant to the Landlord within 3 Business Days prior to the end of the sixth rental month of the Cinema Lease Term. The subsequent Fixed Cinema Lease Amount for the next three month rental period shall be pre-paid by the Tenant within 3 Business Days prior to the end of the previous three month rental period to the Landlord (i.e. the Tenant shall pre-pay the Fixed Cinema Lease Amount for the tenth to twelfth rental month within 3 Business Days prior to the end of the ninth rental month of the Cinema Lease Term). The remaining Fixed Cinema Lease Amount shall be payable by the Tenant to the Landlord in accordance with the same payment cycle as mentioned above for the rest of the Cinema Lease Term.

The Variable Lease Amount or the De Minimis Amount (as the case may be and if applicable) is payable by the Tenant to the Landlord on a yearly basis within 3 Business Days after the Determination Date.

Rent Exemption  
Period

The Tenant is exempted from payment of the Cinema Rent for a period of four months from the date following the Cinema Delivery Date.

Property  
Management  
Service Fee

A rate at RMB0.5 per square meter per day (the “**Initial Cinema Property Management Fee Rate**”) for the property management services at the Cinema Premises provided by the Property Manager appointed by the Landlord (“**Cinema Property Manager**”) during the Cinema Lease Initial Period, which amounts to (1) approximately RMB2,083,479.62 (inclusive of water and air conditioning bills and tax) for the first rental year during the Cinema Lease Term taking into account of the Cinema Rent Exemption Period and (2) approximately RMB3,125,219.43 (inclusive of water and air conditioning bills and tax) per year for the second and third rental year during the Cinema Lease Term.

The Initial Cinema Property Management Fee Rate will be increased by 8% every three years from the end of the Cinema Lease Initial Period (the “**Increased Cinema Property Management Fee Rate**”).

**LETTER FROM THE BOARD**

Payment of  
Property  
Management  
Service Fee

The Property Management Service Fee shall be pre-paid by the Tenant to the Landlord every three months during the Cinema Lease Term.

During the Cinema Rent Exemption Period, no Property Management Service Fee is payable by the Tenant to the Landlord for the first four months from the date following the Cinema Delivery Date. Within 3 Business Days prior to the end of the date following the end of the Cinema Rent Exemption Period, the Tenant shall pre-pay the Landlord the Property Management Service Fee for the fifth to the sixth rental month of the Cinema Lease Term, an amount equivalent to two-third of the Property Management Service Fee, amounting to RMB520,869.90.

The Property Management Service Fee for the seventh to the ninth rental month of the Cinema Lease Term, amounting to RMB781,304.86, shall be pre-paid by the Tenant to the Landlord within 3 Business Days prior to the end of the sixth rental month of the Cinema Lease Term. The subsequent Property Management Service Fee for the next three month rental period shall be pre-paid by the Tenant within 3 Business Days prior to the end of the previous three month rental period to the Landlord (i.e. the Tenant shall pre-pay the Property Management Service Fee for the tenth to the twelfth rental month within 3 Business Days prior to the end of the ninth rental month of the Cinema Lease Term). The remaining Property Management Service Fee shall be payable by the Tenant to the Landlord in accordance with the same payment cycle as mentioned above for the rest of the Cinema Lease Term.

Fixed Cinema  
Lease Amount  
and Cinema  
Property  
Management Fee  
Adjustment

The Tenant has a right every three years during the Cinema Lease Term to appoint an independent valuer to evaluate the Fixed Cinema Lease Amount and/or the Cinema Property Management Fee of that particular year. If the market rate is lower than the yearly Fixed Cinema Lease Amount and/or the yearly Cinema Property Management Fee for that year, the subsequent yearly Fixed Cinema Lease Amount and/or the yearly Cinema Property Management Fee payable by the Tenant should be adjusted accordingly.

## LETTER FROM THE BOARD

In the event that the market rate of the third rental year evaluated by the independent valuer (the “**Cinema Third Year Market Rate**”) is lower than the yearly Fixed Cinema Lease Amount and/or Cinema Property Management Fee paid by the Tenant to the Landlord during the first three rental years, the yearly Fixed Cinema Lease Amount and/or Cinema Property Management Fee payable by the Tenant for the fourth to the sixth rental year during the Cinema Lease Term will be adjusted to a rate not higher than the Cinema Third Year Market Rate. In the event that the market rate of the sixth rental year evaluated by the independent valuer (the “**Cinema Sixth Year Market Rate**”) is lower than the yearly Fixed Cinema Lease Amount and/or Cinema Property Management Fee paid by the Tenant to the Landlord during the fourth to the sixth rental year of the Cinema Lease, the yearly Fixed Cinema Lease Amount and/or Cinema Property Management Fee payable by the Tenant for the seventh to the ninth rental year during the Cinema Lease Term will be adjusted to a rate not higher than the Cinema Sixth Year Market Rate.

- Use of Premises      The Cinema Premises shall be used for the purpose of cinema operation.
- Deposit                A rental deposit of RMB4,219,046.22 is payable by the Tenant to the Landlord within 10 Business Days from the date of the Cinema Lease Agreement being Effective.
- If no payment is due from the Tenant to the Landlord under the Cinema Lease Agreement, upon the termination of the Cinema Lease Agreement for whatever reason, the Landlord shall return the Cinema Lease Deposit to the Tenant within 10 days from the date of the termination of the Cinema Lease Agreement.
- Sub-letting            Upon the submission of a written notification to the Landlord, the Tenant has a right to sub-let the Cinema Premises (in part or in whole) to any party.
- Assignment of rights and obligations      Upon the submission of a written notification to the Landlord, the Tenant may assign all of its rights and obligations under the Cinema Lease Agreement to its associate(s).
- Right to Renew        The Tenant has the priority to renew the lease on the same terms as offered by other parties for the leasing of the Cinema Premises. Upon the renewal of the lease under the Cinema Lease Agreement, the Company will re-comply with the requirements under the Listing Rules.

## LETTER FROM THE BOARD

Right of First Refusal	<p>In the event of the disposal of the Cinema Premises by the Landlord, the Tenant shall have the right of first refusal to acquire the Cinema Premises from the Landlord on the same terms and conditions as offered by other parties.</p> <p>The Landlord undertook that in the event that the Landlord disposes the Cinema Premises to a third party, the Tenant shall continue to lease the Cinema Premises from such third party under the same terms of the Cinema Lease Agreements (the “<b>Cinema Undertaking</b>”) and that it will indemnify the Tenant from all losses arising from the breach of the Cinema Undertaking.</p>
Conditions Precedents	<p>The terms under the Cinema Lease Agreement will be Effective upon the Company having fulfilled its obligations under the Listing Rules, including but not limited to obtaining the approval from the Independent Shareholders.</p>
Termination	<p>In the event that certain terms under the Cinema Lease Agreement have been breached by the Landlord, the Tenant has the right to early terminate the Cinema Lease Agreement and the Landlord will be required to pay an amount equivalent to twice the amount of the Cinema Lease Deposit, the amount pre-paid by the Tenant to the Landlord for such period after the early termination of the Cinema Lease Agreement and any loss suffered by the Tenant arising from such breach of the Landlord.</p>

### B. Hotel Lease Agreement

The principal terms of the Hotel Lease Agreement have been entered into are summarized as follows:

Date	28 June 2019
Parties	The Landlord and the Tenant
Premises	Orange Sky Land Square One, Jiangyin, PRC*, (中國江陰市橙天地廣場1號), with a total gross floor area of approximately 14,188.57 square meters. The Hotel Premises is located near the Cinema Premises within the same Complex.
Lease Term	A term of 15 years, commencing from the date following the Hotel Delivery Date.

## LETTER FROM THE BOARD

Rent	<p>A rate at RMB1.4 per square meter per day (the “<b>Initial Hotel Rent Rate</b>”) for the first three years from the date following the Hotel Premises Delivery (the “<b>Hotel Lease Initial Period</b>”). During the Hotel Lease Initial Period, the yearly Hotel Rent (1) for the first rental year during the Hotel Lease Term shall amount to approximately RMB4,833,572.85 (inclusive of tax) taking into consideration of the Hotel Rent Exemption Period and (2) for the second and third rental year during the Hotel Lease Term shall amount to approximately RMB7,250,359.27 per year.</p> <p>The Initial Hotel Rent Rate will be increased by 8% every three years from the end of the Hotel Lease Initial Period during the Hotel Lease Term (the “<b>Subsequent Hotel Rent Rate</b>”).</p>
Payment of Hotel Rent	<p>The Hotel Rent shall be pre-paid by the Tenant to the Landlord every three months during the Hotel Lease Term.</p> <p>During the Hotel Rent Exemption Period, no Hotel Rent is payable by the Tenant to the Landlord for the first four rental months from the date following the Hotel Delivery Date. Within 3 Business Days prior to the end of the third rental month of the Hotel Lease Term, the Tenant shall pre-pay the Landlord the Hotel Rent for the fifth to the sixth month of the Hotel Lease Term, an amount equivalent to two-third of the Hotel Rent, amounting to RMB1,208,393.21.</p> <p>The Hotel Rent for the seventh to the ninth month of the Hotel Lease Term, amounting to RMB1,812,589.82, shall be pre-paid by the Tenant to the Landlord within 3 Business Days prior to the end of the sixth rental month of the Hotel Lease Term. The subsequent Hotel Rent for the next three month rental period shall be pre-paid by the Tenant within 3 Business Days prior to the end of the previous three month rental period to the Landlord (i.e. the Tenant shall pre-pay the Hotel Rent for the tenth to the twelfth rental month within 3 Business Days prior to the end of the ninth rental month of the Hotel Lease Term). The remaining Hotel Rent shall be payable by the Tenant to the Landlord in accordance with the same payment cycle as mentioned above for the rest of the Hotel Lease Term.</p>
Rent Exemption Period	<p>The Tenant is exempted from payment of the Hotel Rent for four months from the date following the Hotel Delivery Date.</p>



## LETTER FROM THE BOARD

Hotel Rent Adjustment	<p>The Tenant has a right every three years during the Hotel Lease Term to appoint an independent valuer to evaluate the Hotel Rent of that particular year. If the market rate is lower than the yearly Hotel Rent for that year, the subsequent yearly Hotel Rent payable by the Tenant should be adjusted accordingly.</p> <p>In the event that the market rate of the third rental year evaluated by the independent valuer (the “<b>Hotel Third Year Market Rate</b>”) is lower than the yearly Hotel Rent paid by the Tenant to the Landlord during the first three rental years, the yearly Hotel Rent payable by the Tenant for the fourth to the sixth rental year during the Hotel Lease Term will be adjusted to a rate not higher than the Hotel Rent Third Year Market Rate. In the event that the market rate of the sixth rental year evaluated by the independent valuer (the “<b>Hotel Sixth Year Market Rate</b>”) is lower than the yearly Hotel Rent paid by the Tenant to the Landlord during the fourth to the sixth rental year of the Hotel Lease, the yearly Hotel Rent payable by the Tenant for the seventh to the ninth rental year during the Hotel Lease Term will be adjusted to a rate not higher than the Hotel Sixth Year Market Rate.</p>
Use of Premises	<p>The Hotel Premises shall be used for the purpose of hotel operation.</p>
Deposit	<p>A rental deposit of RMB3,625,179.64 is payable by the Tenant to the Landlord within 10 Business Days from the date of the Hotel Lease Agreement being Effective.</p> <p>If no payment is due from the Tenant to the Landlord under the Hotel Lease Agreement, upon the termination of the Hotel Lease Agreement for whatever reason, the Landlord shall return the Hotel Lease Deposit to the Tenant within 10 days from the date of the termination of the Hotel Lease Agreement.</p>
Sub-letting	<p>Upon the submission of a written notification to the Landlord, the Tenant has a right to sub-let the Hotel Premises (in part or in whole) to any party.</p>
Assignment of rights and obligations	<p>Upon the submission of a written notification to the Landlord, the Tenant may assign all of its rights and obligations under the Hotel Lease Agreement to its associate(s).</p>
Right to Renew	<p>The Tenant has the priority to renew the hotel lease on the same terms as offered by other parties for the leasing of the Hotel Premises. Upon the renewal of the lease under the Hotel Lease Agreement, the Company will re-comply with the requirements under the Listing Rules.</p>

## LETTER FROM THE BOARD

Right of First Refusal	<p>In the event of the disposal of the Hotel Premises by the Landlord, the Tenant shall have the right of first refusal to acquire the Hotel Premises from the Landlord on the same terms and conditions as offered by other parties.</p> <p>The Landlord undertook that in the event that the Landlord disposes the Hotel Premises to a third party, the Tenant shall continue to lease the Hotel Premises from such third party under the same terms of the Hotel Lease Agreements (the “<b>Hotel Undertaking</b>”) and that it will indemnify the Tenant from all losses arising from the breach of the Hotel Undertaking.</p>
Conditions Precedents	<p>The terms under the Hotel Lease Agreement will be Effective upon the Company having fulfilled its obligations under the Listing Rules, including but not limited to obtaining the approval from the Independent Shareholders.</p>
Termination	<p>In the event that certain terms under the Hotel Lease Agreement have been breached by the Landlord, the Tenant has the right to early terminate the Hotel Lease Agreement and the Landlord will be required to pay an amount equivalent to twice the amount of the Hotel Lease Deposit, the amount pre-paid by the Tenant to the Landlord for such period after the early termination of the Hotel Lease Agreement and any loss suffered by the Tenant arising from such breach of the Landlord.</p>

Saved as the conditions precedent above, the terms of the Lease Agreements being Effective are not subject to any other conditions precedent. As at the Latest Practicable Date, none of the abovementioned conditions precedent have been fulfilled.

The terms of the Lease Agreements (including the Cinema Rent, the Hotel Rent and the Cinema Property Management Fees) and the basis of the 8% increment on the Fixed Cinema Lease Amount, the Hotel Rent and the Cinema Property Management Fees for every 3 years from the end of the Cinema Lease Initial Period and the Hotel Lease Initial Period, were determined after arm’s length negotiations between the parties having taken into consideration of the historical property market trend, the current property environment and future prospects of cinema and hotel market.

The Company has conducted enquiries in respect of the property trend for the past five years and the rental levels of hotels and cinemas within the Jiangyin area. In particular, the Company has conducted internal research to assess the property market trend in the Jiangyin area and in the PRC and the feasibility of cinema and hotel operation at the Premises. In the course of conducting the research, the relevant personnel of the Company has taken the following steps: (i) making verbal enquiries in respect of the lease terms of similar cinema and hotel premises within the Jiangyin area with, among others, property managers and market participants who engage in cinema and hotel operation business in the Jiangyin area and (ii)

## LETTER FROM THE BOARD

conducting researches through publicly available resources, including reviewing statistics and information obtained from government websites and relevant market research websites in the PRC.

Based on the above enquiries and internal research, the Company considers that the 8% increment every three years in respect of the Cinema Rent and the Hotel Rent and the rental per square meter under the Lease Agreements are in line with the hotel and cinema rental growth rate (being approximately 3% annual growth rate) and the current rental rate (for hotel premises, ranging from RMB 1.1-1.5, and for cinema premises, ranging from RMB 1.1-2.0 per square meter) of properties of the same types in the proximity within the Jiangyin area. In addition, the management of the Company is of the view that the hotel and cinema industries can have a good prospect considering the abovementioned factors and the market demand of entertainment industry in the PRC.

