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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)

- (1) PROPOSED ISSUE OF CONVERTIBLE AND EXCHANGEABLE BONDS BY A WHOLLY-OWNED SUBSIDIARY; AND**
(2) POSSIBLE MAJOR TRANSACTION RELATING TO DEEMED DISPOSAL OF PARTIAL INTEREST IN A WHOLLY-OWNED SUBSIDIARY
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* For identification purpose only

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DEFINITIONS

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

“Affiliates”	with respect to a person, any other person or entity directly or indirectly Controls or Controlling or Controlled by or under direct or indirect common Control with such person
“associate(s)”	has the meaning given to it under the Listing Rules
“Adjustments to the Applicable Guangdong Dadi Interest”	has the meaning given to it in the paragraph headed “Adjustments to the Applicable Guangdong Dadi Interest” under the section headed “Principal terms and conditions of the Bonds”
“Applicable Guangdong Dadi Interest”	an interest initially representing approximately 4.76% of the total registered capital of Guangdong Dadi, subject to the Adjustments to the Applicable Guangdong Dadi Interest
“Announcement”	the announcement of the Company dated 9 May 2016 in relation to, among other things, the Subscription and the transactions contemplated thereunder
“Board”	the board of Directors
“Bondholder”	holder of the Bonds
“Bondholder’s Deemed Guangdong Dadi Price”	an amount equal to the Subscription Amount divided by the Bondholder’s indirect interest in the registered capital of Guangdong Dadi, determined on a fully-diluted and as-converted basis, which shall initially be RMB17.45 on the Issue Date
“Bondholder’s Redemption Rights”	has the meaning given to it in the paragraph headed “Bondholder’s right to initiate redemption” under the section headed “Principal terms and conditions of the Bonds”
“Bonds”	the convertible and exchangeable bonds due 2018 of the aggregate principal amount of RMB1,000,000,000 to be issued by the Issuer as contemplated under the Subscription Agreement
“Box Office Revenue Interest Adjustment”	has the meaning given to it in the paragraph headed “Adjustments to the Applicable Guangdong Dadi Interest” under the section headed “Principal terms and conditions of the Bonds”

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“Box Office Revenue Price Adjustment”	has the meaning given to it in the paragraph headed “Conversion Price Adjustments” under the section headed “Principal terms and conditions of the Bonds”
“Business Cooperation Agreement”	the business cooperation agreement entered into between Zhong Lian Sheng Shi and Guangdong Dadi on 9 May 2016
“Company” or “Guarantor”	Nan Hai Corporation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the Stock Exchange (stock code: 680)
“Completion”	the completion of the Subscription pursuant to the terms and conditions of the Subscription Agreement
“Control”	in relation to an entity, (a) the power to direct the exercise of 30% of voting rights capable of being exercised at a general meeting of that entity, (b) the right to appoint or remove a majority of the board of directors (or corresponding officers) of that entity, or (c) the right to exercise a dominant influence over that entity by virtue of provisions contained in its constitutional documents or under a control contract or otherwise, and “Controller”, “Controlled”, “Controlling” and “Controls” shall be construed accordingly
“Controlling Shareholder Group”	Rosewood Assets Ltd., Pippen Limited, Staverley Assets Limited and First Best Assets Limited, companies indirectly wholly-owned by Mr. Yu Pun Hoi (an executive Director) through Dadi Holdings Limited, which together held 36,096,430,679 Shares, representing approximately 52.58% of the issued share capital of the Company as at the date of the Subscription Agreement
“Conversion Date”	conversion date of the Bonds, which, other than in respect of an automatic conversion in accordance to the terms and conditions of the Bonds, will be deemed to be the business day immediately following the date of surrender of the certificate in respect of the Bonds for exercise of the Conversion Right
“Conversion Period”	any time following the Issue Date up to the close of business on the date falling on the third anniversary of the Issue Date
“Conversion Price”	Initially at RMB266,667 per Issuer Share, subject to the Conversion Price Adjustments

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“Conversion Price Adjustments”	has the meaning given to it in the paragraph headed “Conversion Price Adjustments” under the section headed “Principal terms and conditions of the Bonds”
“Conversion Right”	the Bondholder’s right to convert all (but not part) of the outstanding principal amount of the Bonds into such number of Issuer Shares credited as fully paid, at any time during the Conversion Period at the then Conversion Price
“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 Rong (an executive Director) and holds 85% equity interest of GD Cinema Circuit
“Dadi Century Film Culture”	大地時代電影文化傳播(北京)有限公司 (Dadi Century Film Culture Media (Beijing) Company Limited*) (a subsidiary of the Issuer)
“Dadi Cinema Cooperation Agreement”	a cooperation agreement entered into between Dadi Cinema and GD Cinema Circuit on 1 January 2015, details of which are set out in the announcement of the Company dated 19 August 2015
“Dadi Development”	大地影院發展有限公司 (Dadi Cinema Development Limited*), a company incorporated in the PRC, which is an indirect wholly-owned subsidiary of the Company
“Dadi Development Cooperation Agreement”	a cooperation agreement entered into between Dadi Development and GD Cinema Circuit on 1 January 2015, details of which are set out in the announcement of the Company dated 19 August 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 Rong and an Independent Third Party, and is an associate of Ms. Liu Rong (an executive Director) and holds 15% equity interest of GD Cinema Circuit
“Deemed Disposal”	the issue of new Issuer Shares to, or the exchange into the SPV Shares by, the Investor or the Bondholder upon a conversion or an exchange of the Bonds (as the case may be), which is deemed to be a disposal of partial interest in the Issuer and/or Guangdong Dadi by the Company under the Listing Rules

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“Default Onshore Share Purchase Agreement”	the default onshore share purchase agreement to be entered into by the Issuer, Guangdong Dadi and the Investor prior to Completion
“Director(s)”	the director(s) of the Company
“Early Redemption Event”	has the meaning given to it in the paragraph headed “Bondholder’s right to initiate redemption” under the section headed “Principal terms and conditions of the Bonds”
“Early Redemption Right”	the Bondholder’s right to require the Issuer to redeem all of its Bonds outstanding at the Redemption Price upon occurrence of an Early Redemption Event
“Equity Date”	the Conversion Date, or the Exchange Date, or the date when the onshore entity designated by the Investor becomes the shareholder of Guangdong Dadi following an Early Redemption Event
“Events of Default”	has the meaning given to it in the sub-section headed “Events of Default” under the section headed “The Subscription Agreement”
“Exchange Date”	exchange date of the Bonds, which, other than in respect of an automatic exchange in accordance to the terms and conditions of the Bonds, will be deemed to be the business day immediately following the date of surrender of the certificate in respect of the Bonds for exercise of the Exchange Right
“Exchange Period”	any time following the Issue Date up to the close of business on the date falling on the third anniversary of the Issue Date
“Exchange Right”	the Bondholder’s right to exchange all (but not part) of the outstanding principal amount of the Bonds into 100% of the issued share capital of SPV credited as fully paid, at any time during the Exchange Period
“Excluded Companies”, each an “Excluded Company”	Oristar, 數影辰星科技發展(北京)有限公司 (Digital Movie Chen Xing Technology Development (Beijing) Co., Ltd.*), and 匯科票通科技發展(北京)有限公司 (Hui Ke Piao Tong Technology Development (Beijing) Co., Ltd.*), all of which are subsidiaries of the Issuer

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“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 as defined under the Listing Rules
“Group”	the Company and its subsidiaries, including the Issuer Group
“Guangdong Dadi”	廣東大地影院建設有限公司 (Guangdong Dadi Cinema Construction Limited*), a company established in the PRC, an indirect wholly-owned subsidiary of the Company
“Guangdong Dadi Capital Injection”	the injection of the proceeds from the Subscription into Guangdong Dadi through the SPV within six months after Completion
“Guangdong Dadi Shareholding Cap”	has the meaning given to it in the paragraph headed “Adjustments to the Applicable Guangdong Dadi Interest” under the section headed “Principal terms and conditions of the Bonds”
“Guarantee”	the guarantee to be executed by the Company in favour of the Investor pursuant to the Subscription Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Implied Guangdong Dadi Price”	the price in RMB paid to acquire every RMB1 of Guangdong Dadi’s registered capital
“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
“Investor” or “SAC Finance”	SAC Finance Company Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of Alibaba Pictures Group Limited
“Issue Date”	the date of issue of the Bonds
“Issuer” or “Dadi Cinema”	Dadi Cinema (HK) Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company

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“Issuer Group”, each an “Issuer Group Company”	the Issuer and its subsidiaries, excluding the Excluded Companies
“Issuer Share(s)”	ordinary share(s) of the Issuer
“Issuer Shareholding Cap”	has the meaning given to it in the paragraph headed “Conversion Price Adjustments” under the section headed “Principal terms and conditions of the Bonds”
“Issuer’s Call Option”	has the meaning given to it in the paragraph headed “Pre-emption right and Issuer’s Call Option” under the section headed “Principal terms and conditions of the Bonds”
“Latest Practicable Date”	17 June 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	two years commencing from (and including) the Issue Date
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“New Issue Price”	has the meaning given to it in the paragraph headed “Conversion Price Adjustments” under the section headed “Principal terms and conditions of the Bonds”
“Onshore Share Purchase Agreement”	the onshore share purchase agreement to be entered into by the Issuer, Guangdong Dadi, Dadi Century Film Culture and the Investor prior to Completion
“Oristar”	數碼辰星科技發展(北京)有限公司 (Digicine Oristar Technology Development (Beijing) Company Limited*), a company incorporated in the PRC
“Oristar Cooperation Agreement”	a cooperation agreement entered into between Oristar and GD Cinema Circuit on 1 January 2014, details of which are set out in the announcement of the Company dated 19 August 2015
“PRC”	the People’s Republic of China, for the purposes of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan

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“Pre-emption Right”	has the meaning given to it in the paragraph headed “Pre-emption right and Issuer’s Call Option” under the section headed “Principal terms and conditions of the Bonds”
“Projection Equipment”	(a) a projection device (including (i) 4K digital projector; (ii) 3D lens; (iii) 3D lens filter; (iv) mercury lamp; and (v) device stand); and (b) an SMS projection server system
“Put Option”	the Investor’s option to request the Company to purchase all of its Share Equivalents at a price that will yield an internal rate of return of 5.50% per annum on the subscription amount paid by the Bondholder for such Share Equivalents as described in the section headed “Put option granted to the Investor”
“Qualified IPO”	a fully underwritten registered public offering by an Issuer Group Company on an internationally recognized stock exchange
“Redemption Price”	an amount which yields an internal rate of return of 5.50% per annum on the subscription amount paid by the Bondholder for such Share Equivalents, taking into account any interest, default interest (if any) and dividends received by the Bondholder on such Share Equivalents
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“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
“Share Equivalents”	any shares and any securities convertible into or exchangeable for shares of any Issuer Group Company, calculated on a fully-diluted and as-converted basis
“Shareholder(s)”	the holder(s) of the Shares
“Share Pledge”	a share pledge to be executed by the Issuer of 15% of the registered capital of Guangdong Dadi to secure the obligations of the Issuer and the Company under the Transaction Documents

