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

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

橙天嘉禾娛樂(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1132)

**(1) MAJOR TRANSACTION
DEEMED DISPOSAL OF EQUITY INTEREST IN OSGH (CHINA) AND
(2) POSSIBLE MAJOR TRANSACTIONS
POSSIBLE ACQUISITION AND POSSIBLE DISPOSAL
IN RELATION TO THE GRANT OF OPTIONS**

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 5 to 32 of this circular.

* For identification purposes only

14 June 2016

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms or expressions shall have the meanings set out below:

“Announcement”	the announcement of the Company dated 15 March 2016 in relation to, among other things, the entering into of the Subscription Agreement by City Entertainment, OSGH (China), Investor 1, Investor 2 and Investor 3
“Anti-Dilution Rights”	has the meaning given to it in the section headed “ <i>B. The Subscription Agreement</i> ” of this circular
“Board”	the board of Directors
“Business Day”	means working days defined in accordance with the laws and regulations of the PRC, excluding Saturdays, Sundays and public holidays in the PRC
“City Entertainment”	橙天嘉禾影城有限公司 (City Entertainment Corporation Limited), a company incorporated in Hong Kong and a wholly owned subsidiary of the Company
“City Entertainment Buy-back Options”	has the meaning given to it in the section headed “ <i>B. The Subscription Agreement</i> ” of this circular
“Company”	means Orange Sky Golden Harvest Entertainment (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1132)
“Completion”	completion of the Subscription Agreement in accordance with the terms and conditions set out thereunder
“Cyber International”	Cyber International Limited, a company owned by an associate of Mr. Wu, which is interested in 180,000,000 Shares, representing 6.56% of the entire issued share capital of the Company as at the Latest Practicable Date
“Director(s)”	Director(s) of the Company
“First Supplemental Agreement”	the supplemental agreement dated 1 April 2016 entered into between City Entertainment, OSGH (China), Investor 1 and Investor 3 pursuant to which, among other things, the parties thereto agreed to amend certain terms of the Subscription Agreement as between City Entertainment, OSGH (China), Investor 1 and Investor 3
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“HKFRS”	Hong Kong Financial Reporting Standards
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Investor 1”	嘉興信業創贏肆號投資合夥企業(有限合夥) (Jiaxing Credit Prosperity Investment Enterprise (Limited Partnership)*), a limited partnership established in the PRC
“Investor 2”	北京微影時代科技有限公司 (Beijing Weiyong Technology Co. Ltd*), a company established in the PRC or any of its associates, including 上海慧影投資中心(有限合夥) (Shanghai Huiying Investment Centre (Limited Partnership)*), a limited partnership established in the PRC
“Investor 3”	北京青中同創資產管理有限公司 (Beijing Qing Zhong Tong Chuang Asset Management Company Limited*), a company established in the PRC
“Investors”	collectively, Investor 1, Investor 2 and Investor 3
“Investors’ Buy-back Options”	has the meaning given to it in the section headed “ <i>B. The Subscription Agreement</i> ” of this circular
“Latest Practicable Date”	the latest practicable date for ascertaining certain information contained in this circular
“Letter of Undertaking”	the letter of undertaking issued by the Company to Investor 1, Investor 2 and Investor 3, the details of which are more particularly described in the section headed “ <i>C. The Letter of Undertaking</i> ” of this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Liquidation Distribution Options”	has the meaning given to it in the section headed “ <i>B. The Subscription Agreement</i> ” of this circular
“Mainway Enterprises”	Mainway Enterprises Limited, a company wholly owned by Mr. Wu, which is interested in 408,715,990 Shares, representing 14.90% of the entire issued share capital of the Company as at the Latest Practicable Date
“Mr. Wu”	Mr. Wu Kebo, the Chairman of the Company and an executive director, who is beneficial owner of 117,775,000 Shares, representing 4.29% of the entire issued share capital of the Company as at the Latest Practicable Date

DEFINITIONS

“New City Entertainment Buy-back Options”	has the meaning given to it in the section headed “ <i>B. The Subscription Agreement</i> ” of this circular
“Noble Biz”	Noble Biz International Limited, a company wholly owned by Mr. Wu, which is interested in 129,666,667 Shares, representing 4.73% of the entire issued share capital of the Company as at the Latest Practicable Date
“Orange Sky Entertainment”	Orange Sky Entertainment Group (International) Holding Company Limited, a company which is 80% owned by Mr. Wu, which is interested in 565,719,948 Shares, representing 20.63% of the entire issued share capital of the Company as at the Latest Practicable Date
“OSGH (China)”	橙天嘉禾影城(中國)有限公司 (Orange Sky Golden Harvest Cinemas (China) Company Limited*), a company with limited liability incorporated in the PRC, the entire equity interest in which is held by City Entertainment, and together with its subsidiaries, the “ OSGH (China) Group ”
“OSGH (China) Board”	the directors of OSGH (China) from time to time
“Parties”	collectively, the parties to the Subscription Agreement
“PRC”	The People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan for the purposes of this circular
“Qualified IPO”	the listing of OSGH (China) on a stock exchange in the PRC, including but not limited to The Shanghai Stock Exchange (Main Board), The Shenzhen Stock Exchange (including any listing on its Main Board, SME Board, or its ChiNext Market) but excluding any listing on the National Equities Exchange and Quotations system or other similar regional exchange markets of the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Second Supplemental Agreement”	the supplemental agreement dated 1 April 2016 entered into between City Entertainment, OSGH (China), and Investor 2, pursuant to which, among other things, the parties thereto agreed to amend certain terms of the Subscription Agreement as between City Entertainment, OSGH (China), and Investor 2
“Share(s)”	ordinary share(s) of HK\$0.1 each in the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of Share(s)
“Skyera International”	Skyera International Limited, a company wholly owned by Mr. Wu, which is interested in 439,791,463 Shares, representing 16.04% of the entire issued share capital of the Company as at the Latest Practicable Date
“Subscription”	the subscription of equity interest in OSGH (China) pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement dated 15 March 2016 entered into between City Entertainment, OSGH (China), Investor 1, Investor 2 and Investor 3 in respect of the subscription of equity interest in OSGH (China), representing an aggregate of 13.79% of the equity interest in OSGH (China) following completion of the Subscription, by Investor 1, Investor 2 and Investor 3 in OSGH (China), in consideration for RMB400 million, and where the context so requires, such agreement as amended by the First Supplemental Agreement and the Second Supplemental Agreement
“Supplemental Announcement”	the announcement of the Company dated 1 April 2016 in relation to, among other things, the entering into of the First Supplemental Agreement and the Second Supplemental Agreement by City Entertainment, OSGH (China), Investor 1, Investor 2 and/or Investor 3 (as applicable), and the issuance of the Letter of Undertaking to Investor 1, Investor 2 and Investor 3 by the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

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For the purpose of this circular, the exchange rate of RMB1.00 = HK\$1.20 has been used for currency translation, including, for the avoidance of doubt, the computation of the applicable percentage ratios pursuant to Chapter 14 of the Listing Rules. Such exchange rates are for the purposes of illustration only and do not constitute a representation that any amount in RMB or HK\$ have been, or could have been or may be converted at such or any other rates.