The Directors have discussed with and obtained information from Cushman & Wakefield Limited (“C&W”), in relation to property market trends in the PRC, with reference to C&W’s internal database, which comprises of information of comparable lease transactions relating to premises of similar uses in the PRC (as compared to the Premises) in the past ten years which was sourced from public information or C&W’s internal resources.

The Directors were informed by C&W that: (i) when it was selecting the comparable lease transactions, it has compared and considered, among others, locations, sizes and internal decoration of the Premises and the underlying properties under the comparable lease transactions, (ii) the market practice of the comparable lease transactions is consistent over the ten-year period and such lease transactions typically have relatively long rental durations (i.e. ranging from 10 to 15 years) and have rental increment clauses in the lease agreements and (iii) it was of the opinion that the rent amount payable under the Lease Agreements is within the general range normally charged by landlords and the terms and condition under the Lease Agreements (including the rent payable, the rent payment, the requirement regarding security deposits and the rent exemption period) are fair and reasonable and are in line with the commercial terms of the lease agreements of the comparable lease transactions.

In light of the above and having considered the fact that the terms of the Lease Agreements are in line with the property market trend in the Jiangyin area and in the PRC with reference to the internal research conducted by the Company, the Directors’ discussion with C&W and the information obtained from C&W, the Directors are of the view that the terms of the Lease Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, the land use rights in respect of the Complex were acquired by the Landlord on 4 April 2011 at the original acquisition cost of RMB61,800,000 and the Complex was constructed and developed by the Landlord. The construction of the Complex was completed on 20 December 2016.

## LETTER FROM THE BOARD

### ANNUAL CAP

The proposed annual cap for the Cinema Property Management Fees and the Variable Cinema Lease Amount during the Cinema Lease Term is set out below:

<b>For the year ending:</b>	<b>Cinema Property Management Fees (RMB)</b>	<b>Variable Lease Amount (RMB)</b>	<b>Total (RMB)</b>
2019	3,125,219.43	2,631,578.07	5,756,797.50
2020	3,125,219.43	2,631,578.07	5,756,797.50
2021	3,125,219.43	2,631,578.07	5,756,797.50
2022	3,375,236.98	2,631,578.07	6,006,815.05
2023	3,375,236.98	2,631,578.07	6,006,815.05
2024	3,375,236.98	2,631,578.07	6,006,815.05
2025	3,645,255.94	2,631,578.07	6,276,834.01
2026	3,645,255.94	2,631,578.07	6,276,834.01
2027	3,645,255.94	2,631,578.07	6,276,834.01
2028	3,936,876.41	2,631,578.07	6,568,454.48
2029	3,936,876.41	2,631,578.07	6,568,454.48
2030	3,936,876.41	2,631,578.07	6,568,454.48
2031	4,251,826.53	2,631,578.07	6,883,404.60
2032	4,251,826.53	2,631,578.07	6,883,404.60
2033	4,251,826.53	2,631,578.07	6,883,404.60
2034	4,251,826.53	2,631,578.07	6,883,404.60

In arriving at the above proposed annual cap, the Directors have taken into account the following factors: (a) the fixed Initial Cinema Property Management Fee, (b) the fixed 8% increment of the Initial Cinema Property Management Fee every three years from the Cinema Lease Initial Period and (c) RMB2,631,578.07, being the amount which constitutes a fully-exempt continuing connected transaction pursuant to Rule 14A.76(1)(c) of the Listing Rules, being less than 5% and the total consideration being less than HK\$3,000,000.

### REASONS AND BENEFITS OF THE LEASE AGREEMENTS

The Company is an investment holding company and the Group is principally engaged in theatrical exhibition, cinema operation, film, video and television production, distribution and entertainment businesses in Hong Kong, the PRC, Taiwan and Singapore. Pursuant to the sale and purchase agreement dated 25 January 2017 entered into between Giant Harvest Limited, the Company, True Vision Limited and Nan Hai Corporation Limited in respect of the Disposal, within 24 months from the closing date of the Disposal, which took place on 28 July 2017, the Company shall not and shall procure its subsidiaries not to engage in the investment in and the operation of the cinema business in the PRC, unless otherwise agreed by True Vision Limited in writing. As such non-compete undertaking of the Group has expired, the Group intends to develop a new form of multifunctional cinema business in the PRC to operate

## LETTER FROM THE BOARD

cinemas which enable customers to not only watch movies shown at the cinemas, but also to enjoy other facilities at the cinema, including entertainment rooms, game centres and virtual reality (VR) and augmented reality (AR) experience facilities. As such, the operation of a cinema at the Cinema Premises and the entering into of the Cinema Lease Agreement facilitates the Group's development of cinema business with a new direction. For further information of the non-compete undertaking of the Company, please refer to the announcement of the Company dated 9 February 2017.

In order to capitalise the goodwill and brand equity of the Group, to leverage its resources, innovation and experience of its management team in the entertainment industry, and to commercialise its intellectual properties, the Company intends to operate a movie-themed hotel and to attract local residents and tourists with multifunctional movie theatres, virtual reality (VR) and augmented reality (AR) experiencing facilities, game centres and themed restaurants. It is also anticipated that the operation of the movie-themed hotel at the Hotel Premises will help to widen the customer base and provide a steady customer flow to the cinema at the Cinema Premises.

Currently, the Group has a team headed by professionals with related experience in the hospitality and/or entertainment industry. It is intended that such team will be responsible for the overall development planning, implementation of the strategic plans and maintenance in relation to the planned multifunctional cinema and movie-themed hotel. Such team will also be responsible for the daily operations of the cinema and the hotel and will be involved in implementation of film exhibition, provision of F&B services, event organization, sales and marketing, staff management, etc. According to the Company's latest estimations, the total capital commitment (including outfitting, renovation and equipment) for the Premises is approximately RMB57 million, which will be funded by internal resources of the Group.

The operation of the multifunctional cinema and movie-themed hotel is expected to commence in the second half of 2020, which coincides with the opening of the rest of the entertainment complex. While the construction of the Complex (where the Premises are located at), including foundation and superstructure work, was completed on 20 December 2016, the Complex has been vacant as at the Latest Practicable Date.

Based on the understanding of the Company, the Landlord was in the process of searching for potential buyer of the Complex after the completion of the construction of the Complex. Subsequently, the Landlord and the Purchaser entered into the Sale and Purchase Agreement in respect of the Acquisition on 29 August 2018. The Purchaser intended to commence the renovation of the Complex upon the delivery of the Complex from the Landlord to the Purchaser. However, such delivery did not take place as the Sale and Purchase Agreement was subsequently terminated on 8 March 2019.

The termination of the Sale and Purchase Agreement is due to the non-completion of the primary registration of property rights of the Complex in the PRC before the specified date under the Sale and Purchase Agreement as a result of a change in the primary registration requirements as requested by the relevant registration authorities in the PRC (the "**Primary Registration Delay**"). Due to this change of circumstance, the Board is of the view that the Purchaser should not continue to wait for the completion of the Acquisition whilst the date of

## LETTER FROM THE BOARD

completion of the primary registration remains uncertain which would affect the commencement date of the operation of the Complex. As such, the renovation timetable of the Complex was further delayed. The interior renovation of the Premises is expected to commence upon the Cinema Premises Delivery Date and the Hotel Premises Delivery Date, which is expected to last for approximately 8 months in the absence of any unforeseen circumstances. In light of the above, the Company decided to enter into the Lease Agreements which allows the Company to continue its plan to operate the cinema and the movie-themed hotel at the Premises having considered the benefits for such operation as stated under this section and the Company will no longer be subject to the uncertainty in respect of the commencement date of the operation of the Complex arising from the Primary Registration Delay if the Sale and Purchase Agreement has not been terminated.

The Company has researched on the growth rate and the consumption pattern in Jiangyin, the area which the Premises are situated at. The Company is of the view that Jiangyin, being one of the top-ranked city amongst the top 100 economically developed cities in the PRC, is a rapidly developing city with high consumption power and is a popular place for domestic tourists to visit. The Premises benefit from its excellent location as there are several high-end residential estates near the Premises and local residents around the area are generally well-off with sufficient leisure time to visit the cinema and the movie-themed hotel to be operated at the Premises by the Group. Having considered the above factors, the Company is of the view that there is strong market potential to operate a cinema and the movie-themed hotel at the Premises given the ideal location and the size of the Premises.

In view of such, the Directors (excluding the independent non-executive Directors) are of the view that the transactions contemplated under the Lease Agreements are conducted (i) in the ordinary and usual course of business of the Group, (ii) on normal commercial terms, and that (iii) the terms contemplated under the Lease Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### INFORMATION ABOUT THE PARTIES OF THE LEASE AGREEMENTS

#### **The Tenant**

The Tenant is a company established in the PRC and is an indirect wholly-owned subsidiary of the Company. Its principal business activity is real estate development, enterprise management services (excluding investment and asset management), property management, corporate marketing planning, conference services, exhibition services, daily necessities, hardware products and sales of electronic products.

#### **The Landlord**

The Landlord is a company established in the PRC and is the developer of the Premises. Its principal business activity is property development.

## LETTER FROM THE BOARD

### FINANCIAL EFFECTS OF THE LEASE AGREEMENTS

Pursuant to the HKFRS 16, the Fixed Cinema Lease Amount payable by the Tenant to the Landlord for leasing the Cinema Premises leased under the Cinema Lease Agreement and the Hotel Rent payable by the Tenant to the Landlord for leasing the Hotel Premises leased under the Hotel Lease Agreement will be recognised as right-of-use assets, in which the aggregate value of approximately RMB96.3 million and RMB82.8 million for recognising the Cinema Premises and the Hotel Premises as right-of-use assets pursuant to the Cinema Lease Agreement and the Hotel Lease Agreement respectively would be calculated with reference to the aggregated present value of the Fixed Cinema Lease Amount and the Hotel Rent during the entire terms of the Cinema Lease Agreement and the Hotel Lease Agreement. The right-of-use asset of RMB96.3 million and RMB82.8 million and a lease liability amounting to RMB95.7 million and RMB82.2 million under the Cinema Lease Agreement and the Hotel Lease Agreement will be recognised by the Group respectively. Set out below is the accounting treatment of the Group in relation to the right-of-use assets:

The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations or similar. After lease commencement, a lessee shall measure the right-of-use asset using a cost model, unless:

- (i) the right-of-use asset is an investment property and the lessee fair values its investment property under HKAS 40; or
- (ii) the right-of-use asset relates to a class of plant, property and equipment (“**PPE**”) to which the lessee applies HKAS 16’s revaluation model, in which case all right-of-use assets relating to that class of PPE can be revalued.

Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

After the initial recognition of right-of-use assets and lease liabilities, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. The lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses. In addition, any Variable Lease Amount, subject to a maximum of the De Minimis Amount as agreed by the Landlord and the Tenant under the Cinema Lease Agreement, will be recognised in future profit or loss.

## LETTER FROM THE BOARD

The lease liability is subsequently remeasured to reflect changes in:

The lease term (using a revised discount rate); the assessment of a purchase option (using a revised discount rate); the amounts expected to be payable under residual value guarantees (using an unchanged discount rate); or future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate). The remeasurements are treated as adjustments to the right-of-use asset.

Lease modifications may also prompt remeasurement of the lease liability unless they are to be treated as separate leases.

Based on the “Unaudited Pro Forma Financial Information of the Group” as set out in Appendix II to this circular, the unaudited pro forma consolidated total liabilities of the Group as at 31 December 2018 would be increased by approximately HK\$203 million to approximately HK\$2,048 million upon completion of the entering into the Lease Agreements, assuming that entering into the Lease Agreements had taken place on 31 December 2018. The Group’s total lease expenses are expected to increase as a result of entering into the Lease Agreements in relation to the operation of the cinema and the hotel.

As such, no revenue has been generated from the Premises as at the date of this circular. In view of the above, which the operation of the Premises will only commence in the second half of 2020, the Premises do not have identifiable net income stream attributable to the right-of-use assets to be acquired in respect of the Premises for the two years ended 31 December 2018.

Regarding the valuation report of the Premises as set out in Appendix III to this circular, the Directors note that C&W, the an independent valuer, has adopted the Income Capitalisation Method during its valuation. As advised by C&W, the Income Capitalisation Method is a commonly used valuation methodology in property valuations of leased premises and according to HKIS Valuation Standards 2017, the Income Capitalisation Method is based on capitalising the rental payable as per the Lease Agreements of the Premises. The summation of the capitalised value of the term rent for the Premises is the market value of the Premises with the Lease Agreements with a term of 15 years. As advised by C&W, no value has been ascribed to any estimated market rent beyond the expiry date of the Lease Agreements.

The Directors have reviewed the valuation report and the valuation methodology adopted by C&W, and discussed the method used by C&W with C&W. The Company is of the view that the valuation methodology adopted by C&W is appropriate. Having discussed with KPMG, the reporting accountant of the Company, and C&W, the Directors also understand that the recognition of right-of-use asset of the Premises pursuant to HKFRS 16 for accounting treatment is different from the said market valuation of the Premises performed by C&W pursuant to HKIS Valuation Standards 2017 as the two set of figures are prepared based on two different professional standards.



## LETTER FROM THE BOARD

The following table summarizes the differences between the property valuation of the Premises and accounting treatment in respect of right-of-use asset of the Premises:

	<b>Property Valuation</b>	<b>Accounting Treatment</b>
Professional standards adopted	HKIS Valuation Standards 2017	HKFRS 16
Valuation amounts and accounting figures of the Cinema Premises	Market value of RMB62 million for a lease term of 15 years under the Cinema Lease Agreement	The lease amount payable under the Cinema Lease Agreement recognized as right-of-use assets is RMB96.3 million
Valuation amounts and accounting figures of the Hotel Premises	Market value of RMB54 million for a lease term of 15 years under the Hotel Lease Agreement	The lease amount payable under the Hotel Lease Agreement recognized as right-of-use assets is RMB82.8 million
Difference between the property valuation method and accounting treatment in respect of the Lease Agreements	The Income Capitalisation Method is based on capitalising the rental payable under the Lease Agreements. The summation of the capitalised value of the term rent for the Premises is the market value of the Premises for a lease term of 15 years.	<p>The lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the incremental borrowing rate.</p> <p>The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred.</p> <p>The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.</p>

Market value is not identical to the recognized right-of-use asset in the accounting treatment. Market value is prepared for illustrative only.

In addition, as described above, the right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Therefore, this accounting measurement of the right-of-use asset does not necessarily represent the fair value of the Lease Agreement upon initial recognition.

The Company assessed the recoverable amount of the right-of-use asset and considered that there was no impairment loss of right-of-use asset upon the initial recognition.

## LETTER FROM THE BOARD

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Landlord is owned as 75% by Orange Sky Land and 25% by Beijing Orange Land. Orange Sky Land is indirect wholly-owned by Mr. Wu. Beijing Orange Land is owned as to 100% by Beijing Orange Sky. Zeng Qingxin (who holds the shareholding interests in Beijing Orange Sky in accordance to the instructions of Mr. Wu) and Ms. Wu hold as to 99% and 1% of the equity interest of Beijing Orange Sky respectively. Mr. Wu is the Director and controlling shareholder and is interested in an aggregate of approximately 71.28% of the equity interests of the Company. Ms. Wu is the Director and the sister of Mr. Wu. Accordingly, the Landlord, being the associate of Mr. Wu is a connected person of the Company.