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“Sino-i”	Sino-i Technology Limited, a company incorporated in Hong Kong and its issued shares are listed on the Stock Exchange (Stock Code: 250), a subsidiary of the Company
“SPV”	Creative Film Investment Limited, a limited liability company incorporated in Hong Kong, a wholly-owned subsidiary of the Issuer
“SPV Share(s)”	all issued shares of the SPV
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription by the Investor for the Bonds on and subject to the terms and conditions set out in the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 9 May 2016 entered into between the Company, the Issuer and the Investor in relation to the subscription of the Bonds by the Investor
“Subscription Amount”	RMB1,000,000,000
“Tag-along Right”	has the meaning given to it in the paragraph headed “Tag-along Right” under the section headed “Principal terms and conditions of the Bonds”
“Transaction Documents”	the Subscription Agreement, the terms and conditions of the Bonds, the Onshore Share Purchase Agreement, the Default Onshore Share Purchase Agreement, the Guarantee, the Share Pledge, and any other documents to be executed pursuant to or in connection with any Transaction Documents
“Undertaking on No Change of Control”	has the meaning given to it in the paragraph headed “Undertaking on No Change of Control” under the section headed “Principal terms and conditions of the Bonds”
“Zhong Lian Sheng Shi”	中聯盛世文化(北京)有限公司 (Zhong Lian Sheng Shi Culture (Beijing) Company Limited*), an indirectly wholly-owned subsidiary of the Investor
“%”	per cent.

* For identification purposes only



南海控股有限公司*

NAN HAI CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 680)

Executive Directors:

Mr. YU Pun Hoi (Chairman)
Ms. CHEN Dan
Ms. LIU Rong

Non-executive Directors:

Mr. WANG Gang
Mr. LAM Bing Kwan

Independent non-executive Directors:

Prof. JIANG Ping
Mr. LAU Yip Leung
Mr. XIAO Sui Ning

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23 June 2016

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED ISSUE OF CONVERTIBLE AND EXCHANGEABLE
BONDS BY A WHOLLY-OWNED SUBSIDIARY; AND
(2) POSSIBLE MAJOR TRANSACTION RELATING TO DEEMED
DISPOSAL OF PARTIAL INTEREST IN A
WHOLLY-OWNED SUBSIDIARY**

I. INTRODUCTION

Reference is made to the Announcement. On 9 May 2016 (after trading hours), the Issuer, an indirect wholly-owned subsidiary of the Company, the Investor and the Company entered into the Subscription Agreement, pursuant to which the Issuer conditionally agreed to issue and the Investor conditionally agreed to subscribe for the Bonds with an aggregate principal amount of RMB1,000,000,000 on Completion.

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LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders with further information in relation to the Subscription.

II. THE SUBSCRIPTION AGREEMENT

Date

9 May 2016

Parties

Issuer: Dadi Cinema, an indirect wholly-owned subsidiary of the Company

Investor: SAC Finance

Guarantor: the Company

Aggregate amount of the Bonds to be subscribed:

Subject to the fulfillment of the conditions precedent to the Subscription Agreement, the Investor has agreed to subscribe for the Bonds with an aggregate principal amount of RMB1,000,000,000, payable by means of telegraphic transfer of immediately available funds on Completion.

Conditions precedent to the Subscription Agreement

Completion of the Subscription is conditional upon the satisfaction (or, if applicable, the waiver) of the following conditions precedent:

- (a) each of the Transaction Documents having been, or will at Completion be, duly executed by the parties thereto;
- (b) other than the consents and approvals in relation to the Guangdong Dadi Capital Injection, the Share Pledge, the Onshore Share Purchase Agreement and the Default Onshore Share Purchase Agreement, all consents and approvals of, notices to and filings or registration with any approval authority or any other person required pursuant to any applicable laws or regulation of any approval authority, or pursuant to any contract binding on the Issuer or any other Issuer Group Company or to which the Issuer or any other Issuer Group Company or its respective assets are subject or bound in connection with the issue of the Bonds, the execution, delivery or performance of the Transaction Documents or the consummation of the transactions contemplated in the Transaction Documents, shall have been obtained or effected;
- (c) each of the parties to the Subscription Agreement having obtained all necessary approvals and fulfilled all requirements under the Listing Rules to enter into the Transaction Documents and to perform its obligations thereunder;

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- (d) the provision of all business licences and movie projection operation licences (電影放映經營許可證) in respect of no less than 75% of the cinemas operated by the Issuer Group at Completion to the Investor for review, and the results being satisfactory to the Investor in its sole discretion;
- (e) all parties to the Transaction Documents (other than the Investor) having obtained all necessary internal authorisation in respect of and entry into the Transaction Documents and performance of any transactions contemplated thereunder, including but not limited to any shareholders resolutions and board resolutions;
- (f) there having been no material adverse change in respect of the Issuer Group since the date of the Subscription Agreement;
- (g) the representations and warranties of the Issuer and the Company contained or referred to in the Transaction Documents remaining true and correct as of the date of Completion as though made on such date;
- (h) the transactions contemplated by the Transaction Documents not being in violation of applicable laws, and no person having instituted any action as a result of any of the transactions contemplated by the Transaction Documents;
- (i) no action which would constitute an Event of Default (as defined below) had such action been taken after Completion has been taken since the date of the Subscription Agreement; and
- (j) the Issuer having delivered to the Investor a certificate, dated as of the Completion and signed by a duly authorised director or officer, certifying that the conditions set out in clauses (b) to (i) (other than paragraph (d) above) have been satisfied.

The Investor may, at any time, waive in whole or in part any of the conditions set out above by written notice to the Issuer.

As at the date of the Latest Practicable Date, all the conditions precedent have been fulfilled.

Completion of the Subscription Agreement

Completion will take place on the date falling 15 days after the satisfaction subject only to Completion or waiver of all conditions precedent to the Subscription Agreement, or such other date as may be agreed in writing by the Issuer, the Company and the Investor. Completion has taken place on 15 June 2016.

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Events of Default

Each of the following events or circumstances shall constitute an event of default (“**Events of Default**”) under the Subscription Agreement and the terms and conditions of the Bonds:

- (a) a default by the Issuer made in the payment of any principal or interest due in respect of the Bonds and if such default is capable of remedy, is not remedied in full within 15 business days from the occurrence of such event;
- (b) a default by any Issuer Group Company of a material term, covenant, warranty or undertaking of any of the Transaction Documents or any other agreement to which any Issuer Group Company is a party, and if such default is capable of remedy, is not remedied in full within 15 business days from the occurrence of such event;
- (c) the occurrence of an event of default or acceleration of repayment under any such other agreement to which any Issuer Group Company is a party which is not cured after any required notice and/or cure period, which will cause a material adverse change to the Issuer Group as a whole;
- (d) an insolvency event occurs in respect of any Issuer Group Company;
- (e) any one or more events or changes has occurred which has caused or constituted or likely to cause or constitute, either in any case or in aggregate, a material adverse change on the business, operation, assets, financial or prospects of the Issuer Group;
- (f) it is or will become unlawful for any person other than the Investor to perform or comply with any one or more of its obligations under the Transaction Documents;
- (g) any material non-compliance with the use of proceeds clause in the Subscription Agreement; or
- (h) any breach of any Default Covenant.

Default Covenants

Prior to the earliest of (i) a Qualified IPO, (ii) the date falling two years after the Equity Date and (iii) the date the Investor or its Affiliates ceases to hold any Share Equivalents, each of the Issuer and the Company undertakes to the Investor that no action shall be taken in respect of any of the following matters (“**Default Covenants**”) in respect of any Issuer Group Company other than where such event relates solely to an Excluded Company:

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- (a) any issuance or transfer of Share Equivalents of any Issuer Group Company (i) during the period of one month following the Equity Date; and (ii) from the date of change of status of Guangdong Dadi to a company limited by shares until the second anniversary of the Conversion Date or Exchange Date;
- (b) for a period of two years following Completion, any merger, consolidation, liquidation, winding up, or other transaction resulting in a change of Control, disposal of more than 50% of any Issuer Group Company's assets (without taking into account certain transactions disclosed in the Subscription Agreement) in any 12-month period, or acquisition by another person;
- (c) any alteration, amendment or deletion of any provisions of the articles of association of the Issuer, the SPV or Guangdong Dadi that materially and adversely affects the rights of the Investor;
- (d) any distribution of profits to the extent that it materially and adversely affects the operations of the Issuer Group;
- (e) at any time prior to the Conversion Date or Exchange Date, the creation or incurrance of any indebtedness and encumbrances (including the sale or issuance of bonds, and the extension of loans, credit or financing of any type) other than in the ordinary course of business and other than any loans, credit or financing extended to wholly-owned subsidiaries of the Issuer, or the giving of guarantees for any indebtedness of its shareholders, or any other third parties, except that, for the avoidance of doubt, this covenant shall not apply to any loans granted to any Issuer Group Company by a direct or indirect shareholder of the Issuer on terms no less favourable to the relevant Issuer Group Company than arm's length commercial terms;
- (f) performance, approval, entry into, extension or amendment of any transaction or agreement between Guangdong Dadi and its subsidiaries on the one hand, and its shareholders, directors, senior management, employees, and their respective Affiliates on the other hand, in an amount exceeding RMB10,000,000 in aggregate in any 12-month period or exceeding RMB1,000,000 in any single transaction unless such matter has been approved by the board of directors of the Issuer (provided that any directors interested in the relevant transaction shall not be permitted to vote), provided that nothing in the foregoing shall apply to:
 - (i) the performance of the disclosed related party transactions identified in the Subscription Agreement on the basis permitted in the Subscription Agreement; or
 - (ii) loans, indebtedness or advances provided by Guangdong Dadi or any of its subsidiaries to any related party of such Issuer Group Company other than Guangdong Dadi and its subsidiaries which shall be repaid in accordance with the terms in the Subscription Agreement;

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- (g) amendment or approval of any equity-linked bonus scheme or any employee share option scheme or share participation scheme other than any such scheme(s) which involves or may involve the issue of less than 10% in aggregate of the shares of Guangdong Dadi on a fully-diluted and as-converted basis;
- (h) any material change to the core business as conducted by the Issuer Group as at Completion; or
- (i) the appointment of sponsor, listing venue, approval of the valuation of the Issuer, or any other matter in connection with the application for listing of any part of the issued share capital of any member of the Issuer Group where such listing shall value the Investor's Share Equivalents in the Issuer Group at a price less than the aggregate subscription price paid in respect of such Share Equivalents.

