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南海控股有限公司*

NAN HAI CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 680)

CONTINUING CONNECTED TRANSACTIONS

BUSINESS COOPERATION FRAMEWORK AGREEMENT

On 30 November 2017 (after trading hours), the Company entered into the Business Cooperation Framework Agreement with GD Cinema Circuit, pursuant to which GD Cinema Circuit shall supply the Group with motion pictures and license the Group to project such motion pictures in its cinemas.

As at the date of this announcement, Ms. Liu, an executive Director, owns 80% of Dadi Century Beijing, which directly owns 82.49% equity interest of GD Cinema Circuit. Ms. Liu also has an effective control of 12.95% equity interest of GD Cinema Circuit through Dadi Legend, which is an associate of Ms. Liu. In addition, Mr. YCH, an associate of Mr. YPH (an executive Director), owns 20% of Dadi Century Beijing. Given the foregoing, GD Cinema Circuit is a connected person of the Company. Accordingly, the Business Cooperation Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the maximum amount of the Annual Caps represents more than 0.1% but less than 5% of the applicable percentage ratios under the Listing Rules, the transactions contemplated under the Business Cooperation Framework Agreement are subject to reporting, annual review and announcement requirements but are exempt from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

* For identification purpose only

I. INTRODUCTION

Reference is made to the announcement of the Company dated 19 August 2015 in relation to, among other things, (i) the Dadi Cinema Cooperation Agreement; and (ii) the Dadi Development Cooperation Agreement.

On 30 November 2017 (after trading hours), the Company entered into the Business Cooperation Framework Agreement with GD Cinema Circuit, pursuant to which GD Cinema Circuit shall supply the Group with motion pictures and license the Group to project such motion pictures in its cinemas. Upon commencement of the Term, the Dadi Cinema Cooperation Agreement and the Dadi Development Cooperation Agreement shall be terminated and cease to take effect.

II. BUSINESS COOPERATION FRAMEWORK AGREEMENT

On 30 November 2017 (after trading hours), the Company entered into the Business Cooperation Framework Agreement with GD Cinema Circuit, particulars of which are set out below:

Date

30 November 2017

Parties

- (1) the Company; and
- (2) GD Cinema Circuit

Term

1 December 2017 to 30 November 2020 (the “**Term**”)

Description of transactions

Pursuant to the Business Cooperation Framework Agreement, GD Cinema Circuit shall supply the Group with motion pictures and license the Group to project such motion pictures in its cinemas.

Provision of motion pictures

Subject matter

GD Cinema Circuit shall supply the Group with motion pictures and license the Group to project such motion pictures in its cinemas during the Term. GD Cinema Circuit shall enter into agreements with individual distributors in relation to the screening and distribution of the motion pictures. Unless restricted by prior agreements, the cinemas of the Group shall join the theatre chain of GD Cinema Circuit. GD Cinema Circuit shall also formulate relevant management guidelines for the operation of the cinemas operated by the Group which the parties shall observe.

Pricing terms

The fee payable for the motion pictures procured through the GD Cinema Circuit will either be paid as a Fixed Fee Motion Picture or a Box Sharing Motion Picture, both of which are explained below.

(a) Fixed Fee Motion Pictures

The Group shall pay monthly, a fixed licensing fee to the GD Cinema Circuit for licensing each Fixed Fee Motion Picture from the GD Cinema Circuit during the motion picture projection period and such fixed licensing fee shall be in accordance with the same terms offered by GD Cinema Circuit to its other cinema operators. GD Cinema Circuit shall not be entitled to sharing of the Net Box Office of the Fixed Fee Motion Pictures.

(b) Box Sharing Motion Pictures

The Net Box Office of each Box Sharing Motion Picture shall be distributed in the following manner:

- (i) a sum equivalent to all fees payable to the distributor (from whom GD Cinema Circuit obtained its right to permit the Group to project such motion pictures in its cinemas) (the “**Distributor Fees**”) shall be paid to the GD Cinema Circuit;
- (ii) the Group shall, during the Term, pay an amount of not more than 1% of the Net Box Office of the Box Sharing Motion Picture to the GD Cinema Circuit and the exact percentage of such payment shall be agreed upon between the Group and the GD Cinema Circuit prior to the screening of the motion picture; and
- (iii) the remaining portion of the Net Box Office shall belong to the Group.

If the above pricing terms have to be adjusted due to any laws and regulations in the PRC or at the request of the distributors, the parties shall enter into a supplemental agreement in relation thereto.