Pursuant to HKFRS 16, the entering into of the Lease Agreements as a lessee will require the Group to recognise the Premises as the right-of-use assets in relation to the Fixed Cinema Lease Amount and the Hotel Rent, thus the entering into of the Lease Agreements with the Fixed Cinema Lease Amount and the Hotel Rent and the transactions contemplated thereunder will be regarded as deemed acquisition of assets and connected transactions by the Group. As certain applicable percentage ratios calculated for the purpose of Chapter 14 and Chapter 14A of the Listing Rules in respect of the right-of-use assets of the Premises in relation to the Fixed Cinema Lease Amount and the Hotel Rent exceeds 25% and are less than 100%, the Fixed Cinema Lease Amount under the Cinema Lease Agreements, the Hotel Rent under the Hotel Cinema Lease Agreements and the transactions contemplated thereunder constitute a major transaction and connected transactions for the Company under Chapter 14 and Chapter 14A of the Listing Rules and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

Pursuant to HKFRS 16, the entering into of the Cinema Lease Agreement as a lessee will require the Group to recognize the Variable Cinema Lease Amount linked to sales to be recognized as expenses incurred by the Group over the term of the Cinema Lease Agreement, thus the entering into of the Cinema Lease Agreement with the Variable Cinema Lease Amount and the transactions contemplated thereunder will be regarded as a continuing connected transaction under Rule 14A.31 of the Listing Rules. In addition, the provision of property management services at the Cinema Premises by the Cinema Property Manager appointed by the Landlord under the Cinema Lease Agreements also constitutes continuing connected transactions under Rule 14A.31 of the Listing Rules. As all of the relevant percentage ratios in respect of the aggregate annual cap for the Cinema Property Management Fees and the Variable Cinema Lease Amount under the Cinema Lease Agreement payable by the Tenant to the Landlord exceed 0.1% but are less than 5%, such transactions under the Lease Agreements and the relevant annual cap are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules, but are exempt from the Independent Shareholders' approval requirement.

In addition, pursuant to Rule 14A.52 of the Listing Rules, as the term of the Lease Agreements exceeds 3 years, the Company has engaged the Independent Financial Adviser to explain why the Lease Agreements require a longer period and to confirm that it is a normal business practice for agreements of these type of transactions to be of such duration.

## **LETTER FROM THE BOARD**

### **SGM**

The SGM will be convened and held for the Independent Shareholders to, among other things, consider and, if thought fit, approve the Lease Agreements and the transactions contemplated thereunder. The voting in respect of the Lease Agreements and the transactions contemplated thereunder at the SGM will be conducted by way of poll.

In view of the interests above, Mr. Wu and Ms. Wu are required to abstain from voting in respect of the resolution(s) approving the Lease Agreements and the transactions contemplated thereunder at the SGM.

Save for the aforesaid and to the Directors' best knowledge, information and belief and having made all reasonable enquiries, as at the date of this circular, no other Shareholder has a material interest in the Lease Agreements and therefore no other Shareholder is required to abstain from voting on the resolution(s) approving the Lease Agreements and the transactions contemplated thereunder at the SGM.

A notice convening the SGM to be held at 24th Floor, Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong on Thursday, 5 September 2019 at 11 a.m. is set out on pages 77 to 78 of this circular for the purpose of considering and, if thought fit, approving the ordinary resolutions set out therein.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the share registrar of the Company, Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

### **RECOMMENDATION**

Your attention is drawn to the letter of the Independent Board Committee set out on pages 27 to 28 of this circular, and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 29 to 41 of this circular in respect of the terms of the Lease Agreements and the transactions contemplated thereunder.

The Independent Board Committee, comprising of all the independent non-executive Directors, namely Mr. Leung Man Kit, Ms. Wong Sze Wing and Mr. Fung Chi Man, Henry, having taken into account the advice of the Independent Financial Adviser, is of the view that (i) the terms of the Lease Agreements and the transactions contemplated thereunder which have been reached after arm's length negotiations among the parties thereto, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Lease Agreements is in the ordinary and usual course of the business of the Group, and in the interests of the Company and the Shareholders as a whole.

## LETTER FROM THE BOARD

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed for approving the Lease Agreements and the transactions contemplated thereunder.

The Board (excluding Mr. Wu, Ms. Wu and the members of the Independent Board Committee) considers that the terms of the Lease Agreements, which have been reached after arm's length negotiations among the parties thereto, are on normal commercial terms, fair and reasonable, and is in the interests of the Company and the Shareholders as a whole. Mr. Wu and Ms. Wu, who have material interests in the Lease Agreements and the transactions contemplated thereunder, have abstained from voting on the Board resolutions approving the Lease Agreements and the transactions contemplated thereunder. Accordingly, the Board (excluding Mr. Wu, Ms. Wu and the members of the Independent Board Committee) recommends the Independent Shareholders to vote in favour of the ordinary resolutions approving the Lease Agreements and the transactions contemplated thereunder at the SGM.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
By order of the board of directors of  
**Orange Sky Golden Harvest Entertainment (Holdings) Limited**  
**Mr. Wu Kebo**  
*Chairman and Executive Director*



Golden Harvest

**ORANGE SKY GOLDEN HARVEST  
ENTERTAINMENT (HOLDINGS) LIMITED**

**橙天嘉禾娛樂(集團)有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1132)**

21 August 2019

*To the Independent Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION  
CONNECTED TRANSACTION  
AND  
CONTINUING CONNECTED TRANSACTION  
IN RELATION TO  
THE LEASE AGREEMENTS**

We refer to the circular of the Company to the Shareholders dated 21 August 2019 (“**Circular**”), to which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter have the same meanings as defined in the Circular.

We have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the Lease Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

We wish to draw your attention to the letter of advice from Somerley, the Independent Financial Adviser, appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Lease Agreements and the transactions contemplated thereunder, as set out on pages 29 to 41 of the Circular and the letter from the Board set out on pages 7 to 26 of the Circular.

Having considered the information contained in the letter from the Board, and the factors and reasons considered by, and the opinion and recommendation of, Somerley as stated in its letter of advice, we consider that the Lease Agreements and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the entering into of the Lease Agreements is in the ordinary and usual course of the business of the Group, and in the

\* *For identification purposes only*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM for approving the Lease Agreements and the transactions contemplated thereunder.

Yours faithfully,

*The Independent Board Committee*

**Mr. Leung Man Kit**

**Ms. Wong Sze Wing**

**Mr. Fung Chi Man, Henry**

*Independent non-executive Directors of the Company*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of the letter from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Lease Agreements and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.*



**SOMERLEY CAPITAL LIMITED**  
20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

21 August 2019

*To: the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **MAJOR AND CONNECTED TRANSACTIONS IN RELATION TO THE LEASE AGREEMENTS**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Lease Agreements and the transactions contemplated thereunder, details of which are contained in the letter from the Board in the circular issued by the Company to the Shareholders dated 21 August 2019 (the “**Circular**”), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 28 June 2019, Jiangyin Orange Sky Golden Harvest Liuliu Enterprise Management Co., Ltd (江陰橙天嘉禾六六企業管理有限公司), an indirect wholly-owned subsidiary of the Company and being the Tenant, entered into the Cinema Lease Agreement and the Hotel Lease Agreement with Jiangyin Orange Land Cinema Development Management Co., Ltd. (江陰橙地影院開發管理有限公司), being the Landlord, in respect of the leasing of the Cinema Premises and the Hotel Premises with a term of 15 years.

As at the Latest Practicable Date, the Landlord is owned as to 75% by Orange Sky Land and 25% by Beijing Orange Land. Orange Sky Land is indirect wholly-owned by Mr. Wu. Beijing Orange Land is owned as to 100% by Beijing Orange Sky, which in turn is owned as to 99% by Zeng Qingxin, who holds the shareholding interests in Beijing Orange Sky in accordance to the instructions of Mr. Wu, and 1% by Ms. Wu respectively. Mr. Wu is the Director and controlling shareholder of the Company, and he is interested in approximately 71.3% of the entire issued share capital of the Company as at the Latest Practicable Date. Ms. Wu is the Director and the sister of Mr. Wu. Accordingly, the Landlord, being the associate of Mr. Wu, is a connected person of the Company.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to the new HKFRS 16, effective for annual periods beginning on or after 1 January 2019, the entering into of the Lease Agreements as a lessee will require the Group to recognise the Premises as the right-of-use assets in relation to the Fixed Cinema Lease Amount and the Hotel Rent, thus this will be regarded as deemed acquisition of assets and connected transactions by the Group. As certain applicable percentage ratios calculated in respect of the right-of-use assets of the Premises in relation to the Fixed Cinema Lease Amount and the Hotel Rent exceeds 25% but less than 100%, the Fixed Cinema Lease Amount under the Cinema Lease Agreement, the Hotel Rent under the Hotel Lease Agreement and the transactions contemplated thereunder constitute a major transaction and connected transactions for the Company, and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. In addition, pursuant to Rule 14A.52 of the Listing Rules, as the term of the Lease Agreements exceeds 3 years, the Company has engaged us to explain why the Lease Agreements require a longer period and to confirm that it is a normal business practice for agreements of these type of transactions to be of such duration.

The Company will seek approval from the Independent Shareholders in respect of the Lease Agreements and the transactions contemplated thereunder by way of a poll at the SGM. In view of the interests above, Mr. Wu and Ms. Wu are required to abstain from voting in respect of the ordinary resolutions approving the Lease Agreements and the transactions contemplated thereunder at the SGM.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Leung Man Kit, Ms. Wong Sze Wing and Mr. Fung Chi Man, Henry, has been formed to advise the Independent Shareholders on whether the terms of the Lease Agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and advise the Independent Shareholders as to voting. We, Somerley, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, we have acted once as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to the Acquisition (details of which are set out in the circular of the Company dated 23 October 2018 (the "**Acquisition Circular**")). As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley and (b) the Group, the Landlord, or their respective substantial shareholders, subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser. Apart from normal professional fees payable to us in connection with the past engagement and this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group, the Landlord, or their respective substantial shareholders, subsidiaries or associates.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group and have assumed that they are true, accurate and complete in all material aspects and will remain so up to the time of the SGM. We have reviewed, among others, the Lease Agreements,



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the annual report of the Company for the year ended 31 December 2018 and the information contained in the Circular. We have also discussed with Cushman & Wakefield Limited, an independent valuer (the “**Valuer**”), the bases and assumptions for their fair rent opinion letters regarding the Lease Agreements (the “**Fair Rent Letters**”). We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been omitted or withheld from us, or to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have, however, not conducted any independent investigation into the business, affairs and financial position of the Group, the Landlord or their respective substantial shareholders, subsidiaries or associates, nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering the Lease Agreements and the transactions contemplated thereunder, we have taken into account the principal factors and reasons set out below:

#### 1. Background to, reasons for and benefits of entering into the Lease Agreements

##### (i) *The Group*

The Group is principally engaged in theatrical exhibition, cinema operation, film, video and television production, distribution and entertainment businesses in Hong Kong, the PRC, Taiwan and Singapore. As at 31 December 2018, the Group operated 34 cinemas with 276 screens in total across Hong Kong, Singapore and Taiwan. The Group also owns a movie library with more than 140 films for distribution, and certain trademarks for the use of the brand names, including “Golden Harvest” and “The Sky” in Hong Kong, and “Golden Village” in Singapore.

Following the disposal of the PRC exhibition business in 2017 (namely the Disposal), the income stream of the Group has mainly been derived from its exhibition businesses in Hong Kong, Taiwan and Singapore. In 2018, the Group continued to strengthen its cinema portfolio across Singapore, Taiwan and Hong Kong, and there were a total of 4 cinemas with 32 screens openings during the year. For the years 2017 and 2018, the Group recorded revenue of approximately HK\$1,006.6 million and HK\$1,051.0 million and profits attributable to the Shareholders of approximately HK\$2,242.1 million (mainly due to a one-off gain of approximately HK\$2,201.4 million arising from the Disposal) and HK\$52.5 million respectively. As at 31 December 2018, the Group recorded total assets and net assets of approximately HK\$4,026.2 million and HK\$2,181.1 million respectively, with a net cash position (measured as cash and bank deposits less total borrowings) of approximately HK\$127.7 million, indicating a healthy financial position.

The Shares are listed on the Stock Exchange, and the Company had a market capitalisation of approximately HK\$811.9 million as at the Latest Practicable Date.

*(ii) The Premises and Jiangyin City*

The Cinema Premises and the Hotel Premises, which form part of the target properties under the previous Acquisition, are located in Jiangyin City, the PRC. As set out in the letter from the Board in the Circular, the Company has researched on the growth rate and the consumption pattern in Jiangyin City, and it is of the view that Jiangyin City is a popular destination for domestic tourists, local residents with strong consumption power, and the Premises are situated next to several high-end residential estates in the vicinity. The Company is of the view that there is a strong market potential to operate a cinema and the movie-themed hotel at the Premises.

We have performed independent research and note that Jiangyin City is situated in the geometrical centre of the Yangtze Delta, which is conveniently connected to nearby cities in Jiangsu province, including Wuxi, Suzhou and Shanghai, through several expressways. According to the website of the Jiangyin City Government, the market for consumer products in Jiangyin City continued to grow steadily in 2018 and the total retail sales of consumer goods amounted to approximately RMB94.9 billion, representing an increase of approximately 10% compared to 2017. Furthermore, the per capita disposable income of residents of Jiangyin City amounted to approximately RMB54,000 in 2018, almost twice the national average of approximately RMB28,000 in 2018, based on the information released in the website of the National Bureau of Statistics.

*(iii) Reasons for and benefits of the entering into of the Lease Agreements*

In August 2018, the Company announced the Acquisition and its intention to operate a leisure and entertainment complex and a movie-themed hotel in Jiangyin City, the PRC. The Acquisition was approved by the independent shareholders of the Company at the special general meeting held on 23 November 2018. However, in view of the uncertainty due to change in the Primary Registration requirements as requested by the relevant registration authorities in the PRC and the long-stop date for such registration in March 2019, both the Landlord and the Company agreed to terminate the Acquisition, as set out in the Company's announcement dated 8 March 2019.

Nevertheless, the Group has continued seeking investment opportunities in the regional media, entertainment and technology sectors that are related to the Group's existing business that shall add value to the Shareholders, and the Group has been exploring ways to leverage on its resources and the innovation and experience of its management team in the entertainment industry, so as to commercialise the Group's intellectual property rights, as set out in the Company's 2018 annual report.

As the non-compete undertaking of the Group to engage in the investment in and the operation of cinema business in the PRC pursuant to the sale and purchase agreement in respect of the Disposal has expired, the Group intends to develop a new form of multifunctional cinema business in the PRC. On the other hand, the operation of a movie-themed hotel remains one of the Group's investment initiatives

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

to maintain the Group's sustainable growth and to deliver long-term value to its Shareholders. As such, the entering into of the Lease Agreements facilitates the Group's development plan as mentioned above.