For the purposes of (b), (f) and (g) above, a series of related transactions shall be construed as a single transaction, and any amounts involved in such related transactions shall be aggregated.

Transferability of Share Equivalents

During the period from Completion to the earlier of (i) a Qualified IPO and (ii) the date falling two years after the Equity Date, the Investor shall not transfer any of its Share Equivalents except to its Affiliates or otherwise permitted under the Transaction Documents or with the consent from the Issuer.

Subject to the terms and conditions of the Subscription Agreement, from the date falling two years after the Equity Date until a Qualified IPO, the Investor may only transfer its Share Equivalents to a third party if the Company declines or is deemed to have declined to purchase the relevant Share Equivalents at the same terms and conditions to such third party.

Post completion undertaking

The Issuer and the Company undertake, among other things, that:

- (a) by no later than 31 December 2016, save for any bona fide indebtedness or advances incurred during the ordinary course of business, all loans, indebtedness or advances provided by Guangdong Dadi or any of its subsidiaries to any related party of such Issuer Group Company other than Guangdong Dadi and its subsidiaries, have been repaid in full and all guarantees or any other security given for the benefit of any related party of such companies have been fully released;
- (b) by no later than three (3) months following Completion, the Issuer shall provide all valid, current and enforceable business licences and movie projection operation licences (電影放映經營許可證) of the cinemas operated by the Issuer

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Group Companies that were not provided to the Investor prior to Completion, other than those in respect of no more than 5% of the cinemas operated by the Issuer Group at Completion where such licences have expired and applications for renewal of such licences have been submitted by the Issuer Group but are pending approval by the relevant approval authority; and

- (c) so long as the Investor holds any Bonds, the Issuer Group shall not:
- (i) incur any obligations such that any creditor of the Issuer Group may claim in insolvency on terms and conditions more favourable than those available to the Investor under the Bonds in any material respect (other than any obligations preferred by mandatory provisions of applicable law); or
 - (ii) issue any Share Equivalents or otherwise allow any person to acquire any direct or indirect interest in any Issuer Group Company or any material asset of an Issuer Group Company, or take any action to solicit, initiate, encourage or assist any investment in the foregoing, on terms and conditions (including for the avoidance of doubt, the interest rate payable on any convertible bonds) more favourable than those available to the Investor (other than those in relation to the issuance of any Share Equivalents at a new issue price less than the Conversion Price, or at an Implied Guangdong Dadi Price lower than the Bondholder's Deemed Guangdong Dadi Price, in respect of which an adjustment to the Conversion Price or to the Applicable Guangdong Dadi Interest shall be made pursuant to the Conversion Price Adjustments or the Adjustments to the Applicable Guangdong Dadi Interest).

III. PRINCIPAL TERMS AND CONDITIONS OF THE BONDS

The terms and conditions of the Bonds were determined after arm's length negotiations between the Company, the Issuer and the Investor and are summarised below:

Aggregate principal amount:	RMB1,000,000,000
Issue price:	The Bonds will be issued at 100% of their principal amount.
Security:	(i) a share pledge to be executed by the Issuer of 15% of the registered capital of Guangdong Dadi to secure the obligations of the Issuer and the Guarantor under the Transaction Documents (including the Bonds) (the " Share Pledge "); and

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- (ii) a guarantee to be provided by the Company in favour of the Investor unconditionally and irrevocably guaranteeing the due and punctual performance and observance by the Issuer of all its obligations, commitments and undertakings under or pursuant to the Transaction Documents (including the Bonds) (the “**Guarantee**”).

If the Issuer does not pay any sum payable by it under the Bonds when due, the Guarantor will pay that sum to the Bondholder in the manner provided in the terms and conditions of the Bonds.

If the Issuer does not deliver or make payment, or procure the delivery or payment in respect of any Issuer Shares as required on the exercise of a Conversion Right, or any SPV Shares as required on the exercise of an Exchange Right, the Guarantor will make such delivery or payment to the persons entitled thereto, in the manner provided in the Subscription Agreement or the terms and conditions of the Bonds.

Ranking: The Bonds constitute direct, unsubordinated, unconditional and secured obligations of the Issuer and shall at all times rank at least *pari passu* with all other present and future direct, unsubordinated, unconditional and unsecured obligations of the Issuer (other than any obligations preferred by mandatory provisions of applicable laws).

Interest: 1.95% per annum on the outstanding principal amount of the Bonds based on a 360-day year of 30 days each month, which shall be payable annually in arrears on the date immediately preceding the anniversary of the Issue Date.

Maturity Date: Two years commencing from (and including) the Issue Date (the “**Maturity Date**”)

Prior to the third anniversary of the Issue Date and following the Maturity Date, unless otherwise redeemed pursuant to the Bondholder’s Redemption Rights, the Company is only obliged to repay the Bonds when requested by the Bondholder. Unless previously converted, exchanged or redeemed, the Company shall be obliged to continue to pay interest during the period between the Maturity Date and the exercise of the Conversion Right/ Exchange Right (as the case may be) or when the Bonds are redeemed pursuant to the terms and conditions of the Bonds.

LETTER FROM THE BOARD

Conversion Right and Exchange Right: Subject to the terms and conditions of the Bonds, the Bondholder may (i) convert all (but not part) of the outstanding principal amount of the Bonds into such number of new Issuer Shares credited as fully paid, at any time during the Conversion Period at the then Conversion Price (the “**Conversion Right**”); or (ii) exchange all (but not part) of the outstanding principal amount of the Bonds into 100% of the issued share capital of SPV credited as fully paid, at any time during the Exchange Period (the “**Exchange Right**”).

Upon exercise of the Exchange Right, the SPV’s interest in Guangdong Dadi shall be at least equal to the then Applicable Guangdong Dadi Interest and the SPV shall not have any liabilities whatsoever.

Conversion Period: Any time following the Issue Date up to the close of business on the date falling on the third anniversary of the Issue Date (the “**Conversion Period**”).

Automatic Conversion: Immediately prior to the closing of a Qualified IPO in respect of the Issuer, unless previously converted, exchanged or redeemed, the outstanding Bonds shall be automatically converted pursuant to the Conversion Right.

Conversion Price: Initially at RMB266,667 per Issuer Share, subject to the Conversion Price Adjustments stated below.

Conversion Price Adjustments: *Box Office Revenue Price Adjustment*

In the event that the compound annual growth of the annual box office revenue of Guangdong Dadi for the two years ending 31 December 2017 is less than 35%, the Conversion Price in force as at 31 December 2017 shall be adjusted according to the following formula and shall become effective on 1 January 2018 (the “**Box Office Revenue Price Adjustment**”):

$$\text{Adjusted Conversion Price} = \frac{\text{the then Conversion Price} \times \frac{\text{Audited box office revenue of Guangdong Dadi in the year ending 31 December 2017}}{\text{Audited box office revenue of Guangdong Dadi in the year ended 31 December 2015} \times (1+35\%)^2}}{1}$$

In no event shall any conversion of the Bonds pursuant to the Box Office Revenue Price Adjustment result in the holding of more than 20% of the enlarged issued share capital of the Issuer by the Bondholder on a fully-diluted and as-converted basis (the “**Issuer Shareholding Cap**”).

LETTER FROM THE BOARD

*Other price adjustment events (together with the Box Office Revenue Price Adjustment, the “**Conversion Price Adjustments**”):*

At any time prior to conversion of the Bonds, the Conversion Price shall also be subject to adjustments on the occurrence of the following events:

- (i) issuance or sale of any Share Equivalents at a price per share (the “**New Issue Price**”) that is less than the then prevailing Conversion Price, in which case the Conversion Price then in effect shall be adjusted on a full ratchet basis to the New Issue Price, i.e.:

$$\text{Adjusted Conversion Price} = \text{New Issue Price}$$

- (ii) any person acquiring any Share Equivalents in Guangdong Dadi at an Implied Guangdong Dadi Price lower than the Bondholder’s Deemed Guangdong Dadi Price, in which case the Conversion Price then in effect shall be adjusted on a full ratchet basis to:

$$\text{Adjusted Conversion Price} = \text{the then Conversion Price} \times \frac{\text{the Implied Guangdong Dadi Price}}{\text{the Bondholder’s Deemed Guangdong Dadi Price immediately before such event}}$$

- (iii) any sub-division, consolidation and/or re-classification of Issuer Shares, in which case the Conversion Price then in effect shall be adjusted to:

$$\text{Adjusted Conversion Price} = \text{the then Conversion Price} \times \frac{\text{Aggregate number of Issuer Shares in issue immediately before such sub-division, consolidation/re-classification}}{\text{Aggregate number of Issuer Shares in issue immediately after such sub-division, consolidation/re-classification}}$$

LETTER FROM THE BOARD

- (iv) issuance of any Issuer Shares by way of capitalisation of profits or reserves, in which case the Conversion Price then in effect shall be adjusted to:

$$\text{Adjusted Conversion Price} = \frac{\text{the then Conversion Price} \times \frac{\text{Aggregate number of Issuer Shares in issue immediately before such issue}}{\text{Aggregate number of Issuer Shares in issue immediately after such issue}}}{1}$$

- (v) the grant, issuance or offer of rights, options, warrants or other rights to subscribe for or purchase or otherwise acquire any Issuer Shares or any securities convertible into or exchangeable for, the Issuer Shares at a price less than the then prevailing Conversion Price, in which case the Conversion Price then in effect shall be adjusted to:

$$\text{Adjusted Conversion Price} = \frac{\text{the then Conversion Price} \times \frac{A + B}{A + C}}{1}$$

where:

A is the aggregate number of Issuer Shares (on a fully-diluted and as-conversion basis) in issue immediately before such issue;

B is the number of Issuer Shares which the aggregate consideration (if any) receivable by the Issuer for the Issuer Shares or otherwise receivable upon the exercise, conversion or exchange of such options, warrants or other securities would purchase at the then prevailing Conversion Price; and

C is the aggregate number of Issuer Shares to be issued or, as the case may be, the maximum number of Issuer Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

Notwithstanding the above, no adjustment shall be made if there is any share option granted by any Issuer Group Company to its employees (including directors), provided that the total number of securities to be issued does not exceed 10% of the total issued shares of such Issuer Group Company at the time of the grant.

LETTER FROM THE BOARD

Save as the limitations pursuant to the Issuer Shareholding Cap and the Undertaking on No Change of Control, there is no price floor for adjustment to the Conversion Price.