The Group may extend the screening period of a motion picture subject to the GD Cinema Circuit, the underlying distributor of such motion picture and the Group agreeing to the terms of such extension, including where appropriate the Net Box Office sharing ratio. However, the payment to be made by the Group to the GD Cinema Circuit for a Box Sharing Motion Picture, shall be subject to the caps and terms set out in paragraph (b)(ii) above.

Settlement and payment terms

(a) Fixed Fee Motion Pictures

For the Fixed Fee Motion Pictures, the Group shall pay the fixed licensing fee on a monthly basis during the motion picture projection period.

(b) Box Sharing Motion Pictures

The Group shall use a ticketing software which is in compliance with the requirements set out by SAPPRFT, and shall ensure that its ticketing system is linked with the system of GD Cinema Circuit.

The Group shall report to GD Cinema Circuit before noon each day, the box office of each Box Sharing Motion Picture showing on the Group's cinemas the previous day. The Group shall also report the total box office of each Box Sharing Motion Picture within two (2) days following the last show day of each of such Box Sharing Motion Picture. The Group shall deliver GD Cinema Circuit a settlement account in relation to each Box Sharing Motion Picture within five (5) days following the last show day of each of such Box Sharing Motion Picture.

The amount payable by the Group to the GD Cinema Circuit in relation to the provision of the Box Sharing Motion Pictures shall be settled within 15 days after the end of the screening period or the extended screening period.

Historical figures and annual caps

For the period from 19 August 2015 to 30 June 2017, the amount of historical transactions for the provision of motion pictures between the GD Cinema Circuit and the Group are set out below:

	From 19 August to 31 December 2015 <i>(HK\$'000)</i>	For the year ended 31 December 2016 <i>(HK\$'000)</i>	For the six months ended 30 June 2017 <i>(HK\$'000)</i>
Amount paid by the Group to GD Cinema Circuit in relation to provision of motion pictures	461,482	1,061,214	575,424
Amount paid by the Group to GD Cinema Circuit in relation to provision of motion pictures, less the Distributor Fees (approximately) ^(Note 2)	10,500	24,000	13,000

Notes:

- (1) On 19 August 2015, Ms. Liu gained control of GD Cinema Circuit, and GD Cinema Circuit became an associate of Ms. Liu. As a result, the continuing transactions contemplated under the Dadi Cinema Cooperation Agreement and the Dadi Development Cooperation Agreement became continuing connected transactions of the Company with effect from 19 August 2015 and the figure above represent the amount paid by the Group to GD Cinema Circuit thereafter.

- (2) Over 99% of the historical amount paid by the Group to GD Cinema Circuit in relation to provision of motion pictures is attributable to the amount payable for Box Sharing Motion Pictures with the balance for Fixed Fee Motion Pictures. In relation to payment for Box Sharing Motion Pictures, a certain percentage of the Net Box Office for a Box Sharing Motion Picture was attributed to the Distributor Fees while only up to 1% was for the benefit of the GD Cinema Circuit. As such, amounts paid by the Group to GD Cinema Circuit in relation to provision of motion pictures, less Distributor Fees, are set out for reference.

Pursuant to the Business Cooperation Framework Agreement, the maximum amount of payment to be made by the Group to the GD Cinema Circuit in relation to the provision of motion pictures (including both Fixed Fee Motion Pictures and Box Sharing Motion Pictures), less the Distributor Fees (the “**Annual Caps**”) are set out below:

	For the month ended 31 December 2017 (HK\$'000)	For the year ended 31 December 2018 (HK\$'000)	For the year ended 31 December 2019 (HK\$'000)	For the eleven months ended 30 November 2020 (HK\$'000)
Maximum amount payable by the Group to the GD Cinema Circuit in relation to provision of motion pictures, less the Distributor Fees ^(Note 3)	4,000	50,000	80,000	92,000

Notes:

- (3) Similar to the arrangement as described in Note 2 above, in arriving at the Annual Caps, over 99% of such cap is attributable to the amount payable for Box Sharing Motion Pictures with the balance for Fixed Fee Motion Pictures. In relation to payment for Box Sharing Motion Pictures, a certain percentage of the Net Box Office for a Box Sharing Motion Picture is attributed to the Distributor Fees while only up to 1% is for the benefit of the GD Cinema Circuit under paragraph (b)(ii) of the section titled “Pricing terms” above. As such, only payments to be made under paragraph (b)(ii) of the section titled “Pricing terms” above is used to compute the Annual Caps.