As set out in the letter from the Board in the Circular, the Company intends to operate a movie-themed hotel and multifunctional movie theatres, with virtual reality (VR) and augmented reality (AR) experiencing facilities, game centres and themed restaurants, targeted to attract local residents and tourists, and it is anticipated that the operation of the movie-themed hotel at the Hotel Premises will help to widen the customer base and provide a steady customer flow to the cinema at the Cinema Premises.

In addition, currently the Group has a team headed by professionals with related experience in the hospitality and/or entertainment industry. Such team is responsible for the overall development planning, implementation of the strategic plans, daily operations and maintenance in relation to the planned multifunctional cinema and movie-themed hotel. Such team will also be involved in, among others, implementation of film exhibition, provision of food and beverage services, event organization, sales and marketing and staff management. According to the Company's latest estimations, the total capital commitment (including outfitting, renovation and equipment) for the Premises is approximately RMB57 million, which will be funded by internal resources of the Group. The operation of the multifunctional cinema and movie-themed hotel are expected to commence in the second half of 2020, coincide with the opening of the rest of the entertainment complex.

In our view, the operation of the multifunctional cinema and movie-themed hotel at the Premises would provide an opportunity for the Group to leverage on its financial resources and the innovation and experience of its management team, to diversify its revenue and earnings stream to achieve sustainable growth, and this is consistent with the Group's stated strategy to seek new investment opportunities especially in the entertainment industry.

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b>
--

## 2. The Lease Agreements

Set out below is a summary of the principal terms for the Lease Agreements. Independent Shareholders are advised to read further details of the Lease Agreements as disclosed in the letter from the Board in the Circular.

	<u><b>The Cinema Lease Agreement</b></u>	<u><b>The Hotel Lease Agreement</b></u>
Premises:	Floors 5, 6 and 7 of the building units 597 and 599, located at Wuxing Road, Xiagang Street, Jiangyin City, the PRC, with a total gross floor area of approximately 17,124.49 square meters	Orange Sky Land Square One, Jiangyin, the PRC, with a total gross floor area of approximately 14,188.57 square meters
Use of Premises:	Cinema operation	Hotel operation
Lease Term:	15 years, commencing from the date following the Cinema Delivery Date or the Hotel Delivery Date (as applicable)	
Rent:	<p><i>Fixed Cinema Lease Amount</i></p> <p>RMB1.35 per square meter per day for the first three years. Such rental rate will be increased by 8% every three years during the Cinema Lease Term</p> <p><i>Variable Lease Amount and De Minimis Amount</i></p> <p>If the yearly Cinema Commission Amount (based on a percentage between 14% to 16% of the annual Net Box Office for each rental year) exceeds the yearly Fixed Cinema Lease Amount for a particular rental year during the Cinema Lease Term, such difference (subject to the maximum of the De Minimis Amount) shall be payable by the Tenant to the Landlord</p>	<p><i>Hotel Rent</i></p> <p>RMB1.4 per square meter per day for the first three years. Such rental rate will be increased by 8% every three years during the Hotel Lease Term</p>

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b>
--

**The Cinema Lease Agreement**

**The Hotel Lease Agreement**

Rent Payment:	<p>The Fixed Cinema Lease Amount shall be pre-paid by the Tenant to the Landlord on a quarterly basis</p> <p>The Variable Lease Amount or the De Minimis Amount (as the case may be and if applicable) shall be paid by the Tenant to the Landlord on a yearly basis, within 3 Business Days after the Determination Date</p>	<p>The Hotel Rent shall be pre-paid by the Tenant to the Landlord on a quarterly basis</p>
Rent Exemption Period:	<p>Four months from the date following the Cinema Delivery Date or the Hotel Delivery Date (as applicable)</p>	
Property Management Service Fee:	<p>RMB0.5 per square meter per day for the first three years. Such fee rate will be increased by 8% every three years during the Cinema Lease Term</p>	<p>Not applicable</p>
Property Management Service Fee Payment:	<p>The Property Management Service Fee shall be pre-paid by the Tenant on a quarterly basis</p>	<p>Not applicable</p>
Rent and Property Management Fee Adjustment:	<p>The Tenant has a right every three years during the Cinema Lease Term or the Hotel Lease Term (as applicable) to appoint an independent valuer to evaluate the Fixed Cinema Lease Amount, the Cinema Property Management Fee or the Hotel Rent (as applicable) of that particular year. If the market rate is lower than the yearly Fixed Cinema Lease Amount, the yearly Cinema Property Management Fee or the yearly Hotel Rent (as applicable) for that year, the subsequent yearly Fixed Cinema Lease Amount, the yearly Cinema Property Management Fee or the yearly Hotel Rent (as applicable) payable by the Tenant should be adjusted accordingly</p> <p>For example, in the event that the market rate of the third rental year evaluated by the independent valuer is lower than the yearly Fixed Cinema Lease Amount, the yearly Cinema Property Management Fee or the yearly Hotel Rent (as applicable) during the first three rental years, the yearly Fixed Cinema Lease Amount, the yearly Cinema Property Management Fee or the yearly Hotel Rent for the fourth to the sixth rental year will be adjusted to a rate not higher than such market rate in the third rental year</p>	

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b>
--

	<u><b>The Cinema Lease Agreement</b></u>	<u><b>The Hotel Lease Agreement</b></u>
Refundable Deposit:	RMB4,219,046.22 (equivalent to approximately six months' rental)	RMB3,625,179.64 (equivalent to approximately six months' rental)
Sub-letting:	Upon the submission of a written notification to the Landlord, the Tenant has a right to sub-let the Premises (in part or in whole) to any party	
Right to Renew:	The Tenant has the priority to renew the lease on the same terms as offered by other parties	
	Upon the renewal of the lease, the Company will re-comply with the requirements under the Listing Rules	
Right of First Refusal:	In the event of the disposal of the Cinema Premises or the Hotel Premises (as applicable) by the Landlord, the Tenant shall have the right of first refusal to acquire the Cinema Premises or the Hotel Premises (as applicable) from the Landlord on the same terms and conditions as offered by other parties	
	The Landlord undertook that in the event that the Landlord disposes the Cinema Premises or the Hotel Premises (as applicable) to a third party, the Tenant shall continue to lease the Cinema Premises or the Hotel Premises (as applicable) from such third party under the same terms of the Cinema Lease Agreement or the Hotel Lease Agreement (as applicable), and that it will indemnify the Tenant from all losses arising from the breach of such undertaking	
Conditions Precedent:	Each of the Lease Agreements will be effective upon the Company having fulfilled its obligations under the Listing Rules, including but not limited to obtaining the approval from the Independent Shareholders	
Termination:	In the event that certain terms under the Cinema Lease Agreement or the Hotel Lease Agreement (as applicable) have been breached by the Landlord, the Tenant has the right to early terminate the Cinema Lease Agreement or the Hotel Lease Agreement (as applicable), and the Landlord will be required to pay an amount equivalent to twice the amount of the Cinema Lease Deposit or the Hotel Lease Deposit (where applicable), the amount pre-paid by the Tenant to the Landlord for such period after the early termination of the Cinema Lease Agreement or the Hotel Lease Agreement (where applicable) and any loss suffered by the Tenant arising from such breach of the Landlord	

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the letter from the Board in the Circular, the terms of the Lease Agreement (including, among others, the Cinema Rent, the Hotel Rent and the basis of the 8% increment on the Fixed Cinema Lease Amount and the Hotel Rent for every 3 years) were determined after arm's length negotiations between the parties, having taken into consideration of the historical property market trend, the current property environment and future prospects of cinema and hotel market. We have discussed with the management of the Group the principal terms of the Lease Agreements, as set out above, which the Directors consider to be on normal commercial terms, and in line with the prevailing market practices in the PRC. Further, the Company has appointed Valuer, to form an independent view on whether the Lease Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Valuer stated in its Fair Rent Letters that taking into account the market condition and the terms of the Lease Agreements, they are of the opinion that (i) the rent payable under Lease Agreements are within the general range normally charged by the landlord; (ii) the Lease Agreements, the terms and condition therein, including the rent payable, the rent payment, the requirement regarding security deposits and the rent exemption period, are on normal commercial terms at arm's length, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

According to the Fair Rent Letters, in order to assess the fairness and reasonableness of the terms of the Lease Agreements, the Valuer has identified comparable lease transactions for the Cinema Lease Agreement and the Hotel Lease Agreement respectively, relating to properties of similar uses in the PRC that were entered into between the parties in the past ten years, and that the Valuer has access to, knowledge of, or undertaken, and made reference to its proprietary database of leasing transactions in the PRC. Adjustments have been made by the Valuer for the differences (including locations, sizes, internal decoration and age of property) between the Premises and the underlying properties under comparable lease transactions. Further details of the Fair Rent Letters are disclosed in the letter from the Board in the Circular. As advised by the Valuer, they consider that the Cinema Rent, the Hotel Rent, the basis of the 8% increment on the Fixed Cinema Lease Amount and the Hotel Rent for every 3 years, the deposit requirements and the rent exemption period are broadly similar to the terms of comparable leases identified. We have also discussed with the Valuer the work it has performed and the bases for arriving at its conclusion as to the Lease Agreements, including the review of the terms of the comparable lease transactions and discussions with the Valuer the adjustments made, as well as the performed work as required under note (1)(d) to Listing Rule 13.80 in relation to the Valuer and its work as regards the Lease Agreements.

### *Duration of the Lease Agreements*

In respect of the duration, each of the Cinema Lease Agreement and the Hotel Lease Agreement has a term of 15 years. We have been advised by the management of the Group that when negotiating the duration of the Lease Agreements, they have taken into account (i) the development and operation of cinema business and movie-themed hotel in

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the PRC are consistent with the Company's long-term strategy, and these represent part of the Group's investment initiatives to maintain the Group's sustainable growth and to deliver long-term value to its Shareholders, (ii) it is the intention of the Group to deploy certain capital expenditures for outfitting, renovation and equipment for the Premises, to develop the PRC cinema and hotel business during the initial period, which make it commercially desirable for the Group to have a sufficiently long and stable lease duration for operation, so as to capture the benefits arising from the investments and efforts made and secure a desired investment return, and (iii) it is a normal range of duration of the lease agreements for properties being used for cinema operation in the PRC entered into between the Group and independent third parties in the past.

We have also discussed with the Valuer on the duration for each of the Cinema Lease Agreement and the Hotel Lease Agreement. According to the Valuer, it is common for the cinema and hotel operators to seek a relatively longer duration for properties of these types in the PRC, ranging from 10 to 15 years. As such, the Valuer stated in the Fair Rent Letters that the duration for each of the Lease Agreements is consistent with normal business practice for premises of the type in the PRC.

In assessing the reasonableness as regards the duration for each of the Cinema Lease Agreement and the Hotel Lease Agreement, we have also researched and identified 29 and 33 lease transactions for properties being used for cinema and hotel operation in the PRC respectively, where one of the parties (or its direct or indirect holding company) is listed on the Stock Exchange and is principally engaged in cinema or hotel operation (as appropriate) in the PRC, and details of the lease transactions are disclosed by such Hong Kong listed companies, during the ten years preceding the Latest Practicable Date, on the website of the Stock Exchange (the "**Comparable Transactions**"). On the basis of the Comparable Transactions reviewed by us, the duration for leasing of properties for cinema operation ranged from 10 to 20 years, and the duration for leasing of properties for hotel operation ranged from 7 to 20 years. Accordingly, the duration for each of the Cinema Lease Agreement and the Hotel Lease Agreement falls within the range.

Based on the above, we are of the view that the term of 15 years under each of the Lease Agreements is a normal commercial term for a transaction of this nature and it is normal business practice for contracts of this type to be of such duration.

### *Our general comment*

On the basis of the above, in particular the Valuer's view on terms of the Lease Agreements, we consider that the terms of the Lease Agreements are on normal commercial terms, with a reasonable length of duration for the Group to implement its stated development strategy, as discussed above. In addition, the Lease Agreements offer the Group a right to engage an independent valuer to evaluate the market rents every three years, in order to ensure that the rents payable to the Landlord are not higher than the then market rents, which we consider to be a protection given to the Group to safeguard the interests of the Company and the Independent Shareholders. In the event that the



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Landlord wishes to dispose the Premises, the Company has the right of first refusal, while in case the Company chooses not to exercise such right, the Company is allowed to continue to use the Premises under the Lease Agreements, as undertaken by the Landlord.

### 3. Disputes relating to previous cinema lease agreement

The Landlord is subject to an ongoing dispute (the “**Cinema Dispute**”) arising from certain previous cinema leases (the “**Previous Lease**”, including the related supplemental agreements and a memorandum of understanding) entered into with a previous lessee (the “**Previous Lessee**”) relating to the Cinema Premises. In 2018, the Landlord and the Previous Lessee served a notice to each other terminating the Previous Lease. Background of the Cinema Dispute was set out in detail in the Acquisition Circular. According to the management of the Group, the Cinema Dispute is now being handled by the court of second instance, Wuxi City Intermediate People’s Court.

We have discussed with the management of the Group and King & Wood Mallesons (“**KWM**”), legal advisers to the Company, regarding the status of such Cinema Dispute. According to the legal opinion (the “**Legal Opinion**”) issued by KWM on 21 August 2019, certain bank deposits of the Landlord have been frozen by the court of first instance, Jiangyin City People’s Court (the “**Court**”) at the request of the Previous Lessee, and the Court made a judgement on 22 March 2019 that, among others, (i) the Previous Lease have been terminated with effect from 24 June 2018, and (ii) the Landlord is required to return to the Previous Lessee the rental prepayment and deposit, together with accrued interests calculated based on the RMB Benchmark Interest Rates for one-year loans of the People’s Bank of China as compensation. The Legal Opinion further states that the parties are undergoing further proceedings relating to the claims under the Cinema Dispute, but there has been no disagreement on the judgement that the Previous Lease were terminated. As certain bank deposits of the Landlord have been frozen by the Court, KWM is of the view that the Cinema Dispute should not lead to a seizure of the Cinema Premises, and would not have any substantive and adverse impacts on the transactions contemplated under the Cinema Lease Agreement.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note certain terms under the Cinema Lease Agreement may serve as protections to the Group in the eventuality that the Group are not able to use the Cinema Premises as a result of the Cinema Dispute. In particular, we note from the Cinema Lease Agreement that if, due to reason(s) related the Landlord, the Tenant is not able to use the Cinema Premises normally during the term of the Cinema Lease for a continuous period of over 15 days or cumulatively over 30 days in a year, the Tenant has the right to (i) early terminate the Cinema Lease Agreement, and (ii) request the Landlord to pay twice the amount of the Cinema Lease Deposit, the amount pre-paid by the Tenant for such period after the early termination, and compensate any loss suffered by the Tenant arising from such breach of the Landlord. The Cinema Lease Agreement also specifically stipulates that if, for reason(s) not related to the Tenant, the Cinema Premises are, among others, seized by the Court, or if the Cinema Lease Agreement cannot be carried out due to enforcement of security interests or other circumstances, the Landlord should compensate all the losses suffered by the Tenant as a result.