Issuer Shares to be issued under the Bonds:

Based on the initial Conversion Price of RMB266,667 per Issuer Share, a total of 3,750 new Issuer Shares will be issued upon full conversion of the principal amount of the Bonds, representing approximately 4.76% of the enlarged issued share capital of the Issuer on a fully diluted basis, assuming conversion immediately after issue and there will not be any other change in the number of Issuer Shares.

The Issuer Shares to be issued upon conversion shall rank *pari passu* in all respects with other Issuer Shares in issue on the relevant date of issuance.

Exchange Period:

Any time following the Issue Date up to the close of business on the date falling on the third anniversary of the Issue Date (the “**Exchange Period**”).

Automatic Exchange:

Immediately prior to the closing of a Qualified IPO in respect of Guangdong Dadi, unless previously converted, exchanged or redeemed, the outstanding Bonds shall be automatically exchanged pursuant to the Exchange Right.

Applicable Guangdong Dadi Interest:

An interest in Guangdong Dadi initially representing approximately 4.76% of the registered capital of Guangdong Dadi, assuming exchange immediately after issue of the Bonds, subject to the Adjustments to the Applicable Guangdong Dadi Interest stated below (the “**Applicable Guangdong Dadi Interest**”).

LETTER FROM THE BOARD

Adjustments to the
Applicable Guangdong
Dadi Interest:

Box Office Revenue Interest Adjustment

In the event that the compound annual growth of the annual box office revenue of Guangdong Dadi for the two years ending 31 December 2017 is less than 35%, the Applicable Guangdong Dadi Interest in force as at 31 December 2017 shall be adjusted according to the following formula and shall become effective on 1 January 2018 (the “**Box Office Revenue Interest Adjustment**”):

$$\begin{array}{l} \text{Adjusted} \\ \text{Applicable} \\ \text{Guangdong} \\ \text{Dadi} \\ \text{Interest} \end{array} = \begin{array}{l} \text{the then} \\ \text{Applicable} \\ \text{Guangdong} \\ \text{Dadi} \\ \text{Interest} \end{array} \times \frac{\begin{array}{l} \text{Audited box office revenue of} \\ \text{Guangdong Dadi in the year ended 31} \\ \text{December 2015} \times (1+35\%)^2 \end{array}}{\begin{array}{l} \text{Audited box office revenue of} \\ \text{Guangdong Dadi in the year ending} \\ \text{31 December 2017} \end{array}}$$

Notwithstanding the above, on a fully-diluted and as-converted basis, the Applicable Guangdong Dadi Interest shall be no more than 20% of the registered capital of Guangdong Dadi in any event (the “**Guangdong Dadi Shareholding Cap**”).

*Other Applicable Guangdong Dadi Interest adjustment event (together with the Box Office Revenue Interest Adjustment, the “**Adjustments to the Applicable Guangdong Dadi Interest**”)*

The Applicable Guangdong Dadi Interest shall also be subject to adjustments on a full ratchet basis if prior to an exchange of the Bonds, any person acquires any Share Equivalents in Guangdong Dadi at an Implied Guangdong Dadi Price lower than the Bondholder’s Deemed Guangdong Dadi Price, in which case the Applicable Guangdong Dadi Interest then in effect shall be adjusted to:

$$\begin{array}{l} \text{Adjusted} \\ \text{Applicable} \\ \text{Guangdong} \\ \text{Dadi} \\ \text{Interest} \end{array} = \begin{array}{l} \text{the then} \\ \text{Applicable} \\ \text{Guangdong} \\ \text{Dadi} \\ \text{Interest} \end{array} \times \frac{\begin{array}{l} \text{Bondholder’s Deemed Guangdong} \\ \text{Dadi Price immediately} \\ \text{before such event} \end{array}}{\begin{array}{l} \text{Implied Guangdong Dadi Price} \end{array}}$$

LETTER FROM THE BOARD

Undertaking on No
Change of Control:

Each of the Company and the Issuer undertakes that (the “**Undertaking on No Change of Control**”) it shall not, and shall procure each of the Issuer Group Companies not to, proceed with any transaction in relation to the issue or disposal of any Share Equivalents in the Issuer and/or Guangdong Dadi if:

- (i) on a fully-diluted and as-converted basis and taking into account the maximum shareholding in the Issuer the Bondholder may have pursuant to the Box Office Revenue Price Adjustment, or the maximum Applicable Guangdong Dadi Interest may reach pursuant to the Box Office Revenue Interest Adjustment (as the case may be), the assets of Guangdong Dadi will no longer be consolidated in the financial statements of the Issuer upon completion of such transaction; or
- (ii) upon completion of the corresponding price adjustments set out in the Conversion Price Adjustments (other than the Box Office Revenue Price Adjustment) or the Adjustments to the Applicable Guangdong Dadi Interest (other than the Box Office Revenue Interest Adjustment) triggered by such transaction (as the case may be), on a fully-diluted and as-converted basis, the assets of Guangdong Dadi will no longer be consolidated in the financial statements of the Issuer.

Pursuant to the undertaking, no Issuer Group Company shall proceed with any transaction that would trigger the full-ratchet price adjustment which, under certain extreme cases, would result in the Company’s loss of control in the Issuer or Issuer’s loss of control in Guangdong Dadi to the Investor. Such undertaking is a unilateral undertaking given by the Company and the Issuer, which is not imposing any obligation on, or affect any right of, the Investor. No penalty will be imposed to the Company or the Issuer if such undertaking shall be breached. Notwithstanding the foregoing, the Directors confirm that the Company and the Issuer have no intention to hold less than 50% equity interest in Guangdong Dadi.

Redemption Price:

An amount which yields an internal rate of return of 5.50% per annum on the subscription amount paid by the Bondholder for such Share Equivalents, taking into account any interest, default interest (if any) and dividends received by the Bondholder on such Share Equivalents.

LETTER FROM THE BOARD

Bondholder's right to initiate redemption (the "**Bondholder's Redemption Rights**"):

Redemption at maturity

Following the Maturity Date, the Bondholder shall have the right to require the Issuer to redeem all of its Bonds outstanding at the Redemption Price.

Redemption upon Early Redemption Event

The Bondholder shall have the right (the "**Early Redemption Right**") to require the Issuer to redeem all of its Bonds outstanding at the Redemption Price upon occurrence of the following events:

- (i) the Issuer Group fails to obtain all necessary approvals for injecting the proceeds from the Subscription into Guangdong Dadi through the SPV within six months after Completion (the "**Guangdong Dadi Capital Injection**"); or
- (ii) the Issuer Group fails to procure that the SPV holds the Applicable Guangdong Dadi Interest upon completion of the Guangdong Dadi Capital Injection, (each an "**Early Redemption Event**").

Upon the exercise of the Early Redemption Right, the Bondholder, the Issuer and Guangdong Dadi shall procure the completion of the Onshore Share Purchase Agreement.

Redemption upon Event of Default

The Bondholder shall have the right to require the Issuer to redeem all of its Bonds outstanding at the Redemption Price upon occurrence of an Event of Default.

Redemption upon substantial decrease in box office revenue

The Bondholder shall have the right to at its option to require the Issuer to redeem all of its Bonds outstanding at the Redemption Price, if it becomes apparent that:

- (i) assuming there is no Issuer Shareholding Cap, the Bondholder would hold more than 20% of the issued share capital of the Issuer upon completion of the Box Office Revenue Price Adjustment, on a fully-diluted and as-converted basis;

LETTER FROM THE BOARD

- (ii) assuming there is no Guangdong Dadi Shareholding Cap, the Applicable Guangdong Dadi Interest would be more than 20% upon completion of the Box Office Revenue Interest Adjustment.

Issuer's right to initiate redemption:

Unless previously redeemed, converted or purchased and cancelled as provided in accordance with the terms and conditions of the Bonds, the Issuer will redeem the Bonds on the third anniversary of the Issue Date at the Redemption Price.

Pre-emption Right and Issuer's Call Option:

Pre-emption Right

As long as the Bonds are outstanding, in the event that an Issuer Group Company proposes to issue any Share Equivalents to any person and no adjustment to the Conversion Price or the Applicable Guangdong Dadi Interest has been made pursuant to the terms and conditions of the Bonds, the Bondholder shall have a pre-emption right (the "**Pre-emption Right**") in respect of such proposed issue pursuant to which the relevant Issuer Group Company shall first made an offer in writing to the Bondholder offering its pro-rata share of the total amount of such new Share Equivalents, and in the case of a subsidiary of the Issuer, such pro-rata share shall be calculated based on the indirect interest of the Bondholder in the relevant Issuer Group Company, on terms no less favourable than those proposed to be offered to the new subscriber.

Notwithstanding the above, no Pre-emption Right shall be available for the Bondholder in case of:

- (i) any issue(s) of Share Equivalents within six months following Completion where the proceeds of such issue(s) amount to no more than RMB2 billion in aggregate; or
- (ii) an issue of Share Equivalents pursuant to an employee share scheme of any Issuer Group Company, provided that such issue shall not exceed 10% in aggregate of the issued share capital of the relevant Issuer Group Company on a fully-diluted and as-converted basis.

LETTER FROM THE BOARD

As the Pre-emption Right only allows the Bondholder to subscribe for the Share Equivalents on a pro-rata basis based on its relative holding of Share Equivalents, in whole or in part, the Bondholder may not obtain control of the Issuer Group Companies by means of the exercise of the Pre-emption Right. Assume the Pre-emption Right is exercised in full by the Bondholder immediately after issue, such issue of Share Equivalents to the Investor under the Pre-emption Right shall not constitute connected transactions under Chapter 14A of the Listing Rules.

Issuer's Call Option

Upon occurrence of redemption of the Bonds, the Issuer shall have a right to require the Bondholder to sell all but not part of the Share Equivalents it acquired pursuant to the Pre-emption Right to the Issuer (the “**Issuer's Call Option**”). The Issuer shall pay to the Bondholder a price equal to an amount which yields an internal rate of return of 5.50% per annum on the subscription amount paid by the Bondholder (taking into account any interest and dividends received by the Bondholder for the Share Equivalents) for purchasing the new Share Equivalents acquired pursuant to the Pre-emption Right.

Tag-along Right:

In the event that any shareholder of the Issuer or Guangdong Dadi proposes to transfer, directly or indirectly, all or part of its Share Equivalents in the Issuer or Guangdong Dadi to a third party which will result in a change of Control of the Issuer or Guangdong Dadi, the Bondholder shall have a tag-along right (the “**Tag-along Right**”) to sell all or part of its Share Equivalents to the same third party on the same terms and conditions as given to such shareholder of the Issuer or Guangdong Dadi.

Notwithstanding the above, no Tag-along Right shall be available for the Bondholder in case of a transfer of Share Equivalents to an employee pursuant to an employee share scheme of any Issuer Group Company, provided that all transfers pursuant to such scheme shall not exceed 20% in aggregate of the issued share capital of the relevant Issuer Group Company on a fully-diluted and as-converted basis.