Basis for the box office annual caps

The Annual Caps are determined with reference to the historical transaction amount less Distributor Fees, taking into account the increase in number of cinemas of the Group (including, such increase following the completion of the OSGH Acquisition) and the anticipated increase in Net Box Office due to inflation and economic growth.

Termination

The Group has the right to terminate the Business Cooperation Framework Agreement prior to the expiry of the Term if required by its operation needs and the GD Cinema Circuit shall not be entitled to claim for any compensation or penalty against the Group in such event.

Other term

The Dadi Cinema Cooperation Agreement and the Dadi Development Cooperation Agreement shall cease to take effect upon commencement of the Term.

III. REASONS FOR AND BENEFITS OF ENTERING INTO THE BUSINESS COOPERATION FRAMEWORK AGREEMENT

Pursuant to Pilot practices regarding reform of distribution and projection of motion pictures (《關於改革電影發行放映機制的實施細則(試行)》) (“**Pilot Practices**”) issued by SAPPRFT and MCPRC, both producers and distributors of motion pictures shall directly supply motion pictures to cinema circuit companies. In addition, a cinema operator shall join in as a member of a cinema circuit company (a cinema operator shall not join in more than one cinema circuit company) as per the provision set out in the Pilot Practices. In view of the foregoing, only a cinema circuit company in the PRC shall have right to license and acquire motion pictures directly from motion picture producers and distributors, and to subsequently license the licensed or acquired motion pictures to its cinema operator members, i.e. the only way for a cinema operator projecting motion pictures in its cinema(s) is to become a member of a cinema circuit company in the PRC.

Given the aforesaid mandatory requirement, the Group has been in cooperation with the GD Cinema Circuit for the purpose of being licensed to project various motion pictures in its digital cinemas in a continuous manner since 2009 and have previously entered into (i) the Dadi Cinema Cooperation Agreement, and (ii) the Dadi Development Cooperation Agreement.

Subsequent to the completion of the OSGH Acquisition, the number of cinemas operated by the Group has increased substantially. As of the date of this announcement, the Group has an aggregate of approximately 461 cinemas on a nationwide basis in the PRC. Entering of the Business Cooperation Framework Agreement with GD Cinema Circuit will enable all the cinemas operated by the Group (save for those restricted by prior agreements), rather than only the cinemas operated by Dadi Cinema and Dadi Development pursuant to the Dadi Cinema Cooperation Agreement and the Dadi Development Cooperation Agreement, to benefit from the provision of motion pictures by the GD Cinema Circuit.

The normal market rate for sharing of the Net Box Office of a Box Sharing Motion Picture by a cinema circuit company in the PRC ranges from approximately 1% to 4%. As such, the entitlement of not more than 1% of the Net Box Office given to the GD Cinema Circuit for a Box Sharing Motion Picture as stipulated in the Business Cooperation Framework Agreement is at the lower range of the market rate.

The motion pictures distributed as a Fixed Fee Motion Picture are generally considered to be past their prime period, hence projected during non-peak hours and are not expected to generate significant box office. The fixed licensing fee for the Fixed Fee Motion Pictures is not expected to have any significant impact on the Group's box office.

GD Cinema Circuit is operating on a nationwide basis and has approximately 823 join-in cinemas, including approximately 383 operated by the Group (excluding the cinemas acquired from the OSGH Acquisition as of the date of this announcement). Having such a huge base of cinemas, the GD Cinema Circuit's bargaining power in distribution terms and conditions with motion picture distributors and producers are expected to be stronger than a number of small scale cinema circuit companies, which in turn would be beneficial to its join-in cinema operators, including the Group.

The Directors (including the independent non-executive Directors) considers that the Business Cooperation Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and the terms and conditions of the Business Cooperation Framework Agreement (including the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IV. INTERNAL CONTROL MEASURES FOR THE CONTINUING CONNECTED TRANSACTIONS

To safeguard the interest of the Group, the Group will adopt the following internal control measures:

1. the relevant personnel of the Group will closely monitor the aggregate transactions of the Group under the Business Cooperation Framework Agreement to ensure that the total consideration does not exceed the stipulated Annual Caps;
2. the relevant personnel of the Group will conduct regular checks to review and assess whether the transactions contemplated under the Business Cooperation Framework Agreement are conducted in accordance with the terms set out in the Business Cooperation Framework Agreement, and whether the consideration for the transactions are fair and reasonable and in accordance with the pricing policies set out in the Business Cooperation Framework Agreement;
3. the Company's external auditors will conduct an annual review of the transactions entered into under the Business Cooperation Framework Agreement to ensure the transactions amount are within the relevant Annual Caps and the transactions are in accordance with the terms set out in the Business Cooperation Framework Agreement; and
4. the Company's independent non-executive Directors will conduct an annual review of the transactions conducted pursuant to the Business Cooperation Framework Agreement to ensure the Group has complied with internal approval process, the terms of the Business Cooperation Framework Agreement and the relevant Listing Rules.