Having considered (i) the Court's judgement that the Previous Lease were terminated, (ii) certain bank deposits of the Landlord being frozen by the Court, (iii) KWM's opinion that the Cinema Dispute should not lead to a seizure of the Cinema Premises, and would not have any substantive and adverse impacts on the transactions contemplated under the Cinema Lease Agreement, (iv) the protection clauses as stipulated in the Cinema Lease Agreement as discussed above, we concur with the Company's view that the potential risk of the Group not being able to use the Cinema Premises as a result of the Cinema Dispute would be substantially addressed by the above factors.

#### 4. Financial effect on the Group

##### *Right-of-use asset and lease liability*

The Lease Agreements are long-term leases for a duration of 15 years. Pursuant to the new HKFRS 16, the aggregated present value of the Fixed Cinema Lease Amount and the Hotel Rent during the entire 15-year term of the Lease Agreements will be recognised as right-of-use asset. A resultant lease liability will be recognised by the Group at the same time. After initial recognition of the right-of-use asset and lease liability, the Group will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases over the lease term. The lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses. Please refer to the letter from the Board in the Circular for details of the accounting treatment of the right-of-use asset and the lease liability. Based on the "Unaudited Pro Forma Financial Information of the Group" as set out in Appendix II to the Circular (the "**Pro Forma Financials**"), the assets and liabilities of the Group will be increased by approximately HK\$204.2 million and HK\$202.8 million respectively, reflecting the recognition of the right-of-use asset and the corresponding lease liability.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on our understanding from the management of the Group, any Variable Lease Amount, subject to a maximum of the De Minimis Amount as agreed by the Landlord and the Tenant under the Cinema Lease Agreement, will be recognised as rental expenses in future profit or loss.

Despite the lease payment, revenue is expected to be generated from the business operation of the Cinema Premises and the Hotel Premises following their commencement of operation by the second half of 2020. The management is of the view that the future return expected to be generated from the Premises will contribute positively to the overall profitability to the Group.

### *Cash flow*

The Group currently intends to finance the estimated total capital commitment for the Premises of approximately RMB57 million and future rent payments under the Lease Agreements by internal resources of the Group. The above amounts are not expected to be a substantial burden to the Group given its deposits and cash balance (excluding pledged bank deposits) of approximately HK\$1,290.1 million as at 31 December 2018. The Directors have confirmed that, after taking into consideration the financial resources available to the Group including internally generated funds, the Group will have sufficient working capital for its requirements for at least the 12 months from the date of publication of the Circular.

## OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Lease Agreements and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the entering into of the Lease Agreements is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Lease Agreements and the transactions contemplated thereunder.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**John Wong**  
*Director*

*Mr. John Wong is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.*

**SUMMARY OF FINANCIAL INFORMATION**

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2018, 2017 and 2016 are disclosed in the following documents, which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.osgh.com.hk>):

- annual report of the Company for the year ended 31 December 2018, on pages 68 to 136:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltm201904251840.pdf>

- annual report of the Company for the year ended 31 December 2017, on pages 64 to 154:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0426/ltm20180426727.pdf>

- annual report of the Company for the year ended 31 December 2016, on pages 62 to 140:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0426/ltm201704261637.pdf>

**WORKING CAPITAL**

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the financial resources available to the Group including internally generated funds, the Group will have sufficient working capital for its requirements for at least the 12 months from the date of publication of this circular.

**STATEMENT OF INDEBTEDNESS**

At the close of business on 30 June 2019, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness are as follows:

**Bank borrowings**

As at 30 June 2019, the Group had aggregate outstanding bank borrowings of approximately HK\$1,187,382,000, details of which are set out below:

	<i>HK\$</i>
Bank borrowings — secured and guaranteed	1,149,314,000
Bank borrowings — unsecured and guaranteed	<u>30,000,000</u>
Total bank borrowings	<u><u>1,179,314,000</u></u>

The bank borrowings granted to the Group were secured by pledged cash, an office property, two commercial properties and the equity interests in four subsidiaries of the Company.

#### **Lease liabilities**

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities over the lease term. As at 30 June 2019, the Group has lease liabilities with outstanding principal amount of approximately HK\$989,376,000.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, at the close of business on 30 June 2019, the Group did not have any material mortgages, charges, debentures, loan capital, debt securities, term loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance (other than normal trade payables) or acceptance credits, guarantee or other material contingent liabilities.

#### **FINANCIAL AND TRADING PROSPECT OF THE GROUP**

While concerns over rising US interest rates and the full impact of the trade war between the world's two largest economic powers has yet to be felt, it has nonetheless started to affect market sentiment and consumer spending. The overall operating environment will become increasingly challenging. The Group will continue to strengthen its core competencies, focusing on capturing expansion opportunities in exhibition and distribution businesses. Meanwhile, the Group will also explore new business opportunities in entertainment, technology and lifestyle industries that would create synergies to the Group and add values to the Shareholders. The entering into of the Lease Agreements will unlock the market potential in Jiangyin and the Yangtze River region to the Group and complement one of the Group's investment initiatives to maintain the Group's sustainable growth and to deliver long-term value to its Shareholders.

In the PRC, following the entering into of the Lease Agreements, the Group will expand its presence in Jiangyin and the Yangtze River region. Being a secondary city in the PRC, Jiangyin is rapidly developing with high consumption power and market potential. The Group envisages to gain a first mover advantage secondary markets in the PRC to broaden its revenue sources and enhance its brand equity. The entering into of the Lease Agreements will also complement the Group's strategies to explore opportunities to produce and/or co-invest in an average target of one to two new mid-to-large scale films every year by remaking films from the Group's film library, and/or engage in new film production from existing scripts and co-investing in PRC's films. The Group intends to host movie-related events at the Premises which will attract talents in the movie and entertainment business industry to gather at the Premises, enabling the Group to build connections with potential investors and film production talents within the industry.

In Hong Kong, the Group will further invest into the film exhibition business by opening one new cinema in the 2019. Riding on the success of alternative contents in previous years, the Group will cooperate with different business partners to offer a variety of events including live broadcasting of Japanese and Korean mini-concerts and fans gathering in our cinemas. It is expected that the demand for alternative shows will continue to grow. At the same time, the Group is dedicated to look for investment opportunities in quality film and/or distribution projects in the territory.

In Singapore, the Group will continue to grow by actively pursuing suitable cinema sites. The new 7-screen Funan site has just been opened around end of June 2019 with great attendance. The Group is dedicated to maintain high quality services in regular and gold class auditoriums and to introduce creative product offerings such as toys merchandise to its customers.

In Taiwan, Vie Show will continue to expand its cinema network with a stable pipeline of potential sites to be opened in the coming years. A new 8-screen site in central Taipei will be opened in November 2019. Encouraging results of alternative contents and distribution businesses have also brought in additional revenues streams to the Group. Moreover, the Group has successfully introduced “Snow Town” and “Ivorish” to Taichung Port. Snow Town is an indoor theme park that allows visitors to enjoy snow at a “feels like” temperature of 20°C. Ivorish is a famous French toast restaurant in Japan, with the name expressing French toast color (ivory) and cherish (cherish), meaning to bring delicious French toast and happiness to customers. Both properties have been proven to be successful, helping to diversify the business in the territory.

Looking ahead, the Group will continue to actively seek investment opportunities in the regional media, entertainment, technology and lifestyle sectors that are related and/or creating synergies to the Group’s existing businesses. The Directors are confident that the Group will be able to achieve sustainable growth and deliver long term value to the shareholders, and at the same time diversify the business achieving better positioning of the Group.

## **MATERIAL CHANGE**

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018 (being the date to which the latest published audited financial statements of the Company have been made up) and up to and including the Latest Practicable Date.

**A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP****(1) Introduction**

The unaudited pro forma statement of assets and liabilities of the Group (the “**Unaudited Pro Forma Financial Information**”) has been prepared by the Directors in accordance with Paragraphs 4.29 and 14.67 of the Listing Rules for the purpose of illustrating the effect on the financial position of the Group as at 31 December 2018 as if the Cinema Lease Agreement and the Hotel Lease Agreement (the “**Transactions**”) had been entered on 31 December 2018 respectively.

The Unaudited Pro Forma Financial Information has been prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2018 as set out in the annual report of the Company for the year ended 31 December 2018, after making certain pro forma adjustments that are (i) directly attributable to the Transactions and not relating to other future events or decisions and (ii) factually supportable, as further described in the accompanying notes.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Transactions been entered as of the specified dates or any other dates.

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 Company for the year ended 31 December 2018 and other financial information included elsewhere in this circular.

## (2) Unaudited Pro Forma Statement of Assets and Liabilities of the Group as at 31 December 2018 in relation to the Cinema Lease Agreement

	The Group as at 31 December 2018 <i>HK\$'000</i> <i>Note 1</i>	Pro forma adjustments <i>HK\$'000</i> <i>Note 2</i>	The Group as at 31 December 2018 after entering into the Cinema Lease Agreement <i>HK\$'000</i>
<b>Non-current assets</b>			
Investment properties	50,000		50,000
Other property, plant and equipment	368,119	109,756	477,875
Leasehold land	<u>613,525</u>		<u>613,525</u>
	1,031,644		1,141,400
Interest in a joint venture	145,933		145,933
Other receivables, deposits and prepayments	40,058		40,058
Intangible assets	523,079		523,079
Goodwill	656,609		656,609
Pledged bank deposits	<u>137,000</u>		<u>137,000</u>
	<u>2,534,323</u>		<u>2,644,079</u>
<b>Current assets</b>			
Inventories	2,592		2,592
Film rights	34,868		34,868
Trade receivables	41,473		41,473
Other receivables, deposits and prepayments	122,835		122,835
Deposits and cash	<u>1,290,095</u>	(703)	<u>1,289,392</u>
	<u>1,491,863</u>		<u>1,491,160</u>



	The Group as at 31 December 2018 <i>HK\$'000</i> <i>Note 1</i>	Pro forma adjustments <i>HK\$'000</i> <i>Note 2</i>	The Group as at 31 December 2018 after entering into the Cinema Lease Agreement <i>HK\$'000</i>
<b>Current liabilities</b>			
Bank loans	274,850		274,850
Trade payables	121,813		121,813
Other payables and accrued charges	163,144		163,144
Deferred revenue	56,591		56,591
Lease liabilities	—	278	278
Taxation payable	30,792		30,792
	<u>647,190</u>		<u>647,468</u>
<b>Net current assets</b>	<u>844,673</u>		<u>843,692</u>
<b>Total assets less current liabilities</b>	<u>3,378,996</u>		<u>3,487,771</u>
<b>Non-current liabilities</b>			
Bank loans	1,024,498		1,024,498
Lease liabilities	—	108,775	108,775
Deferred tax liabilities	173,383		173,383
	<u>1,197,881</u>		<u>1,306,656</u>
<b>NET ASSETS</b>	<u><u>2,181,115</u></u>		<u><u>2,181,115</u></u>

*Notes to the Unaudited Pro Forma Financial Information of the Group:*

1. The amounts are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2018 as set out in the published annual report of the Company for the year ended 31 December 2018.

No adjustments have been made to the consolidated statement of assets and liabilities of the Group as at 31 December 2018 to reflect the impact upon initial adoption of HKFRS 16. HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. Had HKFRS 16 been adopted, the balances of lease liabilities and the corresponding right-of-use assets would have been increased by HK\$816,756,000 and HK\$796,611,000 respectively under modified retrospective approach, after taking account the effects of discounting as at 1 January 2019.

2. The adjustment represents the right-of-use assets of RMB96,277,000 (equivalent to HK\$109,756,000) including the lease liabilities of approximately RMB95,661,000 (equivalent to HK\$109,053,000) and the incidental costs of approximately HK\$703,000 which represents legal and other professional fees paid in connection with the Cinema Lease Agreement, as if the Cinema Lease Agreement had been entered on 31 December 2018. Such amount is capitalised as part of the right-of-use assets upon completion of the acquisition.

The lease liabilities are measured at the present value of the future lease payments as at 31 December 2018 as if the Cinema Lease Agreement had been entered on 31 December 2018. The lease payments are discounted using the incremental borrowing rate. The present values of lease payments to be settled within one year and after one year are RMB244,000 (equivalent to HK\$278,000) and RMB95,417,000 (equivalent to HK\$108,775,000) respectively.

3. No other adjustments have been made to the Unaudited Pro Forma Financial Information to reflect (i) any trading results or other transactions entered into by the Group subsequent to 31 December 2018; and (ii) the effect of the Hotel Lease Agreement on the financial position of the Group had the Group entered into the Hotel Lease Agreement.

## (3) Unaudited Pro Forma Statement of Assets and Liabilities of the Group as at 31 December 2018 in relation to the Hotel Lease Agreement

	The Group as at 31 December 2018 <i>HK\$'000</i> <i>Note 1</i>	Pro forma adjustments <i>HK\$'000</i> <i>Note 2</i>	The Group as at 31 December 2018 after entering into the Hotel Lease Agreement <i>HK\$'000</i>
<b>Non-current assets</b>			
Investment properties	50,000		50,000
Other property, plant and equipment	368,119	94,407	462,526
Leasehold land	<u>613,525</u>		<u>613,525</u>
	1,031,644		1,126,051
Interest in a joint venture	145,933		145,933
Other receivables, deposits and prepayments	40,058		40,058
Intangible assets	523,079		523,079
Goodwill	656,609		656,609
Pledged bank deposits	<u>137,000</u>		<u>137,000</u>
	<u>2,534,323</u>		<u>2,628,730</u>
<b>Current assets</b>			
Inventories	2,592		2,592
Film rights	34,868		34,868
Trade receivables	41,473		41,473
Other receivables, deposits and prepayments	122,835		122,835
Deposits and cash	<u>1,290,095</u>	(703)	<u>1,289,392</u>
	<u>1,491,863</u>		<u>1,491,160</u>

	The Group as at 31 December 2018 <i>HK\$'000</i> <i>Note 1</i>	Pro forma adjustments <i>HK\$'000</i> <i>Note 2</i>	The Group as at 31 December 2018 after entering into the Hotel Lease Agreement <i>HK\$'000</i>
<b>Current liabilities</b>			
Bank loans	274,850		274,850
Trade payables	121,813		121,813
Other payables and accrued charges	163,144		163,144
Deferred revenue	56,591		56,591
Lease liabilities	—	240	240
Taxation payable	30,792		30,792
	<u>647,190</u>		<u>647,430</u>
<b>Net current assets</b>	<u>844,673</u>		<u>843,730</u>
<b>Total assets less current liabilities</b>	<u>3,378,996</u>		<u>3,472,460</u>
<b>Non-current liabilities</b>			
Bank loans	1,024,498		1,024,498
Lease liabilities	—	93,464	93,464
Deferred tax liabilities	173,383		173,383
	<u>1,197,881</u>		<u>1,291,345</u>
<b>NET ASSETS</b>	<u><u>2,181,115</u></u>		<u><u>2,181,115</u></u>

*Notes to the Unaudited Pro Forma Financial Information of the Group:*

1. The amounts are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2018 as set out in the published annual report of the Company for the year ended 31 December 2018.

No adjustments have been made to the consolidated statement of assets and liabilities of the Group as at 31 December 2018 to reflect the impact upon initial adoption of HKFRS 16. HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. Had HKFRS 16 been adopted, the balances of lease liabilities and the corresponding right-of-use assets would have been increased by HK\$816,756,000 and HK\$796,611,000 respectively under modified retrospective approach, after taking account the effects of discounting as at 1 January 2019.