Transferability of the Bonds:

Prior to a Qualified IPO, the Bondholder shall not transfer any of its Bonds except to its Affiliates or as otherwise permitted under the Subscription Agreement.

LETTER FROM THE BOARD

Listing: No listing will be sought for the Bonds on the Stock Exchange or any other stock exchanges.

IV. PUT OPTION GRANTED TO THE INVESTOR

From an Equity Date up to two years and 90 days following the Equity Date, the Investor shall have an option (the “**Put Option**”) to request the Company to purchase all of its Share Equivalents at a price that will yield an internal rate of return of 5.50% per annum on the subscription amount paid by the Bondholder for such Share Equivalents for a period of 90 days after the occurrence of any of the following events:

- (a) an Event of Default;
- (b) failure of Guangdong Dadi to change its status to a company limited by shares within 3 months following the Exchange Date or the date when the onshore entity designated by the Investor becomes the shareholder of Guangdong Dadi following an Early Redemption Event;
- (c) failure of the Issuer Group to submit an application in respect of a Qualified IPO within 12 months following the relevant Equity Date; or
- (d) failure of the Issuer Group to complete a Qualified IPO by two years following the relevant Equity Date.

The Put Option is exercisable in whole but not in part by written notice from the Investor to the Company stating the Investor’s intention to exercise the Put Option and the proposed date for completion of the Put Option, which shall take place within 20 business days after the date of such notice and the satisfaction of all necessary legal and regulatory disclosure and approval requirements, or such other date as the Issuer, the Company and the Investor may agree.

LETTER FROM THE BOARD

V. OTHER TRANSACTION DOCUMENTS TO BE ENTERED INTO AT COMPLETION

Pursuant to the Subscription Agreement, the following Transaction Documents have been entered into on 15 June 2016:

The Onshore Share Purchase Agreement

The Issuer, Guangdong Dadi, Dadi Century Film Culture and the Investor have entered into the Onshore Share Purchase Agreement. Subject to the conditions precedent in the Onshore Share Purchase Agreement, being satisfied (or waived), Guangdong Dadi will increase its registered capital in the amount of the Applicable Guangdong Dadi Interest and the Investor will through its designated onshore entity purchase the increased registered capital with a consideration of the Subscription Amount (i.e. RMB1,000,000,000).

- (a) The conditions precedent of Issuer, Guangdong Dadi, and Dadi Century Film Culture under the Onshore Share Purchase Agreement include (but not limited to): the representations and warranties of the Investor contained or referred to in the Onshore Share Purchase Agreement remaining true and correct as of the date of closing as though made on such date and all undertakings to be completed by the Investor on or before completion having been fulfilled;
- (b) the occurrence of an Early Redemption Event; and
- (c) the exercise of the Early Redemption Right by the Investor.

The conditions precedent of the Investor under the Onshore Share Purchase Agreement include (but not limited to):

- (a) the representations and warranties of the Issuer, Guangdong Dadi and Dadi Century Film Culture contained or referred to in the Onshore Share Purchase Agreement remaining true and correct as of the date of closing as though made on such date;
- (b) all undertakings to be completed by the Issuer, Guangdong Dadi and/or Dadi Century Film Culture on or before completion having been fulfilled;
- (c) the Investor having received a certificate signed by the Issuer, Guangdong Dadi and Dadi Century Film Culture certifying that the facts set out in (a) and (b) above;
- (d) the transactions contemplated under the Onshore Share Purchase Agreement not being restricted, prohibited, or cancelled by any PRC laws or judgement, ruling, adjudication or prohibition issued by courts, arbitration bodies or relevant governmental department;

LETTER FROM THE BOARD

- (e) there being no pending or potential litigation, arbitration, ruling, adjudication or prohibition that will have a material adverse effect on the transactions contemplated under the Onshore Share Purchase Agreement;
- (f) all consents and approvals of, notices to and filings or registration with any government authority or any other third party necessary for the increase in registered capital in Guangdong Dadi shall have been obtained or effected; and
- (g) the Investor having received the Redemption Price for the redemption of all of its Bonds outstanding.

The purpose of the Onshore Share Purchase Agreement is to allow the Investor to acquire the Applicable Guangdong Dadi Interest upon occurrence of an Early Redemption Event.

The Default Onshore Share Purchase Agreement

The Issuer, Guangdong Dadi and the Investor have entered into the Default Onshore Share Purchase Agreement, pursuant to which if the Company fails to perform its obligations under the Guarantee within 30 days of the Investor requiring it to do so, the Investor shall have the right to request the Issuer to transfer 15% of the registered capital of Guangdong Dadi to the Investor (or its nominee) at a consideration of RMB1,000,000,000.

VI. BUSINESS COOPERATION AGREEMENT

On 9 May 2016, Zhong Lian Sheng Shi, an indirect wholly-owned subsidiary of the Investor, and Guangdong Dadi, entered into the Business Cooperation Agreement, pursuant to which the parties have agreed, among others:

- (a) to collaborate in the marketing and promotion of movies in order to increase the cinemas attendance rate;
- (b) to jointly develop the movie-related markets and related e-commerce business;
- (c) certain commercial arrangement in relation to the rates of screening of movies which Zhong Lian Sheng Shi or its Affiliates is the lead distributor at Guangdong Dadi's cinemas; and
- (d) certain commercial arrangement in relation to the movie ticket price,

from the Issue Date until the earlier of (i) the Investor or its Affiliates ceasing to hold any Share Equivalents in the Issuer Group, and (ii) the date falling two years following the Equity Date.

The Business Cooperation Agreement is merely a framework agreement between Guangdong Dadi and Zhong Lian Sheng Shi on future cooperation and does not involve transactions as defined under Chapter 14A of the Listing Rules.

VII. INFORMATION ON THE PARTIES

The Issuer

The Issuer is a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company. The Issuer is an investment holding company. The Issuer, through its subsidiaries, is principally engaged in the operation and management of cinemas, movie screening and other related business. The Issuer has an issued share capital of HK\$7,500 comprising of 75,000 Issuer Shares.

Based on the unaudited financial statements of the Issuer, the consolidated total assets of the Issuer and its subsidiaries as at 31 December 2015 was HK\$4,987.42 million.

Based on the unaudited financial statements of the Issuer, the consolidated net profit/loss before income tax of the Issuer and its subsidiaries for the years ended 31 December 2014 and 2015 were a loss of HK\$265.96 million and a profit of HK\$275.61 million respectively, while the consolidated net profit/loss after income tax of the Issuer and its subsidiaries for the years ended 31 December 2014 and 2015 were a loss of HK\$288.96 million and a profit of HK\$258.48 million respectively. One-off loss of approximately HK\$304.70 million was recorded in the year ended 31 December 2014 which affected both the net profit/loss before and after income tax. The one-off loss was due to the close-down of cinemas with poor performance during the year ended 31 December 2014 as discussed in the 2014 annual report of the Company.

As of the Latest Practicable Date, there is no proposal for a Qualified IPO of the Issuer.

Guangdong Dadi

Guangdong Dadi is a limited liability company incorporated in the PRC and is an indirect wholly-owned subsidiary of the Company. Guangdong Dadi is principally engaged in the business of cinema construction and operation, related concessions and derivatives sales, and related advertisement sales.

The Investor

The Investor is a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of Alibaba Pictures Group Limited, shares of which are listed and traded on the Main Board of the Stock Exchange (stock code: 1060) and the Singapore Exchange Securities Trading Limited (stock code: S91). Alibaba Pictures Group Limited is the flagship unit of Alibaba Group's movie, television and other entertainment businesses and its core businesses include four main segments: film and television production centered on IP (intellectual property); internet-based promotion and distribution combining internet technologies and traditional off-line distribution; the building and operation of e-commerce platforms for entertainment as an extension of the Alibaba Group ecosystem; and international operations that consolidate global resources, technologies and talents in order to compete in the global entertainment industry.

LETTER FROM THE BOARD

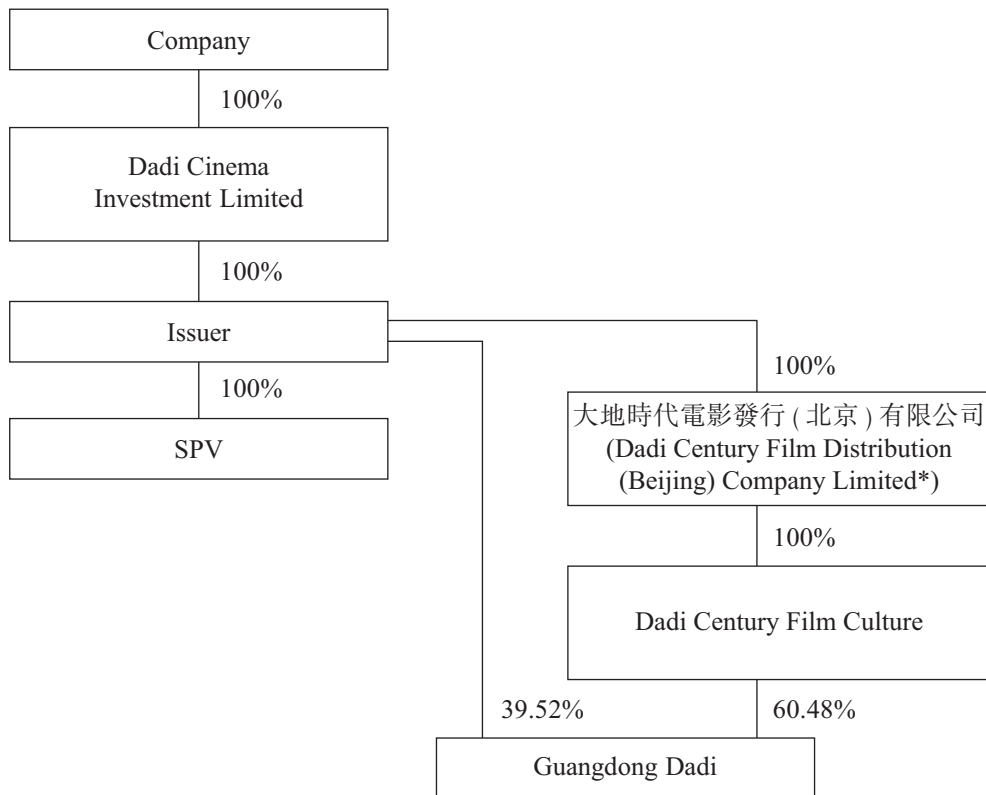
To the best of the knowledge, information and belief of the Board after making all reasonable enquiry, the Investor and its ultimate beneficial owners are Independent Third Parties.