LETTER FROM THE BOARD



Golden Harvest

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

橙天嘉禾娛樂(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1132)

Chairman and Executive Director:

Mr. Wu Kebo

Executive Directors:

Mr. Mao Yimin

Mr. Li Pei Sen

Ms. Wu Keyan

Ms. Chow Sau Fong, Fiona

Independent Non-executive Directors:

Mr. Leung Man Kit

Ms. Wong Sze Wing

Mr. Fung Chi Man, Henry

Registered Office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Principal Place of Business:

24th Floor

AXA Centre

151 Gloucester Road

Wan Chai

Hong Kong

14 June 2016

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR TRANSACTION
DEEMED DISPOSAL OF EQUITY INTEREST IN OSGH (CHINA) AND
(2) POSSIBLE MAJOR TRANSACTIONS
POSSIBLE ACQUISITION AND POSSIBLE DISPOSAL
IN RELATION TO THE GRANT OF OPTIONS**

A. INTRODUCTION

Reference is made to (a) the announcement of the Company dated 15 March 2016 in relation to the Subscription Agreement announcing that on the same date, City Entertainment and OSGH (China), each being wholly owned subsidiaries of the Company, entered into the Subscription Agreement with the Investors, pursuant to which the Investors agreed to subscribe for 13.79% of the entire equity interest in OSGH (China) (as enlarged by such subscription) for the consideration of RMB400 million, and (b) the announcement of the Company dated 1 April 2016 in relation to the First Supplemental Agreement, the Letter of Undertaking and the

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LETTER FROM THE BOARD

Second Supplemental Agreement, announcing that on the same date, (i) the First Supplemental Agreement and Second Supplemental Agreement were entered into, pursuant to which the respective parties thereto agreed to amend certain terms of the Subscription Agreement as between themselves, and (ii) the Company issued the Letter of Undertaking to Investor 1, Investor 2 and Investor 3, pursuant to which the Company made certain undertakings in connection with the entering into of the First Supplemental Agreement.

Pursuant to Rule 14.44 of the Listing Rules, in lieu of holding a general meeting, shareholders' written approval to approve the Subscription Agreement and the transactions contemplated thereunder, including the Investors' Buy-back Options and the Liquidation Distribution Options, was obtained on 15 March 2016 from a group of closely allied Shareholders holding in aggregate approximately 67.15% of the entire issued share capital in the Company as at the Latest Practicable Date. Further, as the amendments to the Subscription Agreement set out in the First Supplemental Agreement and the Second Supplemental Agreement on 1 April 2016 constituted a material change to the terms of the Subscription Agreement, pursuant to Rules 14.36 to 14.46 of the Listing Rules, the First Supplemental Agreement and the Second Supplemental Agreement should be subject to Shareholder's approval. Accordingly, pursuant to Rule 14.44 of the Listing Rules, the Company also obtained shareholders' written approval to approve the First Supplemental Agreement and the Second Supplemental Agreement on 1 April 2016.

Immediately following the Completion, the Company will hold 86.21% of the entire equity interest in OSGH (China) (as enlarged by the Completion), which will remain a subsidiary of the Company and, accordingly, its financial information shall continue to be consolidated in the Company's financial statements.

The purpose of this circular is to provide you with (i) further details of the Subscription Agreement (as amended by the First Supplemental Agreement and the Second Supplemental Agreement) and the transactions contemplated thereunder, including the Investors' Buy-back Options and the Liquidation Distribution Options; (ii) financial information of the Group and OSGH (China); and (iii) other information required under the Listing Rules.

B. THE SUBSCRIPTION AGREEMENT

The main terms of the Subscription Agreement (as amended by the First Supplemental Agreement and the Second Supplemental Agreement) are summarised as follows:

Date	15 March 2016
Parties	(1) City Entertainment; (2) OSGH (China); (3) Investor 1; (4) Investor 2; and (5) Investor 3.

LETTER FROM THE BOARD

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

**Percentage of Equity
Interest Subscribed For**

The Investors shall subscribe for an aggregate of 13.79% of the entire equity interest in OSGH (China), as enlarged by the Completion.

Immediately upon the Completion, the respective shareholdings of the relevant Parties in OSGH (China) shall be as follows:

Shareholder	Percentage of equity interest held in OSGH (China) immediately upon completion of the Subscription
City Entertainment	86.21%
Investor 1	6.90%
Investor 2	5.17%
Investor 3	1.72%

**Consideration payable
by the Investors**

An aggregate of RMB400 million, to be paid in lump sums by each of the Investors.

The respective consideration amounts payable by each of the Investors under the Subscription Agreement are as follows:

Shareholder	Consideration Payable
Investor 1	RMB200 million
Investor 2	RMB150 million
Investor 3	RMB50 million
Total	RMB400 million

LETTER FROM THE BOARD

Conditions Precedent

The completion of the Subscription Agreement is conditional upon, among other things, the following main conditions being satisfied:

- (1) the legally valid execution of the Subscription Agreement by each of the Parties;
- (2) the obtaining of all necessary approvals and authorisations from the relevant competent authorities by each of the parties to the Subscription Agreement in accordance with the relevant laws, regulations and constitutional documents applicable to each of them;
- (3) the approval of the Subscription Agreement by the board of directors of each of the Company and OSGH (China) and the approval of the Subscription Agreement and the transactions contemplated thereunder by the Shareholders;
- (4) the approval of the transactions contemplated under the Subscription Agreement by the competent commerce authorities in the PRC;
- (5) the entering into of a mutually agreed joint venture agreement by the Parties to the Subscription Agreement (the “**Joint Venture Agreement**”) and revision of the articles of association of OSGH (China); and
- (6) receipt by the Investors of a legal opinion from the legal advisors to OSGH (China) in respect of the Subscription Agreement, the contents of which having been considered reasonably satisfactory by the Investors prior to its issuance.

Following satisfaction of all conditions precedent to the Subscription Agreement, OSGH (China) or its PRC legal counsel shall deliver a notice to the Investors providing that such conditions precedent have been satisfied, and the Investors shall, within five Business Days, reasonably conclude whether such conditions precedent have been so satisfied.

LETTER FROM THE BOARD

Rights and obligations of City Entertainment, OSGH (China), Investor 1 and Investor 3 between the date of the Subscription Agreement and the date of Completion (inclusive)

City Entertainment, OSGH (China), Investor 1 and Investor 3 agreed that, from the date of the Subscription Agreement to the date of Completion (inclusive), should City Entertainment enter into any written agreement for the disposal of more than 50% of the equity interest in OSGH (China) to any third party purchaser (the date of such agreement being the **“Pre-Completion Third Party Agreement Date”**):

- (1) the Subscription Agreement shall be terminated as between City Entertainment, OSGH (China), and each of Investor 1 and Investor 3 from the Pre-Completion Third Party Agreement Date onwards;
- (2) in the event that each of Investor 1 and Investor 3 has already paid the deposits required of them under the Subscription Agreement, OSGH (China) shall return such deposits to the Investors on the Pre-Completion Third Party Agreement Date; and
- (3) within 30 calendar days of the Pre-Completion Third Party Agreement Date, City Entertainment shall pay to Investor 1 and Investor 3 an aggregate of RMB25 million as compensation.

If Investor 1 and/or Investor 3 fail to perform its payment obligations pursuant to the Subscription Agreement within 30 calendar days of such amount becoming due, City Entertainment and OSGH (China) may collectively terminate the Subscription Agreement as among the parties to the First Supplemental Agreement and OSGH (China) is entitled to a maximum compensation of RMB6.25 million. In addition, if City Entertainment terminates the Subscription Agreement due to any reason caused by Investor 1 and/or Investor 3, Investor 1 and Investor 3 shall pay RMB6.25 million to City Entertainment within 30 calendar days of such termination.

LETTER FROM THE BOARD

If City Entertainment and/or OSGH (China) fail to complete the registration of the change of equity interest in OSGH (China) through the Subscription with the competent authorities pursuant to the Subscription Agreement within 30 calendar days of expiry of the period as agreed under the Subscription Agreement, Investor 1 and Investor 3 may collectively terminate the Subscription Agreement as among the parties to the First Supplemental Agreement and are entitled to a maximum compensation of RMB6.25 million. In addition, if Investor 1 and Investor 3 collectively terminate the Subscription Agreement due to any reason caused by City Entertainment, City Entertainment shall pay a maximum compensation of RMB6.25 million to Investor 1 and Investor 3; if the parties fail to complete the Subscription as a result of the failure of City Entertainment and the Subscription Agreement is terminated, and City Entertainment disposes its controlling interest in OSGH (China) to any third party or loses its controlling interest in OSGH (China) within 60 calendar days of such termination date, City Entertainment shall pay RMB25 million to Investor 1 and Investor 3 as compensation.