2. The adjustment represents the right-of-use assets of RMB82,813,000 (equivalent to HK\$94,407,000) including the lease liabilities of approximately RMB82,196,000 (equivalent to HK\$93,704,000) and the incidental costs of approximately HK\$703,000 which represents legal and other professional fees paid in connection with the Hotel Lease Agreement, as if the Hotel Lease Agreement had been entered on 31 December 2018. Such amount is capitalised as part of the right-of-use assets upon completion of the acquisition.

The lease liabilities are measured at the present value of the future lease payments as at 31 December 2018 as if the Hotel Lease Agreement had been entered on 31 December 2018. The lease payments are discounted using the incremental borrowing rate. The present values of lease payments to be settled within one year and after one year are RMB210,000 (equivalent to HK\$240,000) and RMB81,986,000 (equivalent to HK\$93,464,000) respectively.

3. No other adjustments have been made to the Unaudited Pro Forma Financial Information to reflect (i) any trading results or other transactions entered into by the Group subsequent to 31 December 2018; and (ii) the effect of the Cinema Lease Agreement on the financial position of the Group had the Group entered into the Cinema Lease Agreement.

**(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.*



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

21 August 2019

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF ORANGE SKY GOLDEN HARVEST ENTERTAINMENT  
(HOLDINGS) LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Orange Sky Golden Harvest Entertainment (Holdings) Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2018 and related notes as set out in Part A of Appendix II to the circular dated 21 August 2019 (the “**Circular**”) issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed entering into the cinema lease agreement and the hotel lease agreement by the Group (the “**Transactions**”) on the Group's financial position as at 31 December 2018 as if the Transactions had taken place at 31 December 2018. As part of this process, information about the Group's financial position as at 31 December 2018 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

**Directors' Responsibilities 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 behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, 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 Accountants’ 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 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 accountants 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 the unadjusted financial information of the Group 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 events or transactions at 31 December 2018 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 accountants' judgement, having regard to the reporting accountants' 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.

### **KPMG**

*Certified Public Accountants*

Hong Kong



The following is the text of a letter, summary of valuations and valuation reports prepared for the purpose of incorporation in this prospectus received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of market values in existing state of 15 years Lease Agreements of the Premises held by Jiangyin Orange Sky Golden Harvest Liuliu Enterprise Management Co., Ltd\* (江陰橙天嘉禾六六企業管理有限公司) (the “**Tenant**”) in the PRC as at 28 June 2019.



16/F Jardine House  
1 Connaught Place  
Central  
Hong Kong

21 August 2019

The Directors  
Orange Sky Golden Harvest Entertainment (Holdings) Limited  
24th Floor Capital Centre  
151 Gloucester Road  
Wan Chai  
Hong Kong

Dear Sirs,

**Re: The Premises**

1. A term of 15 years Lease Agreement of Cinema Premises, Floors 5, 6 and 7 of the building units 597 and 599, located at Wuxing Road, Xiagang Street, Jiangyin, Wuxi, Jiangsu Province, the People’s Republic of China, with a total gross floor area of approximately 17,124.49 square meters
2. A term of 15 years Lease Agreement of Hotel Premises, Orange Sky Land Square One, located at Wuxing Road, Xiagang Street, Jiangyin, Wuxi, Jiangsu Province, the People’s Republic of China, with a total gross floor area of approximately 14,188.57 square meters

**Instruction, Purpose & Valuation Date**

In accordance with the instructions from Orange Sky Golden Harvest Entertainment (Holdings) Limited (“**the Company**”) for us to carry out valuations of market values of the Premises held by Jiangyin Orange Sky Golden Harvest Liuliu Enterprise Management Co., Ltd\* (江陰橙天嘉禾六六企業管理有限公司) (the “**Tenant**”), an indirect wholly-owned subsidiary of the Company (together the “**Group**”), in the People’s Republic of China (the “**PRC**”), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of market values in existing state of the Premises as at 28 June 2019 (the “**valuation date**”).

\* For identification only

### Definition of Market Value

Our valuations of the Premises represent its Market Value which in accordance with HKIS Valuation Standards 2017 published by the Hong Kong Institute of Surveyors (“HKIS”) is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

### Valuation Basis and Assumptions

Our valuations of the Premises exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

In the course of our valuations of the Premises held by the Tenant in the PRC, with reference to the PRC legal opinion of the legal adviser, King & Wood Mallesons Law Firm (金杜律師事務所), we have prepared our valuation on the basis that the transferable land use rights of the Premises for their respective terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Company and the PRC legal opinion of the Company’s legal adviser, dated 21 August 2019, regarding the title to the Premises and the interests in the Premises. In valuing the Premises, we have prepared our valuation on the basis that the owners have enforceable title to the Premises and have free and uninterrupted rights to use, occupy or assign the Premises for the whole of the unexpired terms as granted.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the Premises nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is valued on the basis that the Premises are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

### Method of Valuation

In valuing the Premises, which are leased by the Group in the PRC, we have adopted Income Capitalisation Method by capitalising the rental payable as per the Lease Agreements of the Premises. The Premises are subject to respective terms of 15 years Lease Agreement. We have valued the Premises with the said 15 years Lease Agreements according to the rent payable. Income Capitalisation Method estimates the market values of the Premises on a market basis by capitalising the existing rent of the Premises for the respective unexpired 15 years Lease Agreements. The gross yield adopted for capitalisation of the rent is derived with reference to the market yields. This expected return reflects implicitly the quality of investment, the risk factors and also our professional experience. The summation of the capitalised value of the term rent for the Premises is the market value of the Premises with the Lease Agreements with a term of 15 years. No value has been ascribed to any estimated market rent beyond the expiry date of the Lease Agreements.

We understand the Company has also recognised the right-of-use asset of the Premises pursuant to HKFRS 16 for accounting treatment is different from the said market valuation of the Premises pursuant to HKIS Valuation Standards 2017 as two set of figures are prepared based on two different professional standards.

In valuing the Premises, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and HKIS Valuation Standards 2017.

### **Sources of Information**

We have relied to a very considerable extent on the information given to us by the Company and the opinion of the PRC legal adviser as to PRC laws. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of the Premises, tenancy information, particulars of occupancy, site and floor areas and all other relevant matters.

Dimensions, measurements and areas included in the valuation report are based on information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuations. We were also advised by the Company that no material facts have been omitted from the information provided.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration in English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

### **Title Investigation**

We have been provided by the Company with the copies or extracts of documents. However, we have not searched the original document to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

### **Site Inspection**

Our Shanghai office valuer, Mr. Rick Sun (14 years' experience in property valuation in the PRC), has inspected the exterior and, whenever possible, the interior of the Premises in May 2019. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the Premises are free of rot, infestation or any other structural defects. No tests were carried out to any of the services.

Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor area of the Premises and we have assumed that the areas shown on the copies of documents handed to use are correct.

**Currency**

Unless otherwise stated, all sums stated in our valuation are in Renminbi, the official currency of the PRC.

We attach herewith a summary of valuations and valuation reports.

Yours faithfully,  
For and on behalf of  
**Cushman & Wakefield Limited**  
**Philip C Y Tsang**  
Registered Professional Surveyor (General Practice)  
Registered China Real Estate Appraiser  
MSc, MHKIS  
*Director*

*Note:* Mr. Philip C Y Tsang is Registered Professional Surveyor who has over 26 years' experience in the valuation of properties in the PRC.

## SUMMARY OF VALUATIONS

## The Premises leased by the Group in the PRC

<b>Premises</b>	<b>Market value in existing state as at 28 June 2019 (RMB)</b>
1. A term of 15 years Lease Agreement of Cinema Premises, Floors 5, 6 and 7 of the building units 597 and 599, located at Wuxing Road, Xiagang Street, Jiangyin, Wuxi, Jiangsu Province, the People's Republic of China, with a total gross floor area of approximately 17,124.49 square meters	62,000,000  (We have valued 15 years Lease Agreement of Cinema Premises)
2. A term of 15 years Lease Agreement of Hotel Premises, Orange Sky Land Square One, located at Wuxing Road, Xiagang Street, Jiangyin, Wuxi, Jiangsu Province, the People's Republic of China, with a total gross floor area of approximately 14,188.57 square meters	54,000,000  (We have valued 15 years Lease Agreement of Hotel Premises)

## VALUATION REPORT

## The Premises leased by the Group in the PRC

Premises	Description and tenure	Particulars of occupancy	Market value in existing state as at 28 June 2019
1. A term of 15 years Lease Agreement of Cinema Premises, Floors 5, 6 and 7 of the building units 597 and 599, located at Wuxing Road, Xiagang Street, Jiangyin, Wuxi, Jiangsu Province, the People's Republic of China, with a total gross floor area of approximately 17,124.49 square meters	<p>The Complex is a mixed-use development including a 13-storey hotel building and a 9-storey commercial arcade with a cinema, erected on a parcel of land with a site area of 23,334 square meters. It was completed in 2016.</p> <p>According to the Construction Project Completion Survey Report provided by the Landlord, the Premises comprises a cinema on Floors 5, 6 and 7 of the commercial arcade and has a total gross floor area of approximately 17,124.49 square meters.</p> <p>The Premises is located at south of Wuxing Road and west of Xiadong Road, Jiangyin, Wuxi. Developments nearby are mainly commercial, office and residential development. According to the Company, the Premises is for a cinema; there is no environmental issues and litigation dispute; there is no plan for renovation or change the use of the Premises.</p> <p>The land use rights of the Complex have been granted for a term from 1 March 2011 to 28 February 2051 for commercial, hotel and theatre use.</p>	As at the valuation date, the Premises was vacant and its current interior was bare shell finish.	<p>RMB62,000,000</p> <p>(RENMINBI SIXTY TWO MILLION)</p> <p>(We have valued 15 years Lease Agreement of Cinema Premises)</p>

*Notes:*

- (1) According to the Leasing Agreement dated 28 June 2019:

Landlord	Jiangyin Orange Land Cinema Development Management Co., Ltd.* (江陰橙地影院開發管理有限公司)
Tenant	Jiangyin Orange Sky Golden Harvest Liuliu Enterprise Management Co., Ltd* (江陰橙天嘉禾六六企業管理有限公司)
Cinema Premises	Floors 5, 6 and 7 of the building units 597 and 599, located at Wuxing Road, Xiagang Street, Jiangyin, PRC (中國江陰市夏港街道五星路), with a total gross floor area of approximately 17,124.49 square meters
Lease Term	A term of 15 years, commencing from the date following the Cinema Delivery Date.

\* For identification only

Rent	<p>The amount payable by the Tenant to the Landlord for a particular rental year during the Cinema Lease Term is equivalent to (1) the yearly Fixed Cinema Lease Amount, (2) the yearly Fixed Cinema Lease Amount and the Variable Cinema Lease Amount or (3) the yearly Fixed Cinema Lease Amount and the De Minimis Amount (as the case may be) (collectively, the “<b>Cinema Rent</b>”).</p> <p>(a) Fixed Cinema Lease Amount</p> <p>A rate at RMB1.35 per square meter per day (the “<b>Initial Cinema Rent Rate</b>”) for the first three years from the date following the Cinema premises Delivery (the “<b>Cinema Lease Initial Period</b>”). During the Cinema Lease Initial Period, the yearly Fixed Cinema Lease Amount (1) for the first rental year during the Cinema Lease Term shall amount to approximately RMB5,625,394.97 (inclusive of tax) taking into consideration of the Cinema Rent Exemption Period and (2) for the second and third rental year during the Cinema Lease Term shall amount to approximately RMB8,438,092.45 (inclusive of tax) per year.</p> <p>The Initial Cinema Rent Rate will be increased by 8% every three years from the end of the Cinema Lease Initial Period during the Cinema Lease Term (the “<b>Subsequent Cinema Rent Rate</b>”).</p> <p>(b) Variable Lease Amount</p> <p>In the event that the yearly Cinema Commission Amount exceeds the yearly Fixed Cinema Lease Amount for a particular rental year during the Cinema Lease Term, an amount equivalent to the difference between the yearly Cinema Commission Amount and the yearly Fixed Cinema Lease Amount shall be payable by the Tenant to the Landlord.</p> <p>(c) De Minimis Amount</p> <p>Notwithstanding the above, in the event that (1) the yearly Cinema Commission Amount exceeds the yearly Fixed Cinema Lease Amount and (2) the yearly Variable Cinema Lease Amount exceeds the De Minimis Amount for a particular rental year during the Cinema Lease Term, the Tenant shall pay an amount equivalent to (1) the yearly Fixed Cinema Lease Amount and (2) the De Minimis Amount to the Landlord for the relevant rental year.</p>
Payment of Cinema Rent	The Fixed Cinema Lease Amount shall be pre-paid by the Tenant to the Landlord every three months during the Cinema Lease Term.
Rent Exemption Period	The Tenant is exempted from payment of the Cinema Rent for a period of four months from the date following the Cinema Delivery Date.

- |   |  |
|---|--|
| Property Management Service Fee   | <p>A rate at RMB0.5 per square meter per day (the “<b>Initial Cinema Property Management Fee Rate</b>”) for the property management services at the Cinema Premises provided by the Property Manager appointed by the Landlord (“<b>Cinema Property Manager</b>”) during the Cinema Lease Initial Period, which amounts to (1) approximately RMB2,083,479.62 (inclusive of water and air conditioning bills and tax) for the first rental year during the Cinema Lease Term taking into account of the Cinema Rent Exemption Period and (2) approximately RMB3,125,219.43 (inclusive of water and air conditioning bills and tax) per year for the second and third rental year during the Cinema Lease Term.</p> <p>The Initial Cinema Property Management Fee will be increased by 8% every three years from the end of the Cinema Lease Initial Period (the “<b>Increased Cinema Property Management Service Fee Rate</b>”).</p>  |
| Fixed Cinema Lease Amount and Cinema Property Management Fee Adjustment | <p>The Tenant has a right every three years during the Cinema Lease Term to appoint an independent valuer to evaluate the Fixed Cinema Lease Amount and/or the Cinema Property Management Fee of that particular year. If the market rent is lower than the yearly Fixed Cinema Lease Amount and/or the yearly Cinema Property Management Fee for that year, the subsequent yearly Fixed Cinema Lease Amount and/or the yearly Cinema Property Management Fee payable by the Tenant should be adjusted accordingly.</p> <p>In the event that the market rate of the third rental year evaluated by the independent valuer (the “<b>Cinema Third Year Market Rate</b>”) is lower than the yearly Fixed Cinema Lease Amount and/or Cinema Property Management Fee paid by the Tenant to the Landlord during the first three rental years, the yearly Fixed Cinema Lease Amount and/or Cinema Property Management Fee payable by the Tenant for the fourth to the sixth rental year during the Cinema Lease Term will be adjusted to a rate not higher than the Cinema Third Year Market Rate. In the event that the market rate of the sixth rental year evaluated by the independent valuer (the “<b>Cinema Sixth Year Market Rate</b>”) is lower than the yearly Fixed Cinema Lease Amount and/or Cinema Property Management Fee paid by the Tenant to the Landlord during the fourth to the sixth rental year of the Cinema Lease, the yearly Fixed Cinema Lease Amount and/or Cinema Property Management Fee payable by the Tenant for the seventh to the ninth rental year during the Cinema Lease Term will be adjusted to a rate not higher than the Cinema Sixth Year Market Rate.</p> |
| Usage of Premises   | The Cinema Premises shall be used for the purpose of cinema operation.   |
| Sub-letting   | Upon the submission of a written notification to the Landlord, the Tenant has a right to sub-let the Cinema Premises (in part or in whole) to any party.   |
| Right to Renew  | The Tenant has the priority to renew the lease on the same terms as offered by other parties for the leasing of the Cinema Premises. Upon the renewal of the lease under the Cinema Lease Agreement, the Company will re-comply with the requirements under the Listing Rules.   |
- (2) According to Real Estate Title Certificate No. (2019) 0019423 dated 26 June 2019, the land use rights of the Complex, comprising a total site area of approximately 8,355 square meters and a gross floor area of approximately 51,480.93 square meters, has been vested to the Landlord for a term due to expire on 28 February 2051 for other commercial services land/non-residential use.
  - (3) According to Certificate for the Use of State-owned Land No. (2011) 6691 dated 4 April 2011, the land use rights of the Complex, comprising a total site area of approximately 23,334 square meters, has been vested to the Landlord for a term from 1 March 2011 to 28 February 2051 for commercial, hotel and theatre use.