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) corporate IT application services (through its listed subsidiary, Sino-i Technology Limited (stock code: 250), a company having its shares listed and traded on the Main Board of the Stock Exchange) as at the date of this circular.

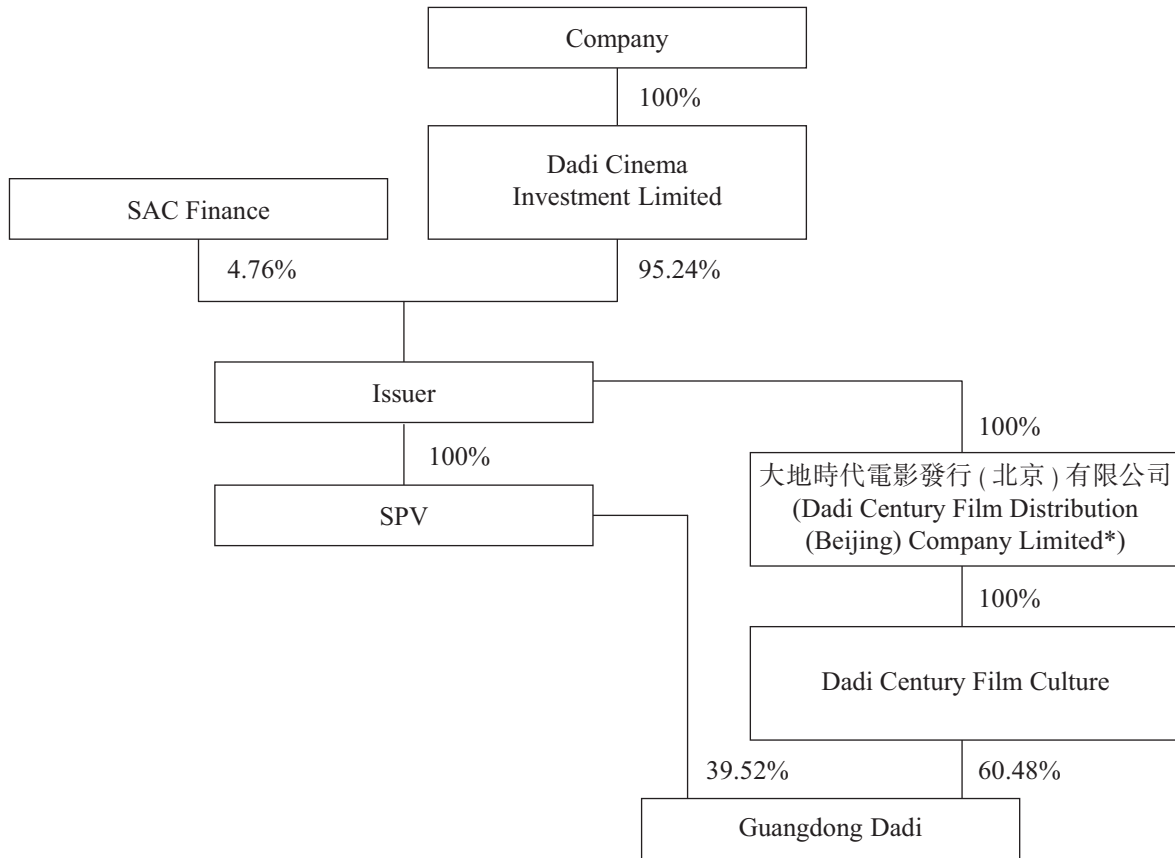
VIII. SHAREHOLDING STRUCTURE BEFORE AND AFTER POSSIBLE CONVERSION OR EXCHANGE OF THE BONDS

Current shareholding structure as at the Latest Practicable Date



LETTER FROM THE BOARD

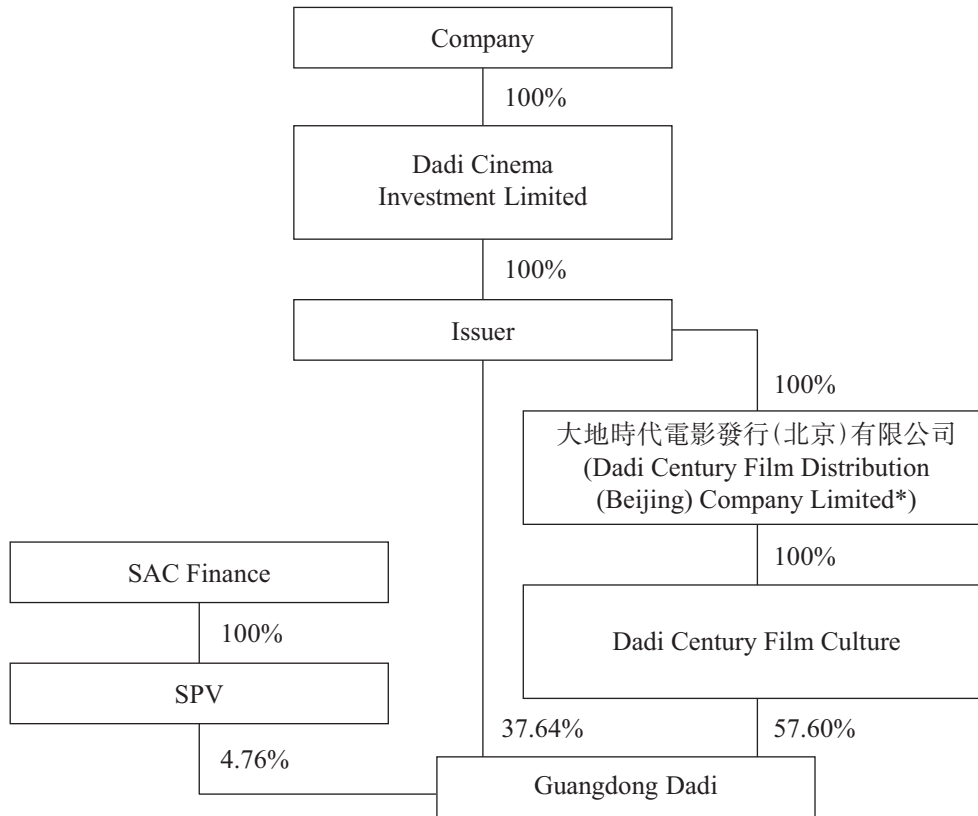
Shareholding structure upon conversion (assume the Bonds are converted in full by the Investor at the initial Conversion Price immediately after issue and there is no change in the number of Issuer Shares)



Upon conversion, the SPV will continue to be a 100% wholly-owned subsidiary of the Issuer.

LETTER FROM THE BOARD

Shareholding structure upon exchange (assume the Bonds are exchanged in full by the Investor at the initial Applicable Guangdong Dadi Interest immediately after issue)



IX. REASONS FOR THE PROPOSED ISSUE OF THE BONDS AND USE OF PROCEEDS

The Issuer shall apply the proceeds from the issue of the Bonds for funding the continuing operation of the business of Guangdong Dadi, acquisition and construction of cinemas, and repayment of bank loans of the Issuer Group. Based on preliminary plans of the Company, the Company expects to utilize the proceeds in the following manner:

Purposes	Proportion	Proceeds
		<i>RMB million</i>
		<i>% (approximately)</i>
Funding the continuing operation of the business of Guangdong Dadi	5	50
Acquisition of cinemas	35	350
Construction of cinemas	45	450
Repayment of bank loans of the Issuer Group	15	150
	<hr/>	<hr/>
Total	<u>100</u>	<u>1,000</u>

LETTER FROM THE BOARD

Given the encouragement to invest and construct cinemas by the PRC government, the Group believes that there will be significant potential for the development of the film industry. The proceeds from the issue of the Bonds can assist the Group to seize these opportunities through acquisition and construction of cinemas, which will in turn reinforce the Group's overall leading position in the film industry and enhance its market position in related fields.

The aggregate amount of the Bonds to be issued was determined after taking into account, among other things (a) the Company's estimated needs for expansion and operations in the near future, including the planned new cinemas to be opened and the new screens to be installed in the next three years; and (b) the Company's cooperation with the Investor and its Affiliates pursuant to the Business Cooperation Agreement. The initial Conversion Price and initial Applicable Guangdong Dadi Interest were determined based on the pre-money valuation of Guangdong Dadi, which is an estimated valuation reached by the Investor by reference to (i) the valuation of the companies in the market comparable to Guangdong Dadi; and (ii) expected development of Guangdong Dadi and the movie market in the PRC.

The Company has considered both debt financing and equity financing to raise additional funds for the above mentioned funding needs of the Issuer Group. However, pure debt financing from banks was considered not in favour of the Group as the interest rate is much higher than that offered by the Investor. In addition, the Company would like to establish a long term relationship with the Investor to strengthen the cooperation between the parties.

Taking into account of the above, the Directors consider that the terms of the Subscription Agreement and the terms of the Bonds (including (i) the post completion undertaking to be provided by the Company; (ii) the Conversion Price Adjustments and the Adjustments to the Applicable Guangdong Dadi Interest; (iii) the Pre-emption Right and Tag-along Right held by the Investor; (iv) the Put Option granted to the Investor; (v) the entering into of the Onshore Share Purchase Agreement; and (vi) the entering into of the Default Share Purchase Agreement), which were arrived at after arm's length negotiations between the Company, the Issuer and the Investor, are fair and reasonable and the Subscription and the terms of the Bonds are in the interests of the Company and the Shareholders as a whole.

X. FINANCIAL EFFECTS OF THE ISSUE OF THE BONDS AND POSSIBLE MAJOR TRANSACTION RELATING TO DEEMED DISPOSAL OF PARTIAL INTEREST IN A WHOLLY-OWNED SUBSIDIARY

Following completion of the transactions contemplated under the Transaction Documents, both the Issuer and Guangdong Dadi will remain as indirect subsidiaries of the Company, and their respective accounts will continue to be consolidated into the financial statements of the Company. Should the Bonds be converted in full by the Investor at the initial Conversion Price immediately after issue and assuming there will not be any other change in the number of Issuer Shares, the Company's equity interest in the Issuer would decrease to approximately 95.24%. Should the Bonds be exchanged in full with the initial Applicable Guangdong Dadi Interest immediately after issue, the Company's interests in Guangdong Dadi would decrease to approximately 95.24%.