**Termination of the
Subscription Agreement
as between City
Entertainment, OSGH
(China), and Investor 2**

The parties to the Second Supplemental Agreement, namely City Entertainment, OSGH (China) and Investor 2, agreed that, within 180 calendar days following the date of execution of the Subscription Agreement, Investor 2 on the one hand, and City Entertainment and OSGH (China) on the other hand, may by notice, unilaterally terminate all of its rights and obligations under the Subscription Agreement, without any claim or liability towards the other parties.

LETTER FROM THE BOARD

City Entertainment Buy-back Options and New City Entertainment Buy-back Options of City Entertainment

Under the Subscription Agreement, City Entertainment may exercise certain options with respect to the equity interest in OSGH (China) held by the Investors following the Completion in the manner, summarised as follows:

With respect to the equity interest held in OSGH (China) by Investor 2:

- (1) Within 182 calendar days of Completion, should City Entertainment enter into any written agreement for the disposal of more than 50% of the entire equity interest in OSGH (China) to a third party purchaser (the “**First Triggering Event**” and the date of such written agreement shall be referred to as the “**Third Party Agreement Date**”), City Entertainment shall have the option to deliver a written notice within 30 calendar days following the Third Party Agreement Date to Investor 2, requiring the sale of all of the equity interest in OSGH (China) held by Investor 2 at such relevant time for the aggregate consideration of RMB165 million (the “**First Option Notice**”). Within 30 calendar days of receipt of the First Option Notice, or such shorter period as required by the provisions of such third party agreement, Investor 2 shall sell the entire equity interest in OSGH (China) held by it to City Entertainment and complete all requisite transfer procedures,
- (2) During the period between 183 calendar days and 365 calendar days (inclusive) following the Completion, should City Entertainment enter into any written agreement for the disposal of more than 50% of the entire equity interest in OSGH (China) to a third party purchaser (the “**Second Triggering Event**”, and the date of such written agreement shall be referred to as the “**Second Third Party Agreement Date**”), City Entertainment shall have the option to deliver a written notice within 30 calendar days following the Second Third Party Agreement Date to Investor 2, requiring the sale of all of the entire equity interest in OSGH (China) held by Investor 2 at such relevant time for the aggregate consideration of RMB180 million (the “**Second Option Notice**”). Within 30 calendar days of receipt of the Second Option Notice, or such shorter period as required by the provisions of such third party agreement, Investor 2 shall sell the entire equity interest in OSGH (China) held by it to City Entertainment and complete all requisite transfer procedures,

(collectively, the “**City Entertainment Buy-back Options**”).

LETTER FROM THE BOARD

With respect to the equity interest held in OSGH (China) by Investor 1 and Investor 3:

- (3) Upon the occurrence of the First Triggering Event, City Entertainment shall not only have the option, but also the obligation to require the sale of all the equity interest held by Investor 1 and Investor 3 at the relevant time, and the exercise of such option shall follow the same mechanism as set out in sub-paragraph (1) above as if Investor 1 and Investor 3 are in the same position as Investor 2, save that the aggregate consideration payable to Investor 1 and 3 for the sale of all the equity interest held by them at such relevant time shall amount to RMB275 million (with RMB220 million out of such aggregate consideration being payable to Investor 1, while the remaining RMB55 million shall be payable to Investor 3),
- (4) Upon the occurrence of the Second Triggering Event, City Entertainment shall not only have the option, but also the obligation to require the sale of all the equity interest held by Investor 1 and Investor 3 at the relevant time, and the exercise of such option shall follow the same mechanism as set out in sub-paragraph (2) above as if Investor 1 and Investor 3 are in the same position as Investor 2, save that the aggregate consideration payable to Investor 1 and Investor 3 for the sale of all the equity interest held by them at such relevant time shall amount to RMB300 million (with RMB240 million out of such aggregate consideration being payable to Investor 1, while the remaining RMB60 million shall be payable to Investor 3),

(collectively, the “**New City Entertainment Buy-back Options**”).

LETTER FROM THE BOARD

- (5) Within 365 calendar days of the Completion, if OSGH (China) commences trading on the National Equities Exchange and Quotations system in the PRC, the New City Entertainment Buy-back Options shall automatically expire. For the avoidance of doubt, in the circumstances as described in this sub-paragraph (5), the City Entertainment Buy-back Options, (which are applicable to the equity interest held by Investor 2 at the relevant time) shall remain exercisable upon the occurrence of the First Triggering Event or Second Triggering Event.

Anti-Dilution Rights

The Parties agree that, following the Completion and prior to any Qualified IPO of OSGH (China), should:

- (a) OSGH (China) invite investment through subscription of new registered capital in OSGH (China) by further investors (the “**New Investors**”) (other than the Investors or their associates) (the “**New Subscription Exercise**”),
- (b) at such relevant time, the consideration payable in respect of such New Subscription Exercise by the New Investors in proportion to the new proposed shareholdings is lower than the price paid by the Investors in proportion to the Investors’ respective shareholdings under the Subscription Agreement (the “**Lower Subscription Price**”),

upon completion of such New Subscription Exercise, City Entertainment shall adjust the shareholdings of Investors in OSGH (China) through transfer of its equity interest in OSGH (China) for the nominal consideration of RMB1.00 to the Investors, such that the revised shareholding of each of the Investors reflects the proportional shareholding that they would have held, had they subscribed for equity interests in OSGH (China) on the basis of the Lower Subscription Price under the Subscription Agreement,

(collectively, the “**Anti-Dilution Rights**”)

LETTER FROM THE BOARD

Investors' Buy-back Options of the Investors

The Parties agree that, save as otherwise provided in the Subscription Agreement, the Investors may exercise the following options:

- (a) following the expiry of three full calendar years after the date of the Completion, if (i) OSGH (China) is unable to satisfy the qualifications for a Qualified IPO, or (ii) OSGH (China) is able to satisfy the qualifications for a Qualified IPO but the preparation for application for a Qualified IPO has not yet commenced due to City Entertainment; or
- (b) following the expiry of four full calendar years after the date of the Completion, OSGH (China) is unable to achieve a Qualified IPO; or
- (c) following the expiry of four full calendar years after the date of the Completion, OSGH (China) is unable to achieve a Qualified IPO, but it has commenced trading on the National Equities Exchange and Quotations system in the PRC,

the Investors shall have the option to require City Entertainment to purchase the equity interest subscribed for by them pursuant to the Subscription Agreement (and which has not been transferred to another party) by delivery of written notice to City Entertainment (the "**Option Notice**") within 10 Business Days following the events described in sub-paragraphs (a) to (c) above, at a consideration being the sum of the following:

- (i) the declared but unpaid dividends of OSGH (China) to its shareholders, based on the portion of equity interest subscribed for by the Investors pursuant to the Subscription Agreement and still held by the Investors at the relevant time (which shall, in any event, not exceed RMB80 million); and

LETTER FROM THE BOARD

- (ii) the value of the equity interest held by the Investors at such relevant time, which shall represent the consideration paid by the Investors under the Subscription Agreement in respect of such equity interest (and shall not include the consideration sums paid for any equity interest in OSGH (China) that has been transferred by the Investors to another party), together with interest of 11% per annum on such proportionate sums during the period between the Completion and the date of the Option Notice,

(collectively, the “**Investors’ Buy-back Options**”)

In accordance with the Listing Rules, the separate listing of OSGH (China) on a stock exchange will be subject to compliance with the requirements under Practice Note 15 of the Listing Rules. In the event the Group seeks to separately list the businesses of OSGH (China) on a stock exchange, the Company will make further announcements in connection with such proposal, and will fully comply with the relevant requirements of the Listing Rules, including the provisions of Practice Note 15 of the Listing Rules at the relevant time.

In connection with the grant of such Investors’ Buy-back Options, the Company executed a letter of undertaking in favour of the Investors, providing that the performance of City Entertainment’s obligations pursuant to the exercise of the Investors’ Buy-back Options shall be guaranteed by the Company.

Tag-along right and pre-emption right of the Investors

Following the Completion and prior to any Qualified IPO of OSGH (China), the Investors shall be entitled to a pre-emption right in respect of the equity interests of City Entertainment in OSGH (China). In the event that City Entertainment proposes to sell its equity interests in the OSGH (China) to any third party (where any Investor chooses not to exercise its pre-emption right pursuant to the Subscription Agreement), such Investor may exercise its tag-along right to sell its equity interest in OSGH (China) to the same party proportionate to its shareholding in OSGH (China) on the same terms and conditions as those offered by City Entertainment.