- (4) According to Completion and Acceptance Certificate for Construction Works No. 3202811603020101-JX-001 dated 26 June 2017, the development of 1# and 2# Building, with a total gross floor area of 65,273.74 square meters, basement of 26,623.35 square meters, has been completed on 20 December 2016.
- (5) According to Land Use Rights Grant Contract No. 3202812011CR0069 dated 4 March 2011 and the Supplementary Contract dated 28 October 2014:
- |       |               |   |   |
|-------|---------------|---|---|
| (i)   | Grantee       | : | the Landlord                                  |
| (ii)  | Location      | : | South of Wuxing road and west of Xiadong Road |
| (iii) | Site Area     | : | 23,334 square meters                          |
| (iv)  | Land Use      | : | Commercial, theatre and hotel                 |
| (v)   | Plot Ratio    | : | Not more than 2.8                             |
| (vi)  | Land Premium  | : | RMB61,800,000                                 |
| (vii) | Land Use Term | : | 40 years                                      |
- (6) According to Planning Permit for Construction Use of Land No. 320281201200046 dated 5 April 2012, the construction site of land with a total site area of 23,334 square meters is in compliance with the requirements of urban planning requirement.
- (7) According to Planning Permit for Construction Works No. 320281201500014 dated 17 February 2015, the construction works of 1# and 2# Building, with a permitted gross floor area of 65,273.74 square meters, basement of 26,623.35 square meters and plant room of 591.52 square meters, are in compliance with the construction works requirements and have been approved.
- (8) According to Permit for Commencement of Construction Works No. 320281201506290101 dated 29 June 2015, the construction works of 1# and 2# Building, with a permitted gross floor area of 65,273.74 square meters, basement of 26,623.35 square meters and plant room of 591.52 square meters, was in compliance with the requirement of works commencement and was permitted to be developed.
- (9) According to Business Licence No. 91320281559348489T, the Landlord was established as a limited liability company with a registered capital of RMB50,000,000 for a valid operation period from 5 August 2010 to 4 August 2026.
- (10) According to the PRC legal opinion:
- (i) the Landlord is legally established and effectively existing under the PRC law, it is not found any circumstances in which the Landlord has dissolved, terminated or revoked of business licence;
  - (ii) the Landlord has obtained Land Use Rights Grant Contract, the land premium and related deed tax have been paid in full;
  - (iii) the Landlord has obtained Real Estate Title Certificate, Certificate for the Use of State-owned Land, Planning Permit for Construction Use of Land, Planning Permit for Construction Works, Permit for Commencement of Construction Works to develop Jiangyin Sky Orange Cultural Complex;
  - (iv) the Landlord has obtained Completion and Acceptance Certificate for Construction Works;
  - (v) Cinema Premises are not subject to any pledge;
  - (vi) The Lease Agreement is valid, binding and feasible under PRC law, the agreement in the Lease Agreement does not violate the provisions of applicable laws and regulations;
  - (vii) In view of the fact that the registration of the house lease registration of the Lease Agreement is not a precondition for the entry into force of the contract, whether or not the contract for the registration of the house lease registration will not affect the signing and effectiveness of the contract; and

- (viii) The Cinema has a lease dispute situation between the Landlord and Orange Sky Golden Harvest Studios (China) Co., Ltd.\* 橙天嘉禾影城(中國)有限公司 (now known as Dadi Cinema (Group) Co., Ltd.\* 大地影院(集團)有限公司), (“**Orange Sky Golden Harvest Studios**”). According to the understanding, the rental relationship between the Orange Sky Golden Harvest Studios and the Landlord has been terminated. Based on the application of Orange Sky Golden Harvest Studios, the relevant bank deposits of the Landlord have been frozen by the court for the purpose of providing preservation measures (it is not the seizure of the cinema or any part thereof as a preservation measure). In conclusion, the dispute between the Orange Sky Golden Harvest Studios and the Landlord will not have a material adverse effect on this transaction.
- (11) The status of the title and grant of major approvals and licence in accordance with the information provided by the Company and the opinion of the PRC legal adviser:

Certificate for the Use of State-owned Land	Yes
Land Use Rights Grant Contract and the Supplementary Contract	Yes
Real Estate Title Certificate	Yes
Planning Permit for Construction Use of Land	Yes
Planning Permit for Construction Works	Yes
Permit for Commencement of Construction Works	Yes
Business Licence	Yes
Completion and Acceptance Certificates for Construction Works	Yes

## VALUATION REPORT

## The Premises leased by the Group in the PRC

Premises	Description and tenure	Particulars of occupancy	Market value in existing state as at 28 June 2019
2. A term of 15 years Agreement of Hotel Premises, Orange Sky Land Square One, located at Wuxing Road, Xiagang Street, Jiangyin, Wuxi, Jiangsu Province, the People's Republic of China, with a total gross floor area of approximately 14,188.57 square meters	<p>The Complex is a mixed-use development including a 13-storey hotel building (Orange Sky Land Square One) and a 9-storey commercial arcade with a cinema, erected on a parcel of land with a site area of 23,334 square meters. It was completed in 2016.</p> <p>According to the Construction Project Completion Survey Report provided by the Company, the Premises comprises a hotel building (Orange Sky Land Square One) (L1-L11 &amp; Roof) with a total gross floor area of 14,188.57 square meters in the Complex.</p> <p>The Premises is located at south of Wuxing Road and Xiagang Street, Jiangyin, Wuxi. Developments nearby are mainly commercial, office and residential development. According to the Company, the Premises is for a hotel building; there is no environmental issues and litigation dispute; there is no plan for renovation or change the use of the Premises.</p> <p>The land use rights of the Complex have been granted for a term from 1 March 2011 to 28 February 2051 for commercial, hotel and theatre use.</p>	As at the valuation date, the Premises was vacant and its current interior was bare shell finish.	<p>RMB54,000,000</p> <p>(RENMINBI FIFTY FOUR MILLION)</p> <p>(We have valued 15 years Lease Agreement of Hotel Premises)</p>

*Notes:*

(1) According to the Lease Agreement dated 28 June 2019:

Landlord	Jiangyin Orange Land Cinema Development Management Co., Ltd.* (江陰橙地影院開發管理有限公司)
Tenant	Jiangyin Orange Sky Golden Harvest Liuliu Enterprise Management Co., Ltd* (江陰橙天嘉禾六六企業管理有限公司)
Hotel Premises	Orange Sky Land Square One, Jiangyin, PRC (中國江陰市橙天地廣場1號), with a total gross floor area of approximately 14,188.57 square meters
Floor Area	A total gross floor area of approximately 14,188.57 square meters

\* For identification only

- |                       |   |
|-----------------------|---|
| Lease Term            | A term of 15 years, commencing from the date following the Hotel Delivery Date.   |
| Rent                  | <p>A rate at RMB1.4 per square meter per day (the “<b>Initial Hotel Rent Rate</b>”) for the first three years from the date following the Hotel Premises Delivery (the “<b>Hotel Lease Initial Period</b>”). During the Hotel Lease Initial Period, the yearly Hotel Rent (1) for the first rental year during the Hotel Lease Term shall amount to approximately RMB4,833,572.85 (inclusive of tax) taking into consideration of the Hotel Rent Exemption Period and (2) for the second and third rental year during the Hotel Lease Term shall amount to approximately RMB7,250,359.27 per year.</p> <p>The Initial Hotel Rent Rate will be increased by 8% every three years from the end of the Hotel Lease Initial Period during the Hotel Lease Term (the “<b>Subsequent Hotel Rent Rate</b>”).</p>   |
| Payment of Hotel Rent | The Hotel Rent shall be pre-paid by the Tenant to the Landlord every three months during the Hotel Lease Term.  |
| Rent Exemption Period | The Tenant is exempted from payment of the Hotel Rent for four months from the date following the Hotel Delivery Date.  |
| Hotel Rent Adjustment | <p>The Tenant has a right every three years during the Hotel Lease Term to appoint an independent valuer to evaluate the Hotel Rent of that particular year. If the market rent is lower than the yearly Hotel Rent for that year, the subsequent yearly Hotel Rent payable by the Tenant should be adjusted accordingly.</p> <p>In the event that the market rate of the third rental year evaluated by the independent valuer (the “<b>Hotel Third Year Market Rate</b>”) is lower than the yearly Hotel Rent paid by the Tenant to the Landlord during the first three rental years, the yearly Hotel Rent payable by the Tenant for the fourth to the sixth rental year during the Hotel Lease Term will be adjusted to a rate not higher than the Hotel Third Year Market Rate. In the event that the market rate of the sixth rental year evaluated by the independent valuer (the “<b>Hotel Sixth Year Market Rate</b>”) is lower than the yearly Hotel Rent paid by the Tenant to the Landlord during the fourth to the sixth rental year of the Hotel Lease, the yearly Hotel Rent payable by the Tenant for the seventh to the ninth rental year during the Hotel Lease Term will be adjusted to a rate not higher than the Hotel Sixth Year Market Rate.</p> |
| Sub-letting           | Upon the submission of a written notification to the Landlord, the Tenant has a right to sub-let the Hotel Premises (in part or in whole) to any party.   |
| Right to Renew:       | The Tenant has the priority to renew the hotel lease on the same terms as offered by other parties for the leasing of the Hotel Premises. Upon the renewal of the lease under the Hotel Lease Agreement, the Company will re-comply with the requirements under the Listing Rules.  |
- (2) According to Real Estate Title Certificate No. (2019) 0019418 dated 26 June 2019, the land use rights of the Complex, comprising a total site area of approximately 1,358 square meters and a gross floor area of approximately 13,447.48 square meters, has been vested to the Landlord for a term due to expire on 28 February 2051 for accommodation and catering land/non-residential use.
- (3) According to Certificate for the Use of State-owned Land No. (2011) 6691 dated 4 April 2011, the land use rights of the Complex, comprising a total site area of approximately 23,334 square meters, has been vested to the Landlord for a term from 1 March 2011 to 28 February 2051 for commercial, hotel and theatre use.

- (4) According to Completion and Acceptance Certificate for Construction Works No. 3202811603020101-JX-001 dated 26 June 2017, the development of 1# and 2# Building, with a total gross floor area of 65,273.74 square meters, basement of 26,623.35 square meters, has been completed on 20 December 2016.
- (5) According to Land Use Rights Grant Contract No. 3202812011CR0069 dated 4 March 2011 and the Supplementary Contract dated 28 October 2014:
- |       |               |   |   |
|-------|---------------|---|---|
| (i)   | Grantee       | : | The Landlord                                  |
| (ii)  | Location      | : | South of Wuxing Road and west of Xiadong Road |
| (iii) | Site Area     | : | 23,334 square meters                          |
| (iv)  | Land Use      | : | Commercial, theatre and hotel                 |
| (v)   | Plot Ratio    | : | Not more than 2.8                             |
| (vi)  | Land Premium  | : | RMB61,800,000                                 |
| (vii) | Land Use Term | : | 40 years                                      |
- (6) According to Planning Permit for Construction Use of Land No. 320281201200046 dated 5 April 2012, the construction site of land with a total site area of 23,334 square meters is in compliance with the requirements of urban planning requirement.
- (7) According to Planning Permit for Construction Works No. 320281201500014 dated 17 February 2015, the construction works of 1# and 2# Building, with a permitted gross floor area of 65,273.74 square meters, basement of 26,623.35 square meters and plant room of 591.52 square meters, are in compliance with the construction works requirements and have been approved.
- (8) According to Permit for Commencement of Construction Works No. 320281201506290101 dated 29 June 2015, the construction works of 1# and 2# Building, with a permitted gross floor area of 65,273.74 square meters, basement of 26,623.35 square meters and plant room of 591.52 square meters, was in compliance with the requirement of works commencement and was permitted to be developed.
- (9) According to Business Licence No. 91320281559348489T, the Landlord was established as a limited liability company with a registered capital of RMB50,000,000 for a valid operation period from 5 August 2010 to 4 August 2026.
- (10) According to the PRC legal opinion:
- (i) the Landlord is legally established and effectively existing under the PRC law, it is not found any circumstances in which the Landlord has dissolved, terminated or revoked of business licence;
  - (ii) the Landlord has obtained Land Use Rights Grant Contract, the land premium and related deed tax have been paid in full;
  - (iii) the Landlord has obtained Real Estate Title Certificate, Certificate for the Use of State-owned Land, Planning Permit for Construction Use of Land, Planning Permit for Construction Works, Permit for Commencement of Construction Works to develop Jianguyin Sky Orange Cultural Complex;
  - (iv) the Landlord has obtained Completion and Acceptance Certificate for Construction Works;
  - (v) Hotel Premises are not subject to any pledge;
  - (vi) The Lease Agreement is valid, binding and feasible under PRC law, the agreement in the Lease Agreement does not violate the provisions of applicable laws and regulations; and
  - (vii) In view of the fact that the registration of the house lease registration of Lease Agreement is not a precondition for the entry into force of the contract, whether or not the contract for the registration of the house lease registration will not affect the signing and effectiveness of the contract.

- (11) The status of the title and grant of major approvals and licence in accordance with the information provided by the Company and the opinion of the PRC legal adviser:

Certificate for the Use of State-owned Land	Yes
Land Use Rights Grant Contract and the Supplementary Contract	Yes
Real Estate Title Certificate	Yes
Planning Permit for Construction Use of Land	Yes
Planning Permit for Construction Works	Yes
Permit for Commencement of Construction Works	Yes
Business Licence	Yes
Completion and Acceptance Certificate for Construction Works	Yes

**RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**DISCLOSURE OF INTERESTS IN SECURITIES****Interests and short positions of Directors and chief executive in shares and Debentures**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company 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) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Name of Director/chief executive	Capacity	Number of Shares held	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of Shares and underlying Shares in the issued share capital of the Company as at the Latest Practicable Date <sup>(1)</sup>
Wu Kebo	Interest of controlled corporation <sup>(2)</sup>	1,723,894,068 (L)	—	1,723,894,068 (L)	61.57%
	Beneficial owner <sup>(2)</sup>	271,824,429 (L)	—	271,824,429 (L)	9.71%
Li Pei Sen	Beneficial owner	200,000 (L)	—	200,000 (L)	0.01%
Wu Keyan	Beneficial owner	2,500,000 (L)	—	2,500,000 (L)	0.09%
Leung Man Kit	Beneficial owner	370,000 (L)	—	370,000 (L)	0.01%
Wong Sze Wing	Beneficial owner	170,000 (L)	—	170,000 (L)	0.01%

(L) — Long position in the Shares

Notes:

- (1) Calculated based on the total number of issued Shares of 2,799,669,050 as at the Latest Practicable Date.