LETTER FROM THE BOARD

Given that (i) the terms and conditions of the Bonds limit the maximum number of Issuer Shares to be issued on conversion pursuant to the Box Office Revenue Price Adjustment to not more than 20% of the enlarged issued share capital of the Issuer on a fully-diluted basis; (ii) the terms and conditions of the Bonds limit the maximum Applicable Guangdong Dadi Interest to be adjusted pursuant to the Box Office Revenue Interest Adjustment to not more than 20% of the registered capital of Guangdong Dadi; and (iii) each of the Company and the Issuer undertakes not to proceed with any transaction in relation to the issue or disposal of any Share Equivalents in the Issuer and/or Guangdong Dadi such that the assets of Guangdong Dadi will no longer be consolidated in the financial statements of the Company, the Issuer and Guangdong Dadi will continue to be subsidiaries of the Company and the accounts of the Issuer and Guangdong Dadi will continue to be consolidated to the Group's financial statements pursuant to the Subscription notwithstanding the conversion or the exchange of the Bonds to the fullest extent.

Upon the issue of the Bonds, the total assets of the Group will be increased by an amount equal to the principal amount of the Bonds; the total liabilities of the Group will be increased by an amount equal to the liability component of the Bonds and any financial liabilities arising from the issue of the Bonds.

During the term of the Bonds, the Group will incur interest expenses calculated at 1.95% per annum on the outstanding principal amount of the Bonds. Upon redemption, the Group will incur an expense of 5.50% per annum (inclusive of the 1.95% per annum incurred during the term of the Bonds) on the Subscription Amount, less default interests (if any) and dividend received by the Bondholder.

Assuming the Bonds are converted in full by the Investor at the initial Conversion Price immediately after issue and there is no other change in the number of Issuer Shares or assuming the Bonds are exchange in full by the Investor at the initial Applicable Guangdong Dadi Interests immediately after issue, the consideration represents an excess of approximately HK\$1,201.8 million and HK\$1,130.1 million over the net book value of 4.76% equity interests in the Issuer and Guangdong Dadi respectively. The exact financial effect upon conversion or exchange of the Bonds is subject to the opinion of the Company's auditors at the relevant time.

XI. FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities during the past twelve months immediately preceding the Latest Practicable Date.

XII. LISTING RULE IMPLICATIONS

The Subscription and the Deemed Disposal

As the relevant percentage ratios for the Subscription, are above 5% and less than 25%, the Subscription constitutes a discloseable transaction, therefore is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The issue of new Issuer Shares to, or the exchange into the SPV Shares by, the Investor or the Bondholder upon a conversion or an exchange of the Bonds (as the case may be) will be deemed to be a disposal of partial interest in the Issuer and/or Guangdong Dadi by the Company under the Listing Rules (the “**Deemed Disposal**”). As one or more of the applicable percentage ratios in respect of the Deemed Disposal (assuming a maximum number of Issuer Shares representing 50% for the enlarged issued share capital of the Issuer is issued upon the full conversion of the Bonds after possible adjustments and assuming a maximum Applicable Guangdong Dadi Interest representing 50% of the registered capital of Guangdong Dadi is disposed of upon the exchange of the Bonds after possible adjustments) exceeds 25% but all are less than 75%, the Deemed Disposal constitutes a major transaction for the Company, and the Company is required to comply with the reporting, announcement and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

The Issuer’s Call Option

The Issuer’s Call Option is exercisable at the discretion of the Company upon the occurrence of redemption of the Bonds and the consideration ratio of the Issuer’s Call option shall depend on the subscription amount paid by the Bondholder at the time of its exercise of the Pre-emption Right. As the Bondholder’s Pre-emption Right only allows the Bondholder to purchase its pro-rata share of the total amount of new issue of Share Equivalents, which pursuant to the Company’s Undertaking on No Change of Control, shall in no event be more than 50% of the issued share capital of the Issuer or more than 50% of the registered capital of Guangdong Dadi, the assets ratio, profits ratio and revenue ratio of the Issuer’s Call Option shall be the same as those applicable to the Deemed Disposal. As one or more of the applicable percentage ratios in respect of the Issuer’s Call Option exceeds 25% but all are less than 75%, the Issuer’s Call Option constitutes a major transaction for the Company, and the Company is required to comply with the reporting, announcement and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

The Put Option

Given the exercise of the Put Option is not at the discretion of the Company, the Put Option will be treated as if it was exercised for the purposes of compliance under the Listing Rules. As the relevant percentage ratios for the Put Option (assuming the Bonds are converted in full by the Investor at the initial Conversion Price immediately after issue and there is no other change in the number of Issuer Shares or assuming the Bonds are exchange in full by the Investor at the initial Applicable Guangdong Dadi Interests

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immediately after issue), are above 5% and less than 25%, the Put Option would constitute a discloseable transaction, therefore is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The Onshore Share Purchase Agreement

As one or more of the applicable percentage ratios in respect of the Onshore Share Purchase Agreement (which are the same as those applicable for the Subscription and the Deemed Disposal) exceeds 25% but all are less than 75%, the Onshore Share Purchase Agreement constitutes a major transaction for the Company and the Company is required to comply with the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Default Onshore Share Purchase Agreement

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Default Onshore Share Purchase Agreement are above 5% and less than 25%, the Default Onshore Share Purchase Agreement constitutes a discloseable transaction, therefore is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Written Approval from the Controlling Shareholder Group

As at the date of the Subscription Agreement, the Controlling Shareholder Group held in aggregate 36,096,430,679 Shares, representing approximately 52.58% of the issued share capital of the Company. On 9 May 2016, the Company received the Controlling Shareholder Group's written approval to the proposed issue of the Bonds, the Subscription Agreement and any of the transactions contemplated under such agreement (including but not limited to the grant and exercise of the Issuer's Call Option) and the entering into of the Subscription Agreement and other transaction documents in relation thereto (including but not limited to the Onshore Share Purchase Agreement and the Default Onshore Share Purchase Agreement). As (i) no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the proposed issue of the Bonds; and (ii) the Controlling Shareholder Group holds more than 50% of the voting rights that would be exercisable at any such general meeting, the Controlling Shareholder Group's written approval is acceptable in lieu of holding a general meeting of the Company for approval of the proposed issue of the Bonds pursuant to Rule 14.44 of the Listing Rules.

LETTER FROM THE BOARD

XIII. ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Nan Hai Corporation Limited
Yu Pun Hoi
Chairman and Executive Director

* *For identification purposes only*

I. INDEBTEDNESS STATEMENT**Borrowings, secured**

At 30 April 2016, the borrowings were as follows:

	As at 30 April 2016 HK\$'000
Bank and other borrowings	2,930,639
Bank and other borrowings — guaranteed	7,224,083
Finance lease liabilities	1,005
Finance lease liabilities — guaranteed	<u>106,780</u>
	<u><u>10,262,507</u></u>

Security and guarantees

At the close of business on 30 April 2016, the Group's borrowings were secured by way of charge over certain assets including property, plant and equipment, prepaid land lease payments under operating leases, financial assets at fair value through profit or loss, investment properties, properties under development and completed properties held for sale and bank deposits with a total net carrying value of approximately HK\$6,787,957,000.

In addition, the Group's bank borrowings were secured by guarantees given by directors of the Company, the Company and certain subsidiaries and also secured by various share mortgages of certain subsidiaries.

Contingent liabilities

Guarantees given in connection with credit facilities granted to:

	As at 30 April 2016 HK\$'000
Associates (note i, ii)	<u><u>3,223,172</u></u>

Notes:

- (i) There have been no material developments in pending litigation (High Court Number of HCCL 5 of 2006) against BDO Unibank, Inc. (branded as BDO) (formerly known as Equitable PCI Bank Inc. and then as Banco de Oro-EPCI, Inc. and then as Banco de Oro Unibank, Inc.) (“**BDO UniBank**”), a Filipino bank, and Waterfront Philippines Inc., a Filipino company, as more particularly disclosed in note 46 to the financial statements of the Company’s 2015 annual report. Due to the pending litigation, the Group is not able to obtain any updated indebtedness information from BDO Unibank. Given the foregoing limitation, it is estimated that the outstanding balance of the total indebtedness owing to BDO Unibank was approximately US\$2,330,000 (equivalent to approximately HK\$18,058,000) by reference to the unaudited financial statements of the associate as at 30 April 2016.

Up to the Latest Practicable Date, the Group is not able to obtain any updated information of the outstanding balance of the indebtedness (“**ICBC Indebtedness**”) under a loan facility of US\$15,000,000 made available by the Singapore Branch of Industrial and Commercial Bank of China to Acesite (Philippines) Hotel Corporation Inc. (“**Acesite Phils**”) as more particularly disclosed in note 44(i) to the financial statements of the Company’s 2015 annual report. Given the foregoing limitation, it is estimated that there was no outstanding ICBC Indebtedness by reference to the published financial information of Acesite Phils as at 31 March 2016.

- (ii) A deed of covenants was executed among the Company, a subsidiary of the Company, Baitak Asian Shenzhen Peninsula Co., Ltd (“**Baitak**”), CITIC Real Estate (Hong Kong) Development Limited (“**CITIC**”) and Listar Properties Limited (“**Listar**”) in August 2013. As per the provisions of the deed of covenants, the Company and the subsidiary of the Company guarantee that both Baitak and CITIC can recover their total consideration in the acquisition of equity interest in Listar together with a return of 12% internal rate of return (“**IRR**”) and 10% IRR respectively. The guarantees were considered by the Company’s directors to be of no effect on the Group’s liabilities as Listar is expected to be able to meet the aforesaid obligation, therefore, such guarantees were also considered as no commercial value.

Except for the above, the Group has some litigations as at 30 April 2016 which the Group considered that it would not incur a material outflow of resources as result of these litigations. For details, please refer to point III of Appendix II.

Saved as aforesaid and apart from intra-group liabilities and normal accounts payable, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 30 April 2016.

II. WORKING CAPITAL STATEMENT

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

III. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Upon the completion of the proposed issue of Bonds, the respective accounts of the Issuer and Guangdong Dadi will continue to be consolidated into those of the Company.

The Group is optimistic about China's macro-economy and the future development of its three main businesses, namely culture and media services, property development and corporate IT application services, and is confident that it can achieve better performance in 2016.

In the coming year, the Group will continue to vigorously develop its three main businesses, i.e. culture and media services, property development and corporate IT application services, by adhering to its diversified core business strategy. The Group will be committed to pursuing the entire industry chain layout of the film industry through the accelerated expansion of the Issuer by new incorporation and mergers and acquisitions. It will also speed up the development process of the existing property projects, while striving for the exploration of new property projects; and will further improve its operation and management level as well as its operational efficiency of corporate IT application services. In the meantime, the Group will spare no efforts to foster its media business and innovative business so as to facilitate resource sharing and strategic synergy in cross-business fields, striving to develop them as the fourth and fifth segments of the Group.

IV. MATERIAL ADVERSE CHANGE

The Directors are not aware as at the Latest Practicable Date of any material adverse change in the financing or trading position of the Group since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up.