LETTER FROM THE BOARD

City Entertainment has undertaken to the Investors that, without the Investors' written consent, it will not create any charge over or option on its controlling equity interest in OSGH (China) representing more than 50% of the registered capital of OSGH (China), or set up any entrustment arrangements over such equity interest in OSGH (China).

Liquidation Distribution Options

The Parties agree that:

(A) In the event that OSGH (China) commences liquidation procedures (due to including, but not limited to, the revocation of the business license of the OSGH (China) or the dissolution of OSGH (China) by a resolution of the OSGH (China) Board) ("**Liquidation**"), within four calendar years of the Completion, following the payment by OSGH (China) of all liquidation expenses, salaries, social insurance premiums and other legal compensation in accordance with the applicable priority laws, at the time of the distribution of distributable assets to the shareholders of OSGH (China):

- (i) the Investors shall have the right to require an amount representing the sum of:
 - (a) the value of the equity interest held by the Investors at such relevant time, which shall represent the consideration paid by the Investors under the Subscription Agreement in respect of such equity interest (and shall not include the consideration sums paid pursuant to the Subscription Agreement for any equity interest in OSGH (China) that has been transferred by the Investors to another party), together with interest of 11% per annum on such proportionate sums during the period between Completion and the date of payment of such sums; and

LETTER FROM THE BOARD

- (b) the declared but unpaid dividends OSGH (China) to its shareholders, based on the portion of equity interest subscribed by the Investors pursuant Subscription Agreement and still held by the Investors at the relevant time (which shall, in any event, not exceed RMB80 million),

to be paid out of the remaining assets distributable to the shareholders of OSGH (China) ahead of other shareholders of OSGH (China) on a priority basis; and

- (ii) with respect to the remaining assets of OSGH (China) that would be available for distribution following the distribution of the amounts under subparagraph (i) above, if any, the Investors may require that such remaining assets be distributed to the Investors in proportion to their respective portions of equity interest in OSGH (China) subscribed for by them pursuant to the Subscription Agreement (and still held by the Investors at such relevant time), together with the other shareholders of OSGH (China); and

(B) In the event that OSGH (China) commences Liquidation after the expiry of four full calendar years following Completion, following the payment by OSGH (China) of all liquidation expenses, salaries, social insurance premiums and other legal compensations in accordance with the applicable priority laws, the Investors shall have the right to require an amount representing the sum of:

- (a) the value of the equity interest held by the Investors at such relevant time, which shall represent the consideration paid by the Investors under the Subscription Agreement in respect of such equity interest (and shall not include the consideration sums paid pursuant to the Subscription Agreement for any equity interest in OSGH (China) that has been transferred by the Investors to another party); and

LETTER FROM THE BOARD

(b) the declared but unpaid dividends of OSGH (China) to its shareholders, based on the portion of equity interest subscribed for by the Investors pursuant to the Subscription Agreement and still held by the Investors at the relevant time (which shall, in any event, not exceed RMB80 million),

to be paid out of the remaining assets distributable to the shareholders of OSGH (China) to the Investors ahead of other shareholders of OSGH (China) on a priority basis,

(collectively, the “**Liquidation Distribution Options**”).

Completion of the Subscription

Completion shall take place within 10 Business Days of the satisfaction (or where appropriate, waiver) of all conditions precedent under the Subscription Agreement as reasonably concluded by the Investors in accordance with the terms and conditions thereunder, or at such other date as mutually agreed in writing between the Parties.

The Parties further agree that each party to the Subscription Agreement shall use its best endeavours to procure Completion within 180 calendar days of the date of the Subscription Agreement.

Within 60 calendar days following the Completion, OSGH (China) must apply for, and complete, all requisite registration and filing procedures with the State Administration for Industry and Commerce of the PRC.

Post-completion Covenants

The Parties agreed that, following the completion of registration procedures for changes in relation to the Subscription Agreement by OSGH (China) and subject to the issuance of business license by the State Administrative Department for Industry and Commerce of the PRC, upon the fulfilment (or where appropriate, waiver) of the conditions precedent under the Subscription Agreement as reasonably determined by the Investors:

(1) the OSGH (China) Board shall comprise seven directors, and City Entertainment shall be entitled to appoint six directors to the OSGH (China) Board while the Investors shall be entitled to jointly appoint one director to the OSGH (China) Board;

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- (2) the following key matters of OSGH (China), among others, is subject to approval of more than 70% of the OSGH (China) Board, including the approval of the director appointed to the OSGH (China) Board by the Investors:
- (a) any amendment to the articles of association of OSGH (China) or the Joint Venture Agreement;
 - (b) any increase or reduction in the registered capital of OSGH (China);
 - (c) any issuance or repurchase of securities, including the submission, suspension or termination of any Qualified IPO by OSGH (China);
 - (d) any merger, consolidation, spin-off, reorganisation, of OSGH (China) and its material assets or any other consolidation by OSGH (China) (save in respect of the exercise of the repurchase options of City Entertainment pursuant to the Subscription Agreement, which, for the avoidance of doubt, shall not require the approval of the director appointed to the OSGH (China) Board);
 - (e) the approval of, and any material modification of, OSGH (China)'s annual budget (and in the context of this provision, “**material modification**” shall mean an increase of the annual budget by more than 30% of the originally approved annual budget sums), capital expenditure plans, loans and business plans; and
 - (f) any appointment or change of auditors of OSGH (China).

Non-competition Undertakings

City Entertainment has undertaken not to compete, directly or indirectly, in whatever manner, with OSGH (China) or engage in any business similar to or in competition with the main business of OSGH (China) without consent of the Investors for a period of five years of entering into the Subscription Agreement.

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Lock-up Undertakings of Investors

Save as permitted pursuant to the exercise of the City Entertainment Buy-back Options and the New City Entertainment Buy-back Options by City Entertainment in accordance with the Subscription Agreement:

- (1) The Investors undertake not to transfer any of the equity interest in OSGH (China) subscribed for by them pursuant to the Subscription Agreement within 365 calendar days following the Completion, save in respect of transfers by the Investors to their associates;
- (2) Following the expiry of 365 calendar days after the Completion, the Investors may transfer the equity interest in OSGH (China) held by them to third parties, without prejudice to the statutory pre-emption rights of the other shareholders of OSGH (China); and
- (3) Notwithstanding the provisions set out above, save pursuant to the exercise of the City Entertainment Buy-back Options, the New City Entertainment Buy-back Options and the arrangements contemplated thereunder, the Investors may not, under any circumstances, transfer any part of the equity interest in OSGH (China) to any competitors to the businesses of OSGH (China). The Investors further undertake to procure that any transferees of their equity interest in OSGH (China) shall be bound by the same undertaking as described in this subparagraph (3).

Basis of the considerations payable under the Subscription Agreement

The consideration for the Subscription Agreement, as well as the sums payable under the Investors' Buy-back Options and the Liquidation Distribution Options, were determined after arm's length negotiations between the Parties, taking into consideration, among other things, (i) the strong branding and extensive network of OSGH (China) in the PRC market; (ii) the growth potential and future development of the cinema operation industry in the PRC; and (iii) the prevailing market prices with reference to the recent similar transactions within the industry.

In addition to the factors described above, the consideration payable pursuant to the exercise of the City Entertainment Options and the New City Entertainment Options was determined by taking into consideration, among other things, the following factors:

- (i) the respective proportions of equity interest subscribed for by the Investors pursuant to the Subscription Agreement;

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- (ii) the non-liquid nature of the equity interest in OSGH (China), as OSGH (China) itself is not a listed vehicle whose equity interest may be quoted and traded on the open market;
- (iii) the costs of comparable alternative financing available to OSGH (China), such as the market interest rate of 6–7% per annum for loan financing in the PRC; and
- (iv) the market practice of providing exit mechanisms to strategic investors in the PRC.