- (2) By virtue of the SFO, as at the Latest Practicable Date, Mr. Wu was deemed to be interested in a total of 1,995,718,497 Shares, of which (i) 439,791,463 Shares were held by Skyera International Limited (a company wholly-owned by Mr. Wu); (ii) 408,715,990 Shares were held by Mainway Enterprises Limited (a company wholly-owned by Mr. Wu); (iii) 129,666,667 Shares were held by Noble Biz International Limited (a company wholly owned by Mr. Wu); (iv) 565,719,948 Shares held by Orange Sky Entertainment Group (International) Holding Company Limited (a company 80% owned by Mr. Wu) and (v) 180,000,000 Shares were held by Cyber International Limited (a company owned by an associate of Mr. Wu). In addition, Mr. Wu is interested in 271,824,429 Shares as at the Latest Practicable Date which were beneficially held by him in his own name.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and 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) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules

#### Notifiable interests and short positions of substantial shareholders and other persons in Shares

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company in accordance with disclosure by the substantial shareholders under Part XV of the SFO, the following substantial shareholders of the Company within the meaning of the Listing Rules and other persons (in each case other than the Directors and chief executive of the Company) had an interest or a short position in 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:

Name of Shareholders	Capacity	Number of Shares held	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of Shares and underlying Shares in the issued share capital of the Company as at the Latest Practicable Date <sup>(1)</sup>
Wu Kebo	Interest of controlled corporation <sup>(2)</sup>	1,723,894,068 (L)	—	1,723,894,068 (L)	61.57%
Skyera International Limited (“Skyera”)	Beneficial owner <sup>(2)</sup>	271,824,429 (L)	—	271,824,429 (L)	9.71%
	Beneficial owner <sup>(3)</sup>	439,791,463 (L)	—	439,791,463 (L)	15.71%



Name of Shareholders	Capacity	Number of Shares held	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of Shares and underlying Shares in the issued share capital of the Company as at the Latest Practicable Date <sup>(1)</sup>
Mainway Enterprises Limited (“Mainway”)	Beneficial owner <sup>(4)</sup>	408,715,990 (L)	—	408,715,990 (L)	14.60%
Noble Biz International Limited (“Noble Biz”)	Beneficial owner <sup>(5)</sup>	129,666,667 (L)	—	129,666,667 (L)	4.63%
Orange Sky Entertainment Group (International) Holding Company Limited (“OSEG”)	Beneficial owner <sup>(6)</sup>	565,719,948 (L)	—	565,719,948 (L)	20.21%
Cyber International Limited (“Cyber”)	Beneficial owner <sup>(7)</sup>	180,000,000 (L)	—	180,000,000 (L)	6.43%

(L) — Long position in the Shares

*Notes:*

- (1) Calculated based on the total number of issued Shares of 2,799,669,050 as at the Latest Practicable Date.
- (2) By virtue of the SFO, as at the Latest Practicable Date, Mr. Wu was deemed to be interested in a total of 1,723,894,068 Shares, of which (i) 439,791,463 Shares were held by Skyera International Limited (a company wholly-owned by Mr. Wu); (ii) 408,715,990 Shares were held by Mainway Enterprises Limited (a company wholly-owned by Mr. Wu); (iii) 129,666,667 Shares were held by Noble Biz International Limited (a company wholly owned by Mr. Wu); (iv) 565,719,948 Shares held by Orange Sky Entertainment Group (International) Holding Company Limited (a company 80% owned by Mr. Wu) and (v) 180,000,000 Shares were held by Cyber International Limited (a company owned by an associate of Mr. Wu). In addition, Mr. Wu is interested in 271,824,429 Shares as at the Latest Practicable Date which were beneficially held by him in his own name.
- (3) Skyera is a company wholly owned by Mr. Wu, who is also a director of Skyera.
- (4) Mainway is a company wholly owned by Mr. Wu, who is also a director of Mainway.
- (5) Noble Biz is a company wholly owned by Mr. Wu, who is also a director of Noble Biz.
- (6) OSEG (a company 80% owned by Mr. Wu) was interested in 565,719,948 Shares. Mr. Wu is a director of OSEG and Mr. Li Pei Sen is the associate Chairman of OSEG.

(7) Cyber is a company owned by an associate of Mr. Wu.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any substantial shareholder of the Company within the meaning of the Listing Rules or other person (in each case other than a Director or chief executive of the Company) who had, as at the Latest Practicable Date, an interest or a short position in Shares or underlying Shares which was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO.

#### **Directors' interests in contracts and assets**

As at the Latest Practicable Date,

- (i) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries; and
- (ii) none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

#### **DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has any service contract with any member of the Group which will not expire or be terminable by the Group within one year without payment of compensation (other than statutory compensation).

#### **COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

#### **MATERIAL CONTRACTS**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Group within two years preceding the Latest Practicable Date, and are or may be material:

- (a) the share sale and purchase agreement dated 29 September 2017 entered into by Golden Screen Limited, Village Cinemas Australia Pty Ltd ("**Village Cinemas**"), the Company and Village Roadshow Limited in relation to the acquisition of 50% equity interest in Dartina Development Limited held by Village Cinemas;
- (b) the Sale and Purchase Agreement;

- (c) the personal guarantee granted by Mr. Wu to the Purchaser dated 29 August 2018 to guarantee the due performance of the Landlord of its obligations under the Sale and Purchase Agreement; and
- (d) the termination notice dated on 8 March 2019 issued by the Purchaser to the Landlord to terminate the Sale and Purchase Agreement.

## LITIGATION

On 27 May 2014, the Company announced that there has been a shareholders' dispute in Vie Show Cinemas Company Limited (“**Vie Show**”), a Taiwan incorporated company which is 35.71% owned by Golden Sky Entertainment Limited, a wholly-owned subsidiary of the Company (“**GSE**”), and one of the principal businesses of which is operating and managing cinemas in Taiwan, whereby GSE and two other shareholders of Vie Show (the “**Vie Show Shareholders**”) served a written notice on Bau Tzuoh Investment Co., Ltd. (寶座投資股份有限公司), Taijian Investment Holdings Co., Ltd.\* (泰建投資股份有限公司) and Tailuen Investment Holdings Co., Ltd.\* (泰聯投資股份有限公司) (collectively, “**Bau Tzuoh Companies**”) to, among other things, terminate the shareholders' agreement with the Bau Tzuoh Companies with effect on 23 May 2014 according to the laws of Taiwan and requesting for a forced sale of all of the issued shares of Vie Show held by Bau Tzuoh Companies to Vie Show Shareholders.

On 21 July 2014 and 20 January 2016, the Company further issued announcements (the “**Vie Show Announcements**”) that, among other things, (i) the Vie Show Shareholders had filed a lawsuit against the Bau Tzuoh Companies with the Taipei District Court of Taiwan (the “**Court**”) (the “**Claim**”) on 15 July 2014, (ii) on 15 January 2016, the Court issued judgment and dismissed the Claim, and (iii) in November 2014, the Bau Tzuoh Companies filed a separate law suit against the Vie Show Shareholders with the Court, seeking the Court's judgment for a transfer of the entire issued shares held by the Vie Show Shareholders to the Bau Tzuoh Companies (the “**Bau Tzuoh Companies Claim**”).

On 30 December 2016, the Court issued judgment and dismissed the Bau Tzuoh Companies Claim. Both the Vie Show Shareholders and the Bau Tzuoh Companies had filed respective appeals against the Court's judgments to the Taiwan High Court. On 19 and 25 October 2017, the Taiwan High Court issued judgements and dismissed both appeals respectively. Both the Vie Show Shareholders and the Bau Tzouh Companies filed appeals against the Taiwan High Court judgement to the Supreme Court of Taiwan on 15 and 30 November 2017, respectively. On 21 January 2019, the Supreme Court of Taiwan issued judgment to vacate the judgement for the Bau Tzuoh Companies Claim made by the Taiwan High Court, and remitted the case to the Taiwan High Court. The case is now heard by the Taiwan High Court. On 27 June 2019, the Supreme Court of Taiwan dismissed the appeal filed by the Vie Show Shareholders regarding the judgement for the Claim made by the Taiwan High Court. The Vie Show Shareholders filed a motion for a retrial for the judgement made by the Supreme Court of Taiwan on 5 August 2019, and lodged an appeal for a retrial in respect of the certain judgement for the Claim made by the Taiwan High Court on 12 August 2019. As

disclosed in the Vie Show Announcements, the Company intends to actively defend the Bau Tzuoh Companies Claim or any other claims that may be brought by the Bau Tzuoh Companies.

On 4 September 2018, the Company announced that Giant Harvest Limited (“**Giant Harvest**”), the indirect wholly-owned subsidiary of the Company, has commenced legal proceedings against True Vision Limited (“**True Vision**”) and Nan Hai Corporation Limited (“**Nan Hai**”) claiming a sum of US\$37,383,975 (the “**Third Guarantee Amount**”), being the balance of the total consideration under the sale and purchase agreement dated 25 January 2017 entered into between Giant Harvest, the Company, True Vision and Nan Hai in respect of the disposal of the entire issued share capital of City Entertainment Corporation Limited (“**City Entertainment**”) by Giant Harvest to True Vision (the “**CE Sale and Purchase Agreement**”), and seeking other remedies, including interest and costs.

Pursuant to the CE Sale and Purchase agreement, on the next business day following six months from the closing date, the Third Guarantee Amount shall be transferred from an escrow account designated by Giant Harvest and True Vision which was operated by an escrow agent (the “**Joint Account**”), to the offshore bank account designated by the Vendor (“**Offshore Bank Account**”). As True Vision did not execute the joint written instructions to the escrow agent of the Joint Bank Account (the “**Joint Instruction**”) for the purpose of instructing to transfer the Third Guarantee Amount to the Offshore Bank Account, the escrow agent was unable to pay the Third Guarantee Amount to Giant Harvest. Despite repeated demands made by Giant Harvest, True Vision failed to execute the Joint Instruction to enable the escrow agent to pay the Third Guarantee Amount to Giant Harvest. Giant Harvest subsequently demanded Nan Hai, the guarantor of True Vision, to perform the obligations of True Vision by paying the Third Guarantee Amount to Giant Harvest, but Nan Hai has failed to perform such payment obligation.

Save for the above matter, as at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any member of the Group.

## EXPERTS AND CONSENTS

The qualifications of the experts or professional advisers who have given opinion or advice contained in this circular are as follows:

<b>Name</b>	<b>Qualification</b>
Cushman & Wakefield Limited	Property valuer
KPMG	Certified Public Accountants
Somerley	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, each of Somerley, KPMG and C&W has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear. As at the Latest Practicable Date, each of Somerley, KPMG and C&W did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe securities in any member of the Group. As at the Latest Practicable Date, each of Somerley, KPMG and C&W was not interested, directly or indirectly, in any assets which have been or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, the date to which the latest audited financial statements of the Company were made up.

**MISCELLANEOUS**

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The company secretary of the Company is Ms. Cheung Hei Ming, an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators respectively.
- (d) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection during normal business hours from 9:30 a.m. to 6:00 p.m. on any weekday except public holidays in Hong Kong, at the principal place of business of the Company in Hong Kong at 24/F, Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong for 14 days from the date of this circular:

- (a) the Bye-Laws of the Company;
- (b) the annual reports of the Company for the three financial years ended 31 December 2016, 2017 and 2018;
- (c) the report from KPMG on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this circular;
- (d) the property valuation report on the Premises, the text of which is set out in Appendix III to this circular;
- (e) the consent letter referred to in the paragraph headed "Expert and Consent" in this Appendix;
- (f) each of the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

- (g) the Lease Agreements; and
- (h) this circular.

NOTICE OF THE SGM



Golden Harvest

**ORANGE SKY GOLDEN HARVEST  
ENTERTAINMENT (HOLDINGS) LIMITED**

**橙天嘉禾娛樂(集團)有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1132)**

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “SGM”) of Orange Sky Golden Harvest Entertainment (Holdings) Limited (the “**Company**”) will be held at 11 a.m., on Thursday, 5 September 2019 at 24th Floor, Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed with or without amendment as ordinary resolutions of the Company:

**ORDINARY RESOLUTIONS**

1. **“THAT:**

- (i) the lease agreement dated 28 June 2019 entered into by Jiangyin Orange Sky Golden Harvest Liuliu Enterprise Management Co., Ltd\* (江陰橙天嘉禾六六企業管理有限公司) (the “**Tenant**”) and Jiangyin Orange Land Cinema Development Management Co., Ltd.\* (江陰橙地影院開發管理有限公司) (the “**Landlord**”) in relation to the lease of the cinema premises located at floors 5, 6 and 7 of the building units 597 and 599, Wuxing Road, Xiangang Street, Jiangyin, PRC (中國江陰市夏港街道五星路) (the “**Cinema Lease Agreement**”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (ii) any one director of the Company be and is hereby authorised for and on behalf of the Company to do all such further acts and things and execute all such further documents and take all steps which in his/her opinion may be necessary, desirable or expedient to implement and/or give effect to the Cinema Lease Agreement and the transactions contemplated thereunder, and to approve any changes and amendments thereto as he/she may consider to be necessary, desirable or expedient.”

2. **“THAT:**

- (i) the lease agreement dated 28 June 2019 entered into by the Tenant and the Landlord in relation to the lease of the hotel premises located at Orange Sky Land Square One, Jiangyin, PRC\*, (中國江陰市橙天地廣場1號) (the “**Hotel Lease Agreement**”) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

\* For identification purposes only

## NOTICE OF THE SGM

- (ii) any one director of the Company be and is hereby authorised for and on behalf of the Company to do all such further acts and things and execute all such further documents and take all steps which in his/her opinion may be necessary, desirable or expedient to implement and/or give effect to the Hotel Lease Agreement and the transactions contemplated thereunder, and to approve any changes and amendments thereto as he/she may consider to be necessary, desirable or expedient.”

Yours faithfully,

By order of the board of directors of  
**Orange Sky Golden Harvest Entertainment (Holdings) Limited**  
**Mr. Wu Kebo**  
*Chairman and Executive Director*

Hong Kong, 21 August 2019

*Registered office*  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Principal place of business*  
24th Floor  
Capital Centre  
151 Gloucester Road  
Wan Chai  
Hong Kong

*Notes:*

1. Any member entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company but must attend the meeting in person to represent the appointing member.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof, it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the facts.
3. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote.
4. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s). For this purpose, seniority will be determined by the order in which the names stand in the principal or branch register of members of the Company in respect of the joint holding.