V. INFORMATION ON THE PARTIES

The Company

The Company is an investment holding company whose securities are listed and traded on the Main Board of the Stock Exchange. The Group is principally engaged in (i) culture and media services (mainly in cinemas business on a nationwide basis in the PRC in addition to film distribution and other media related businesses); (ii) property development; and (iii) enterprise cloud services (through its listed subsidiary, Sino-i) as at the date of this announcement. In the meantime, the Group has achieved steady growth in new media and innovative business, the new business sectors which the Group tapped into.

GD Cinema Circuit

To the best information, knowledge and belief of the Directors having made all reasonable enquiries, GD Cinema Circuit is a limited liability company incorporated in the PRC. Its business scope is motion picture distribution (cinema circuit); design, production, publication and agency of various advertisements; sale, installation and maintenance of motion picture projection equipment and other cinema operation facilities; motion picture projection technical services; leasing of equipment and arenas. GD Cinema Circuit has obtained a permit of cross-province cinema circuit issued by SAPPRFT.

VI. LISTING RULES IMPLICATIONS

As at the date of this announcement, Ms. Liu, an executive Director, owns 80% of Dadi Century Beijing, which directly owns 82.49% equity interest of GD Cinema Circuit. Ms. Liu also has an effective control of 12.95% equity interest of GD Cinema Circuit through Dadi Legend, which is an associate of Ms. Liu. In addition, Mr. YCH, an associate of Mr. YPH (an executive Director), owns 20% of Dadi Century Beijing. Given the foregoing, GD Cinema Circuit is a connected person of the Company. Accordingly, the Business Cooperation Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the maximum amount of the Annual Caps represents more than 0.1% but less than 5% of the applicable percentage ratios under the Listing Rules, the transactions contemplated under the Business Cooperation Framework Agreement are subject to reporting, annual review and announcement requirements but are exempt from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

VII. BOARD'S APPROVAL

The Board has approved the Business Cooperation Framework Agreement. The Board (including the independent non-executive Directors) considers that the Business Cooperation Framework Agreement, the transactions as contemplated thereunder and the terms and conditions of the Business Cooperation Framework Agreement (including the Annual Caps) are (i) fair and reasonable; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) in the interests of the Company and its Shareholders as a whole.

Since Ms. Liu has a material interest in GD Cinema Circuit, she has abstained from voting on the relevant meeting of the Board to approve the Business Cooperation Framework Agreement, the transactions as contemplated thereunder and the terms and conditions of the Business Cooperation Framework Agreement (including the Annual Caps). For good corporate governance, Mr. YPH has also abstained from voting on the relevant meeting of the Board to approve the Business Cooperation Framework Agreement, and the transactions as contemplated thereunder.

Save as disclosed above, none of the Directors has a material interest in the Business Cooperation Framework Agreement nor was required to abstain from voting on the relevant Board resolutions approving the Business Cooperation Framework Agreement, the transactions contemplated thereunder and the terms and conditions of the Business Cooperation Framework Agreement (including the Annual Caps).

VIII. DEFINITIONS

In this announcement, unless the context otherwise requires, capitalised terms used shall have the following meanings:

“Annual Caps”	has the meaning given to it under the paragraph “Description of transactions” of this announcement
“associate(s)”	has the meaning given to it under the Listing Rules
“Board”	the board of Directors
“Box Sharing Motion Picture(s)”	a motion picture licensed by GD Cinema Circuit to the Group for a fixed period upon obtaining a license from the distributor of the motion picture by GD Cinema Circuit, which GD Cinema Circuit shall be entitled to share an agreed ratio of the Net Box Office received by the Group from projecting such motion picture in its cinemas in the PRC
“Business Cooperation Framework Agreement”	the Business Cooperation Framework Agreement dated 30 November 2017 entered into between the Company and GD Cinema Circuit pursuant to which GD Cinema Circuit shall supply the Group with motion pictures and license the Group to project such motion pictures in its cinemas