On top of the above considerations, the amounts payable to the Investors under the Investors' Buyback Options were determined by specifically considering the internal rate of return of 11% per annum at the maturity of the convertible bonds issued by the Company as disclosed in the announcements of the Company dated 22 January 2016, 31 January 2016 and 1 February 2016. The maximum amount payable by the Group in the event of exercise of the Investors' Buyback Options, as at the expiry of four full calendar years after the date of the Completion, is approximately RMB656 million, which represents (i) the principal consideration paid by the Investors under the Subscription Agreement with an 11% per annum internal rate of return of the Subscription to the Investors, along with (ii) the capped sum of RMB80 million, being the maximum amount of declared but unpaid dividends payable to the Investors.

With respect to the time period for the exit mechanism represented by the Investors' Buy-back Option, in the experience of the Group, 3-4 years is a common time period for exits by strategic investors in similar investments in the PRC market and the provision of such an exit option in the same context, is common practice.

Further to the above considerations, it was also considered that the exercise of the Investors' Buy-back Options is only a possible event, which may or may not occur if OSGH (China) is able to successfully achieve a Qualified IPO within four years of the Completion. It is expected that, in the event that the Investors' Buy-back Options are exercised, the consideration for the buy-back of the equity interest as contemplated under the Investors' Buy-back Options may be funded by bank borrowings, internal operating cash flows or dividends received from our joint ventures and associated companies (or a combination of any of them). At such relevant time, if necessary, the Group will review its business development policy accordingly. It is expected, however, that even if the Investor Buy-back Options are exercised, this would not have a significant impact upon the Group's cash flows, as in the PRC region alone, the Group is operating in over 70 cinemas with a healthy and positive operating cash inflow.

The basis of determining the amounts distributable to the Investors pursuant to the Liquidation Distribution Options has also been determined on the same basis as the consideration payable by the Investors pursuant to the Investors' Buy-back Options.

For the reasons set out above, the Directors, including the independent non-executive Directors, consider that the consideration payable by the Investors under the Subscription Agreement, as well as the sums payable under the Investors' Buy-back Options and the Liquidation Distribution Options, are fair and reasonable.

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C. THE LETTER OF UNDERTAKING

In connection with the entering into of the First Supplemental Agreement, on 1 April 2016, the Company issued a letter of undertaking to Investor 1, Investor 2 and Investor 3, pursuant to which the Company undertook as follows:

- (1) to guarantee all of the obligations and liabilities of City Entertainment under the Subscription Agreement and the First Supplemental Agreement; and
- (2) from the date of the Subscription Agreement, should the Company lose its controlling interest (“**Change of Control**”) in City Entertainment, the Change of Control shall be deemed as a transfer of City Entertainment’s controlling interest in OSGH (China), and the Parties shall exercise their rights and obligations under the Subscription Agreement and the First Supplemental Agreement as if City Entertainment has lost its control in OSGH (China). All the obligations and liabilities of City Entertainment under the Subscription Agreement and the First Supplemental Agreement in a Change of Control event is guaranteed by the Company.

D. FINANCIAL INFORMATION ON OSGH (CHINA)

OSGH (China), together with its subsidiaries and associates, is the operating unit for the theatrical exhibition business of the Group in the PRC. The historical disclosures and statistical information set out in the Group’s financial statements with respect to the Group’s exhibition activities in the PRC represent the business of OSGH (China).

Set out below is the financial information relating to the exhibition segment of the Group’s operations in the PRC, as extracted from the audited consolidated financial statements of the Company:

	Segment revenue from external customers
Year ended 31 December 2015	Approximately HK\$1,020,710,000
Year ended 31 December 2014	Approximately HK\$859,104,000
Year ended 31 December 2013	Approximately HK\$674,698,000

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Set out below is a breakdown of certain segment financial information of the Group's operations in the PRC for the years ended 31 December 2013, 2014 and 2015 respectively:

Net profit/(loss)

	Year ended 31 December		
	2015	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Exhibition (<i>unaudited</i>) (<i>based on the management information of OSGH (China)</i>)	(14,836)	51,230	35,462
Distribution and Production (<i>unaudited</i>)	(24,103)	129	22,632
Corporate (<i>unaudited</i>)	<u>(81,966)</u>	<u>(67,057)</u>	<u>(54,531)</u>
Total segment profit/(loss) for the Group's operations in the PRC (<i>audited</i>)	<u><u>(120,905)</u></u>	<u><u>(15,698)</u></u>	<u><u>3,563</u></u>

The unaudited consolidated net asset value of OSGH (China) was approximately RMB516,179,538 as at 31 December 2013, RMB559,307,479 as at 31 December 2014 and RMB468,883,783 as at 31 December 2015. As at the Latest Practicable Date, the book value of 13.79% of the interest in OSGH (China) is equivalent to approximately RMB64,659,074.

E. LISTING RULE IMPLICATIONS

(1) Deemed Disposal

As one or more of the applicable percentage ratios for the Subscription under the Subscription Agreement is more than 25% and each of them is less than 75%, the Subscription under the Subscription Agreement constitutes a deemed major disposal for the Company under Chapter 14 of the Listing Rules. Accordingly, the Subscription under the Subscription Agreement is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

(2) The City Entertainment Buy-back Options and the new City Entertainment Buy-back Options

Since the right of exercise of the City Entertainment Buy-back Options and the new City Entertainment Buy-back Options lies with City Entertainment, a wholly owned subsidiary of the Company, the exercise of the City Entertainment Buy-back Options and the new City Entertainment Buy-back Options is at the Group's discretion. Pursuant to Rule 14.75 of the Listing Rules, upon the acquisition or the grant of an option which is exercisable at the discretion of the Group, only the premium will be taken into consideration for the purpose of classification of notifiable transactions. The premium for the acquisition or the grant of the City Entertainment Buy-back Options and the new City Entertainment Buy-back Options is nil.

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If the Group intends to exercise the City Entertainment Buy-back Options and/or the new City Entertainment Buy-back Options through City Entertainment, the Company will comply with the requisite requirements under the Listing Rules.

(3) The Anti-Dilution Rights

City Entertainment, a wholly owned subsidiary of the Company, is the sole shareholder of OSGH (China) before the Completion and will, following the Completion, control six out of seven positions of the OSGH (China) Board. As such, the Group will have control over whether, and when, the Anti-Dilution Rights will be triggered. Therefore, the Anti-Dilution Rights shall be classified as an option which is exercisable at the discretion of the Group. Pursuant to Rule 14.75 of the Listing Rules, upon grant of an option by the Investors to the Group which is exercisable at the discretion of the Group, only the premium will be taken into consideration for the purpose of classification of notifiable transactions. The premium for the acquisition or the grant of the Anti-Dilution Rights is nil.

If the Group intends to conduct any trigger event of the exercise of the Anti-Dilution Rights through City Entertainment and OSGH (China), the Company will comply with the requisite requirements under the Listing Rules.

(4) Possible Major Transactions

The Investors' Buy-back Options

As disclosed in the section headed “*B. The Subscription Agreement*” above, the exercise of the Investors' Buy-back Options is at the discretion of the Investors. Accordingly, pursuant to Rule 14.74 of the Listing Rules, the grant of the Investors' Buy-back Options will be classified as if the option had been exercised. As one or more of the applicable percentage ratios is more than 25% and each of them is less than 75%, the grant of the Investors' Buy-back Options pursuant to the Subscription Agreement constitutes a possible major acquisition of the Company that is subject to the reporting, publication and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Liquidation Distribution Options

As disclosed in the section headed “*B. The Subscription Agreement*” above, the exercise of the Liquidation Distribution Options is at the discretion of the Investors. Accordingly, pursuant to Rule 14.74 of the Listing Rules, the grant of the Liquidation Distribution Options will be classified as if the option had been exercised.

As one or more of the applicable percentage ratios is more than 25% and each of them is less than 75%, the grant of the Liquidation Distribution Options pursuant to the Subscription Agreement constitutes a possible major disposal of the Company that is subject to the reporting, publication and shareholders' approval requirements under Chapter 14 of the Listing Rules.