I. RESPONSIBILITY STATEMENT

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

II. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO (i) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO); or (ii) which were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) *Interests in the Company*

Long position in Shares in issue

Name of Director	Capacity/ Nature of interest	Number of Shares held	Approximate percentage holding
Yu Pun Hoi ("Mr. Yu")	Corporate interest	36,540,280,679 ⁽¹⁾	53.23%
Chen Dan	Personal interest	32,000,000	0.05%

Note:

- These 36,540,280,679 shares were collectively held by Rosewood Assets Ltd., Pippen Limited, Staverley Assets Limited and First Best Assets Limited, companies indirectly wholly owned by Mr. Yu through Dadi Holdings Limited, a company wholly owned by Mr. Yu.

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

As disclosed above, Mr. Yu is entitled to control the exercise of more than one-third of the voting power at general meetings of the Company. As such, Mr. Yu is taken to be interested in the shares of the associated corporations of the Company within the meaning of Part XV of the SFO. Sino-i is a company whose shares are listed on the Stock

Exchange, and is an associated corporation of the Company within the meaning of Part XV of the SFO. As at the Latest Practicable Date, the interests of the Directors in shares and underlying shares of Sino-i were as follows:

Long position in shares in issue of Sino-i

Name of Director	Capacity/ Nature of interest	Number of shares held	Approximate percentage holding
Yu Pun Hoi	Corporate interest	12,695,075,316 ⁽¹⁾	63.75%

Note:

- These 12,695,075,316 shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of the Company. Mr. Yu was taken to be interested in these shares by virtue of his controlling interests in shares of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executive of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

As at the Latest Practicable Date, substantial Shareholders and other persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholders	Capacity/ Nature of interest	Number of Shares held (long position)	Approximate percentage holding
Dadi Holdings Limited	Corporate interest	36,540,280,679 ⁽¹⁾	53.23%
Rosewood Assets Ltd.	Beneficial interest	7,668,000,210 ⁽¹⁾	11.17%
Pippen Limited	Beneficial interest	14,830,245,497 ⁽¹⁾	21.60%
Staverley Assets Limited	Beneficial interest	4,893,197,974 ⁽¹⁾	7.13%
First Best Assets Limited	Beneficial interest	9,148,836,998 ⁽¹⁾	13.33%
Kung Ai Ming	Corporate interest	3,811,819,898 ⁽²⁾	5.55%
Yu Ben Hei	Corporate interest	3,742,493,498 ⁽²⁾	5.45%
Macro Resources Ltd.	Beneficial interest	3,742,493,498 ⁽²⁾	5.45%
CITIC Capital Holdings Limited	Corporate interest	10,100,000,000 ⁽³⁾	14.71%
CITIC Capital Credit Limited	Security interest	10,100,000,000 ⁽³⁾	14.71%

Name of Shareholders	Capacity/ Nature of interest	Number of Shares held (long position)	Approximate percentage holding
Lim Siew Choon	Corporate interest	8,819,673,777 ⁽⁴⁾	12.85%
Empire Gate Industrial Limited	Beneficial interest	5,514,986,997 ⁽⁴⁾	8.03%
Lee Tat Man	Security interest	7,700,000,000	11.22%

Notes:

1. Rosewood Assets Ltd., Phippen Limited, Staverley Assets Limited and First Best Assets Limited are companies indirectly wholly owned by Mr. Yu through Dadi Holdings Limited, a company wholly owned by Mr. Yu. Their interests in shares are disclosed as the corporate interests of Mr. Yu above.
2. Macro Resources Ltd. is held as to 50% each by Ms. Kung Ai Ming and Mr. Yu Ben Hei, the son of Mr. Yu. Its interest in 3,742,493,498 shares was included as interest held by Ms. Kung Ai Ming. Ms. Kung Ai Ming owns interest of 69,326,400 shares through Redmap Resources Limited, her wholly-owned Company.
3. CITIC Capital Credit Limited is a wholly-owned subsidiary of CITIC Capital Holdings Limited. CITIC Capital Holdings Limited was taken to be interested in those shares in which CITIC Capital Credit Limited held a security interest.
4. Empire Gate Industrial Limited is wholly owned by Mr. Lim Siew Choon. Its interest in shares was included as interest held by Mr. Lim Siew Choon.

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

III. PENDING LITIGATIONS

- (a) In February 1993, a Group's associate borrowed a loan of US\$5 million from a Filipino bank namely BDO Unibank, Inc. (branded as BDO) (formerly known as Equitable PCI Bank Inc. and then as Banco de Oro-EPCI Inc. and then as Banco de Oro Unibank, Inc.) ("**BDO Unibank**"). The loan was secured by a guarantee executed by the Company ("**Banco Unibank Guarantee**"), and by share mortgage of 74,889,892 shares ("**Philippines Shares**") of Acesite (Philippines) Hotel Corporation Inc. ("**Acesite Phils.**"). In respect of the purported sale of Philippines Shares, which were mortgaged by Acesite Limited ("**Acesite**"), by BDO Unibank, to Waterfront Philippines Inc. ("**Waterfront**"), a Filipino company, in February 2003, Acesite, a former subsidiary of Sino-i; Evallon Investment Limited, a wholly-owned subsidiary of Sino-i; Mr. Yu Pun Hoi, the chairman and executive director of both the Company and Sino-i and, South Port Development Limited, a former wholly-owned subsidiary of Sino-i as first, second, third and fourth plaintiff respectively issued a claim against BDO Unibank and Waterfront, on the grounds that the purported sale of the Philippines Shares was unlawful as such sale was in breach of

the terms of the mortgage; in breach of a compromise agreement reached in January 2003; and in other breaches, for damages; further or other relief; interest and costs and etc. in February 2006 under High Court Number of HCCL 5 of 2006. The case is still in progress and no date has been fixed for trial.

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

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

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries have been engaged in any litigation or claims of material importance and, so far as the Directors are aware, 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 of its subsidiaries.

IV. DIRECTORS’ SERVICE CONTRACTS

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

V. DIRECTORS’ INTERESTS IN COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates was considered by the Company to have interests in businesses which compete with, or might compete with, either directly or indirectly, the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

VI. DIRECTORS’ INTEREST IN THE GROUP’S ASSETS

As at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which had been, since 31 December 2015 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

VII. DIRECTORS' INTEREST IN CONTRACTS OR ARRANGEMENT OF SIGNIFICANCE

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

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

On 1 January 2014, Oristar entered into the Oristar Cooperation Agreement with GD Cinema Circuit, pursuant to which Oristar shall use its reasonable endeavours to provide the Projection Equipment (or any part of it) (including installation and training) to GD Cinema Circuit upon fulfillment of certain conditions for coping with its business development during a fixed term of six (6) years, from 1 January 2014 to 31 December 2019.

On 19 August 2015, Ms. Liu Rong (an executive Director) (1) acquired 80% of Dadi Century Beijing which directly owns 85% equity interest of GD Cinema Circuit; and (2) gained an effective control of 15% equity interest of GD Cinema Circuit through Dadi Legend which is an associate of Ms. Liu Rong. As such, Ms. Liu Rong became interested in the Dadi Cinema Cooperation Agreement, the Dadi Development Cooperation Agreement and Oristar Cooperation Agreement.

Please refer to the section "Continuing Connected Transactions" in the Report of the Directors of the 2015 annual report of the Company for further details.

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

VIII. MATERIAL CONTRACTS

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

- (a) the sale and purchase agreement dated 29 January 2015 entered into between 北京中企開源信息技術有限公司 (Beijing CE Open Source Software Co., Ltd.) (“**CE Open**”) as vendor and 林芝縣中科百孚股權投資有限合夥企業 (Lin Zhi County Zhong Ke Bai Fu Equity Investment Limited Partnership) (“**ZKBF**”) as purchaser, pursuant to which CE Open agreed to sell and ZKBF agreed to purchase 20% equity interest of 龍芯中科技術有限公司 (Loongson Technology Co., Ltd.) (“**Loongson Interest**”) at a total consideration of RMB200,000,000. CE Open was a nominee of South Sea Investment Company Limited (a wholly-owned subsidiary of the Company) in respect of the Loongson Interest.

Please refer to the announcement of the Company dated 29 January 2015 for further details.

- (b) the sale and purchase agreement (“**Crabtree SPA**”) dated 15 December 2015 entered into between Glory Grace Corporation Limited (“**GGC**”, an indirect wholly-owned subsidiary of the Company) and Orange Blossom Limited (“**OBL**”) as purchasers, C&E Capital Ltd. as vendor (“**C&E Capital**”), Mr. Lim Siew Choon (“**LIM**”) as guarantor of C&E Capital and the Company as guarantor of GGC, pursuant to which C&E Capital conditionally agreed to sell and each of GGC and OBL conditionally agreed to purchase as to 70% and 30% respectively of (i) the entire issued share capital of CE Holdings Limited (the “**Sale Shares**”) and (ii) 100% of all the issued redeemable preferred stock in Crabtree & Evelyn, Ltd. and 100% of all the issued redeemable preference shares in Crabtree & Evelyn (Overseas) Limited (the “**Sale Preference Shares**”). The total consideration for the transaction was US\$175 million (“**Transaction Consideration**”) (subject to adjustment), payable by GGC and OBL in the proportion of 70% and 30% respectively.

Please refer to the announcement of the Company dated 15 December 2015 for further details.

- (c) the supplemental agreement to the Crabtree SPA dated 16 March 2016 entered into between GGC and OBL as purchasers, C&E Capital as vendor, the Company and LIM with respect to the adjustment of the Transaction Consideration from US\$175 million to US\$165 million.

Please refer to the announcement of the Company dated 16 March 2016 for further details.

- (d) the second supplemental agreement to the Crabtree SPA dated 17 June 2016 entered into between GGC and OBL as purchasers, C&E Capital as vendor, the Company and LIM with respect to the extension of the long stop date and the respective completion date from 16 June 2016 to 15 September 2016 and from 30 June 2016 to 30 September 2016 respectively.

Please refer to the announcement of the Company dated 17 June 2016 for further details.

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

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

- (f) the Subscription Agreement.

IX. MISCELLANEOUS

- (a) The registered office of the Company is at Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the principal place of business in Hong Kong is situated at 12/F., The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong.
- (b) The company secretary of the Company is Mr. Chiu Ming King, who is the director of Corporate Services of Vistra Corporate Services (HK) Limited. Mr. Chiu is a fellow member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (d) In any event of inconsistency, the English version of this circular shall prevail over the Chinese version to the extent of such inconsistency.

X. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) this circular;
- (b) the memorandum and articles of association of the Company;
- (c) the annual reports of the Company for the two financial years ended 31 December 2014 and 31 December 2015;
- (d) the material contracts referred to in the section headed “Material Contracts” in this appendix; and
- (e) the written approval given by the Controlling Shareholder Group dated 9 May 2016.

* *For identification purposes only*