“Company”	Nan Hai Corporation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the Main Board of the Stock Exchange (stock code: 680)
“Dadi Century Beijing”	大地時代文化傳播(北京)有限公司 (Dadi Century Culture Media (Beijing) Company Limited*), a company incorporated in the PRC, which is an associate of Ms. Liu (an executive Director) and holds 82.49% equity interest of GD Cinema Circuit
“Dadi Cinema”	廣東大地影院建設有限公司(Guangdong Dadi Cinema Construction Limited*), a company incorporated in the PRC, an indirect non-wholly-owned subsidiary of the Company
“Dadi Cinema Cooperation Agreement”	a cooperation agreement entered into between Dadi Cinema and GD Cinema Circuit on 1 January 2015
“Dadi Development”	大地影院發展有限公司 (Dadi Cinema Development Company Limited*), a company incorporated in the PRC, a direct wholly-owned subsidiary of Dadi Cinema
“Dadi Development Cooperation Agreement”	a cooperation agreement entered into between Dadi Development and GD Cinema Circuit on 1 January 2015
“Dadi Legend”	北京大地傳奇投資合夥企業 (Beijing Dadi Legend Investment Partnership*), a partnership enterprise, equally owned by Ms. Liu and an independent third party, and is an associate of Ms. Liu and holds 12.95% equity interest of GD Cinema Circuit
“Director(s)”	the director(s) of the Company
“Distributor Fees”	has the meaning given to it under the paragraph “Description of transactions” of this announcement
“Fixed Fee Motion Picture(s)”	a motion picture licensed by GD Cinema Circuit to the Group at a fixed licensing fee for projection of the motion picture in its cinemas in the PRC for a fixed period upon obtaining a license from the distributor of the motion picture by GD Cinema Circuit; GD Cinema Circuit is not entitled to sharing the box office of such motion pictures
“GD Cinema Circuit”	廣東大地電影院線股份有限公司 (GD Cinema Circuit Company Limited*), a company incorporated in the PRC, and is a connected person of the Company

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“independent third party(ies)”	any person(s) or companies and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is/are third party(ies) independent of the Company and connected persons (as defined under the Listing Rules) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MCPRC”	Ministry of Culture of the PRC (中華人民共和國文化部)
“Mr. YCH”	Mr. Yu Cheung Hoi (于常海先生), elder brother of Mr. YPH, who is not a substantial shareholder or director or chief executive of the Company or any of its subsidiaries
“Mr. YPH”	Mr. Yu Pun Hoi (于品海先生), a controlling shareholder of the Company and the chairman and executive Director
“Ms. Liu”	Ms. Liu Rong (劉榮女士), an executive Director, but she is not a substantial shareholder of the Company nor any of its subsidiaries
“Net Box Office”	total box office of a motion picture from projection in the cinemas operated by the Group after deduction of (i) the national motion picture business development special funds administered by SAPPRT (國家電影事業發展專項資金); (ii) value-added tax (增值稅); (iii) city construction tax (城建稅); (iv) education additional fee (教育費附加); and (v) local education additional fee (地方教育費附加)
“OSGH Acquisition”	the acquisition of Orange Sky Golden Harvest Cinemas (China) Company Limited by a wholly-owned subsidiary of the Company, through the acquisition of the total issued share capital of City Entertainment Corporation Limited, which was completed on 28 July 2017

“PRC”	the People’s Republic of China, for the purposes of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“SAPPRFT”	State Administration of Press, Publication, Radio, Film and Television of the PRC (中華人民共和國國家新聞出版廣電總局), formerly known as the State Administration of Radio, Film, and Television of the PRC (中華人民共和國國家廣播電影電視總局)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company, or if there has been a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Sino-i”	Sino-i Technology Limited (stock code: 250), a company having its shares listed and traded on the Main Board of the Stock Exchange, a subsidiary company of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Term”	the term of the Business Cooperation Framework Agreement, is from 1 December 2017 to 30 November 2020
“%”	per cent.

By the order of the Board
Nan Hai Corporation Limited
Lung King Cheong
Executive Director

Hong Kong, 30 November 2017

As at the date of this announcement, the Directors are as follows:

<i>Executive Directors:</i>	<i>Non-executive Director:</i>	<i>Independent non-executive Directors:</i>
Mr. Yu Pun Hoi	Mr. Lam Bing Kwan	Mr. Lau Yip Leung
Ms. Liu Rong		Mr. Xiao Sui Ning
Mr. Lung King Cheong		Mr. Ho Yeung Nang

* *For identification purposes only*