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(5) Shareholders' approval of the Subscription Agreement, the First Supplemental Agreement, the Second Supplemental Agreement and the transactions contemplated thereunder, including the Investors' Buy-back Options and the Liquidation Distribution Options

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder has a material interest in the Subscription Agreement, the First Supplemental Agreement, the Second Supplemental Agreement or the transactions contemplated thereunder, including the Investors' Buy-back Options and the Liquidation Distribution Options, and would be required to abstain from voting on the resolutions in connection with the Subscription Agreement, the First Supplemental Agreement, the Second Supplemental Agreement and the transactions contemplated thereunder, including the Investors' Buy-back Options and the Liquidation Distribution Options, if the Company were to convene a general meeting for the approval of the Subscription Agreement, the First Supplemental Agreement, the Second Supplemental Agreement and the transactions contemplated thereunder, including the Investors' Buy-back Options and the Liquidation Distribution Options.

Pursuant to the Listing Rules, shareholders' approval is required for major transactions. As disclosed in the Announcement, as no Shareholder is required to abstain from voting if the Company were to convene a general meeting for approving the Subscription Agreement and the transactions contemplated thereunder, including the Investors' Buy-back Options and the Liquidation Distribution Options, the Company has obtained a written approval of the Subscription Agreement and the transactions contemplated thereunder, including the Investors' Buy-back Options and the Liquidation Distribution Options, from a closely allied group of Shareholders, holding in aggregate approximately 67.15% of the entire issued share capital in the Company as at the Latest Practicable Date, pursuant to Rule 14.44 of the Listing Rules. Such closely allied group of Shareholders consists of: (i) Mr. Wu, (ii) Skyera International; (iii) Mainway Enterprises; (iv) Orange Sky Entertainment; (v) Cyber International; and (vi) Noble Biz (the "**Allied Shareholders**").

Further, the entering into of the First Supplemental Agreement and the Second Supplemental Agreement on 1 April 2016 constitutes a material change to the terms of the Subscription Agreement. Therefore, pursuant to Rules 14.36 to 14.46 of the Listing Rules, the First Supplemental Agreement and the Second Supplemental Agreement should be subject to Shareholder's approval. As disclosed in the Supplemental Announcement, as no Shareholder is required to abstain from voting if the Company were to convene a general meeting for approving the First Supplemental Agreement and the Second Supplemental Agreement, the Company has also obtained a written approval of the First Supplemental Agreement and the Second Supplemental Agreement from the Allied Shareholders, pursuant to Rule 14.44 of the Listing Rules.

Accordingly, no extraordinary general meeting of the Company will be convened for the purpose of approving the Subscription Agreement, the First Supplemental Agreement, the Second Supplemental Agreement and the transactions contemplated thereunder, including the Investors' Buy-back Options and the Liquidation Distribution Options.

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(6) Waiver from strict compliance with Rules 14.67(6)(a)(i) and (ii) of the Listing Rules

Pursuant to Rule 14.67(6)(a)(i) of the Listing Rules, on an acquisition of any business, company or companies, a circular issued in relation to an acquisition constituting a major transaction must contain an accountants' report on the business, company or companies being acquired in accordance with Chapter 4 of the Listing Rules, provided that, where any company in question has not or will not become a subsidiary of the listed issuer, the Stock Exchange may be prepared to relax this requirement.

According to Rule 14.67(6)(a)(i), the accounts on which the report is based must relate to a financial period ended six months or less before the circular is issued, and that the financial information on the business, company or companies being acquired as contained in the accountants' report must be prepared using accounting policies which should be materially consistent with those of the listed issuer.

Furthermore, Rule 14.67(6)(a)(ii) of the Listing Rules provides that the listed issuer is also further required to prepare a pro forma statement of the assets and liabilities of the listed issuer's group combined with the assets and liabilities of the business, company or companies being acquired on the same accounting basis, and which must also comply with Chapter 4 of the Listing Rules.

According to the provisions of the Listing Rules provisions described above, the Company will need to carry out the following work, in order to comply with the relevant requirements of the possible major acquisition arising from the grant of the Investors' Buy-back Options:

- (i) draw up the separate financial statements of OSGH (China) and its subsidiaries in conformity with the Hong Kong Financial Reporting Standards for the three years ended 31 December 2015 and the relevant stub periods; and
- (ii) prepare a pro forma statement of the assets and liabilities of the Group combined with that of OSGH (China) on the same accounting basis.

The Company considers that full compliance with Rules 14.67(a)(i) and (ii) of the Listing Rules would involve considerable work and cost on the part of the Company, but not yield information that is meaningful to the Shareholders' assessment of the Investors' Buy-back Options, for the following reasons.

- (a) *The requirement to prepare an accountants' report of OSGH (China) would be unduly onerous*

The financial information of OSGH (China) has already been disclosed as part of the Company's consolidated financial statements in the past, as OSGH (China) has been a long-standing subsidiary of the Company for years and is the operating unit for the Group's entire film exhibition business in the PRC. While the financial

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information of OSGH (China) has not been separately presented historically, the business performance of OSGH (China) can be derived from the segmented financial information of the Company.

In addition, pursuant to the Subscription Agreement, the Investors agreed to subscribe for 13.79% of the entire equity interest in OSGH (China). As such, assuming a full exercise of the Investors' Buy-back Options and that the registered capital of OSGH (China) will remain unchanged, the Company will only be required to acquire 13.79% of the entire equity interest in OSGH (China) and OSGH (China) would remain as a subsidiary of the Company after such acquisition.

Further, the Investors' Buy-back Options will only be exercisable at a minimum of three years following the Completion. Accordingly, the inclusion of historical financial information of OSGH (China), would be confusing and of little relevance to the Shareholders, as presentation of such information would not illustrate the impact of Investors' Buy-back Options as at the time when such options become exercisable.

Taking into account of the factors set out above, and considering that OSGH (China)'s results are not readily available and would involve considerable work and cost on the part of the Company to prepare them, the Company considered that it would be unduly onerous to require the Company set out an accountants' report of OSGH (China) in this circular.

(b) Preparation of a pro forma statement would only yield unmeaningful information

Given that OSGH (China) has been a wholly owned subsidiary of the Company during the course of the relevant reporting period and will remain as a subsidiary of the Company after the Completion, OSGH (China)'s assets and liabilities would have already been and will continue to be consolidated in the consolidated statement of financial position of the Company.

As such, the Company considered that the preparation of a pro forma statement of the assets and liabilities of the Group, combined with the equity interest in OSGH (China) that may be acquired (and which currently represents 13.79% of the entire equity interest in OSGH (China) only), would only yield information that is not meaningful to the Shareholders' assessment of the Investors' Buy-back Options.

(c) OSGH (China) to remain a subsidiary of the Company

As OSGH (China) shall remain a subsidiary of the Company following Completion, the impact of its operating results will continue to be reflected in the financial results of the Company. The Investors' Buy-back Options, if exercised, will only increase the Company's interest in OSGH (China) in the future. Accordingly, the Shareholders and the investing public would have adequate access to the financial information of OSGH (China) at the relevant time when the Investors' Buy-back Option is exercised by the Investors.

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For the above reasons, the Company has applied for, and the Stock Exchange has granted, a waiver from the strict compliance with the requirements of Rules 14.67(a)(i) and (ii) of the Listing Rules.

F. FINANCIAL EFFECTS OF THE SUBSCRIPTION AND USE OF PROCEEDS BY OSGH (CHINA)

Following Completion, OSGH (China) will remain an indirect subsidiary of OSGH (China) of the Company, which will hold approximately 86.21% (as enlarged by Completion) of OSGH (China), and the financial statements of OSGH (China) will continue to be consolidated into the financial statements of the Group.

The Company is not expected to record in the consolidated income statement any gain or loss arising from the deemed major disposal under the Subscription Agreement. Upon Completion of the Subscription Agreement, OSGH (China) is expected to receive proceeds of RMB400 million.

Assuming if the Investors exercise the Liquidation Distribution Options immediately following Completion, the Company is expected to pay approximately RMB400 million to the Investors. If the Liquidation Distribution Options and the Investors' Buy-back Options are exercised by the Investors on the expiry of four full calendar years following the Completion, the Company is expected to pay approximately RMB656 million to the Investors. Such possible payments pursuant to the potential exercise of the Liquidation Distribution Options and the Investors' Buy-back Options will be financed by the Company's internal funding. The Company is not expected to record any gain or loss in the consolidated income statement arising from the exercise of Liquidation Distribution Options or the Investors' Buy-back Options during the applicable periods in which such options may be exercised.

The exact financial effects of these transactions are subject to the review of the Company's auditors at the relevant time.

Aside from the immediate financial effect of the Subscription Agreement, as summarised above, the injection of new key players into the management of OSGH (China) is expected to optimise the Group's financial structure as a whole. The proceeds from the Subscription Agreement will support OSGH (China) in building its cinema network in the PRC through acquisition, thereby driving organic expansion through new leases development.

G. REASONS FOR AND BENEFITS OF ENTERING INTO THE SUBSCRIPTION AGREEMENT, THE FIRST SUPPLEMENTAL AGREEMENT, THE LETTER OF UNDERTAKING AND THE SECOND SUPPLEMENTAL AGREEMENT

The Company is a diversified player in the business of cinema theatres, with business interests in various stages of film and television programmes' production and distribution process. The participation and involvement of strategic investors through the Subscription Agreement provides a strong source of ongoing funds for capital expenditure, to support future development of its cinema operation business. Further, collaboration with such strategic

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investors will promote the reputation and standing of the Group within the cinematic industry, paving its way towards becoming a leading market player in the PRC, and shall also greatly expand its pool of potential opportunities in the PRC capital markets on a long term basis.

In connection with the Subscription, the Investors have been brought into the management of OSGH (China). It is considered by the Board that the strategic participation of the Investors would increase investor confidence in the operations of OSGH (China) and that their involvement in the management of OSGH (China) would expand the resource pool available to OSGH (China) as it contemplates continuous business development and expansion.

Before the introduction of the Investors, the Company considered fund raising methods other than the Subscription, such as debt financing. Debt financing will however increase the liabilities of the Group and also cause the Group to incur further financial costs. In addition, the Company has already issued convertible bonds recently, the details of which are more particularly disclosed in the announcements of the Company dated 22 January 2016, 31 January 2016 and 1 February 2016. As compared to further debt financing, the equity injection through the Subscription will (a) bring benefits to the Group by drawing strategic investors into the operations of OSGH (China), without incurring any financial costs, and (b) as OSGH (China) has been reliant on debt financing during the past few years, the injection of fresh capital by the Investors is expected to improve the gearing ratio of OSGH (China) and will diversify its funding sources.

In light of the relatively long period of time between the date of the Subscription Agreement and the date of the Completion (being 180 days), the Parties have agreed to enter into the First Supplemental Agreement, the Letter of Undertaking and/or the Second Supplemental Agreement (as applicable), with an aim to clearly define the rights and obligations of each Party and to further protect their respective interests between the date of the Subscription Agreement and the Completion.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Subscription Agreement are fair and reasonable, and that the Subscription Agreement and the transactions contemplated thereunder, including the Investors' Buy-back Options and the Liquidation Distribution Options are in the interests of the Company and the Shareholders as a whole. On the basis that, in addition to the reasons and benefits set out above, the signing of the First Supplemental Agreement, the Letter of Undertaking and the Second Supplemental Agreement will improve the certainty over the rights and obligations of each Party between the date of the Subscription Agreement and the Completion, the Directors (including the independent non-executive Directors) are also of the view that the terms of the First Supplemental Agreement, the Letter of Undertaking and the Second Supplemental Agreement are fair and reasonable, and that the First Supplemental Agreement, the Letter of Undertaking and the Second Supplemental Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

The Company is in the process of formulating the business plan for ultimately progressing towards achievement of the Qualified IPO, which will take into account, among other things, the financial performance of OSGH (China).

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It is anticipated that OSGH (China) will sustain its organic growth by building its own cinemas, while expanding its exhibition network through acquisition of profitable cinemas with more than three years' operating experience, thereby increasing the stability of the customer base for its cinemas and the resulting box office income from its operations.

The Subscription will reduce the financial burden of the Group in using bank borrowings for business development, thereby increasing the flexibility of the Group in terms of resources and funding. As at the Latest Practicable Date, the Group has signed further lease agreements with respect to more than 100 cinema screens which will be built during the coming three years, the majority of which are located in 1st and 2nd tier cities in the PRC, and which will therefore yield considerable revenue and a heightened average ticketing price. The expected capital expenditure per screen, which will be built during the coming three years will amount to approximately RMB2.5 million to RMB3.0 million, which will be primarily funded by the proceeds of the Subscription. The remaining proceeds from the Subscription not utilised will be used for cinema acquisition projects but as working capital for the OSGH (China) Group. With the support of the proceeds from the Subscription, the Group will be able to drive growth through acquisition of further cinematic theatre operations in the PRC without heavy reliance upon debt, thus paving the way towards achieving a Qualified IPO.

The Board further believes that there is a positive development trend in the cinematic industry in the PRC, which has great potential for growth. According to statistics published by EntGroup Inc., an entertainment research services firm based in Beijing, the PRC, the national box office of the PRC for the years 2014 and 2015 were approximately RMB29.7 billion and approximately RMB44.0 billion respectively, representing a 48% growth from the preceding year, and the forecast national box office of the PRC for the year 2016 amounts to approximately RMB60.0 billion. According to the same source, the market share for domestically produced Chinese-language films comprised approximately 62% of the market share in the year 2015 and, as such, irrespective of whether the limitations on foreign film screenings in PRC will continue to hold, the demand for locally made and produced films will continue to sustain the cinematic industry in the PRC. Aside from box office income, these figures also indicate an increase in non-box office income consequentially enjoyed by the cinematic industry, such as concessionary sales and advertising income which are always directly related to the box office income. Together with the strategic benefits brought into OSGH (China) by the Investors as disclosed in the section headed "*I. Information relating to the Investors*" below and the support to the business development of OSGH (China) from the proceeds from the Subscription, the Board is of the view that a Qualified IPO will be eventually realisable by OSGH (China).

H. INFORMATION RELATING TO THE COMPANY, CITY ENTERTAINMENT AND OSGH (CHINA)

The Company

The Company is a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. The principal business activities of the Group are in production, financing, distribution and theatrical

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exhibition of motion pictures. As of 31 January 2016, the Group operated 99 cinemas with 729 screens across the PRC, Hong Kong, Taiwan and Singapore and is a leading distributor in the region.

City Entertainment

City Entertainment is a company incorporated in Hong Kong and an indirect wholly owned subsidiary of the Company which is principally engaged in investment holding.

OSGH (China)

OSGH (China) is a company incorporated in the PRC and an indirect wholly owned subsidiary of the Company, which was established on 23 September 2004, and is the holding company managing the Group's entire film exhibition business in the PRC. As of 31 December 2015, the Group, through OSGH (China) Group, operated 67 cinemas in the PRC with 474 screens, serving over 21 million domestic patrons. The gross box-office receipts in respect of the business activities of OSGH (China) and its subsidiaries and associates amounted to HK\$925 million.

I. INFORMATION RELATING TO THE INVESTORS

(1) Investor 1

Investor 1 is the investment vehicle of the Credit Prosperity Fund Management Co., Ltd.* (“**Credit Prosperity Fund**”). Credit Prosperity Fund is a private fund management company based in the PRC, which is jointly funded by CITIC Securities Co., Ltd and strategic investors, and which specialises in launching, building and managing various investment funds, carrying out the investment and financing activities with self-owned funds and trusted assets, and providing assets management and consulting services. The funds managed by Credit Prosperity Fund include, among others, domestic and cross-border real estate funds, buyout funds, private placement investment funds, private equity investment funds, National Equity Exchanges and Quotations' based funds, mezzanine funds, infrastructure funds, asset securitization funds, and secondary market funds. Among its investments, the Credit Prosperity Fund has also made significant investments in technology, media and telecom projects, as well as cultural and entertainment projects. As at the end of February 2016, the accumulated fund management assets of Credit Prosperity Fund exceeded RMB40 billion.

Due to its past experience in investing in technology, media and telecommunications businesses, and its status as an affiliate of a leading investment bank in the PRC which is well known in the local equity market for its involvement in successful initial public offerings, the participation of Investor 1 is expected to boost the reputation of OSGH (China) within the industry, and also provide a competitive edge to the expansion plans for the growth of OSGH (China) through its invaluable insight as a seasoned market player, together with its extensive banking and funding network and vast capital market resources.

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(2) Investor 2

Investor 2 is a company based in Beijing, the PRC, which is principally engaged, among other things, in developing and providing an on-line ticketing platform known as “Wepiao” in the PRC, which has a leading market share in the on-line ticketing market in the PRC. Beijing Weiyang was established in the year 2014 by a group of strategic investors, including the China Culture Industrial Investment Fund, as well as investment vehicles established by the Tencent and Wanda brand name conglomerates, all of whom are based in the PRC. Cooperation with Investor 2 is accordingly expected to bring synergy to the operations of OSGH (China).

(3) Investor 3

Investor 3 was established in 2015, and is a PRC domestic private investment fund management company. The principal investment spheres of Investor 3 include, but are not limited to, film and television, cultural activities, sustainable energy resources and other emerging industries, as well as private equity investment in the secondary market. The management team of Investor 3 comprises past members of leading domestic banks, brokerages and fund companies, and the past investments under the management of Investor 3 have exceeded RMB20 billion. Due to the strong financial background and expertise of Investor 3, it is expected that Investor 3 will strengthen the financial management of OSGH (China) and extend the banking and funding network of OSGH (China) through its involvement.

J. GENERAL

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

Yours faithfully,

By order of the board of directors of

Orange Sky Golden Harvest Entertainment (Holdings) Limited

Wu Kebo

Chairman and Executive Director

1. SUMMARY OF FINANCIAL INFORMATION

The table set out below is the summary financial information of the Group for the three years ended 31 December 2015, 2014 and 2013:

Results

	Year ended 31 December		
	2015	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	1,277,132	1,082,791	929,334
Costs of sales	(548,204)	(441,837)	(364,740)
Gross profit	728,928	640,954	564,594
Other net (loss)/income	(41,964)	(4,043)	24,410
Selling and distribution costs	(775,424)	(619,284)	(502,205)
General and administrative expenses	(160,024)	(104,019)	(100,543)
Other operating expenses	(52,415)	(167)	(7,741)
Finance costs	(39,635)	(44,717)	(47,378)
Share of results of associates	1,580	1,427	(266)
(Loss)/profit before taxation	(186,179)	23,128	116,407
Income tax	4,961	(9,467)	(1,230)
(Loss)/profit for the year	(181,218)	13,661	115,177
(Loss)/earnings per share (Basic)	(6.58) cents	0.47 cents	4.29 cents

Assets and liabilities

	As at 31 December		
	2015	2014	2013
	HK\$'000	HK\$'000	HK\$'000
Assets			
Non-current assets	2,132,899	2,089,376	2,295,888
Current assets	732,294	841,528	873,372
Total assets	2,865,193	2,930,904	3,169,260
Equity and liabilities	2,865,193	2,930,904	3,169,260
Issued capital	274,252	274,252	267,982
Reserves	1,305,585	1,494,948	1,486,689
Total equity attributable to equity holders of the Company	1,579,837	1,769,200	1,754,671
Non-controlling interests	13,378	11,447	10,661
Total equity	1,593,215	1,780,647	1,765,332
Non-current liabilities	386,728	500,892	641,959
Current liabilities	885,250	649,365	761,969
Total liabilities	1,271,978	1,150,257	1,403,928
Total assets less current liabilities	1,979,943	2,281,539	2,407,291

The financial information and the management discussion and analysis of the Group for each of the three years ended 31 December 2015, 2014 and 2013 are disclosed in the following documents, which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.osgh.com.hk>):

- annual report of the Company for the year ended 31 December 2015, on pages 12 to 24, and on pages 61 to 188;
- annual report of the Company for the year ended 31 December 2014, on pages 12 to 24, and pages 65 to 192; and
- annual report of the Company for the year ended 31 December 2013, on pages 12 to 24, and pages 64 to 204.

2. WORKING CAPITAL

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

3. STATEMENT OF INDEBTEDNESS

Bank borrowings

At the close of business on 30 April 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had aggregate outstanding bank borrowings of approximately HK\$736,573,000, details of which are set out below:

	<i>HK\$</i>
Bank borrowings — secured and guaranteed	452,520,000
Bank borrowings — unsecured and guaranteed	<u>284,053,000</u>
	<u><u>736,573,000</u></u>

Convertible bond

As at 30 April 2016, the Group had issued an unsecured and unguaranteed convertible bond in the principal amount of HK\$200,000,000 to an independent third party which will mature on 1 February 2019. The convertible bond is interest bearing at 5% per annum and repayable semi-annually in arrears. The convertible bond will be redeemed at its outstanding principal amount plus any accrued but unpaid interest and an amount that would yield an internal rate of return of 11%.

The outstanding carrying amount and principal amount of such convertible bond as at 30 April 2016 was approximately HK\$164,544,000 and HK\$200,000,000 respectively.

On 27 May 2016, City Entertainment entered into a corporate guarantee with the holder of the convertible bond and agreed to guarantee the holder punctual performance by the Company of all its obligations under the terms and conditions as stated in the subscription agreement of the convertible bond.

Obligations under finance leases

As at 30 April 2016, the Group has guaranteed finance lease obligations of its subsidiaries of approximately HK\$58,975,000, which are secured by the assets underlying the finance leases.

Pledged assets

The Group has pledged certain buildings and leasehold land, cash deposits and equity shares of two subsidiaries which hold interests in joint ventures to secure the bank borrowings of the Group.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, at the close of business on 30 April 2016, the Group did not have any material mortgages, charges, debentures, loan capital, debt securities, term loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade payables) or acceptance credits, guarantees or other material contingent liabilities.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group has focused on strengthening and expanding both the exhibition and distribution networks in the territories where the Group operates, especially in the PRC market. The Group's long term goal is to become one of the leading exhibitors in the PRC. In the coming year of 2016, the Group will continue its cinema networks expansion strategy. Our high calibre team in different regions will keep analysing potential sites, acquisition targets and cooperation opportunities in the market. The Group is expected to operate 79 cinemas with 530 screens in various cities in the PRC by the end of 2016 based on lease agreements signed as at 30 March 2016. The captioned numbers above may vary due to the actual handover dates, the progress of internal renovations, applications for relevant licenses and the entering into of new lease agreements. Furthermore, a new cinema with nine screens is expected to open in June 2016 in Taipei. Vie Show Cinemas Company Limited (“**Vie Show**”) targets to develop 10 to 15 new cinemas in the coming five years. With regards to the cinema networks in Hong Kong, the Group will maintain a steady growth pace. We will revamp GH Citywalk (a cinema in Hong Kong under the Group) to provide a more comfy and stylish environment in 2016. At the same time, we will continue our negotiation with potential landlords, hoping to secure one to two more sites. In Singapore, Golden Village Multiplex Pte Ltd. (“**GV**”) will actively bid for potential cinema sites and expects to open two to three new cinemas in the next two years. Through organic growth as well as potential acquisitions, plus the improvement of efficiency of mature cinemas, the profitability of the Group is expected to improve.

5. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015 (being the date to which the latest published audited financial statements of the Company have been made up) and up to and including the Latest Practicable Date.

MANAGEMENT DISCUSSION AND ANALYSIS OF OSGH (CHINA)

Set out below is the management discussion and analysis of the OSGH (China) Group for each of the financial years ended 31 December 2013, 2014 and 2015 (the “**Relevant Period**”).

Business review

During the Relevant Period, and as at the Latest Practicable Date, OSGH (China), together with its subsidiaries and associates, is the operating unit for the film exhibition business of the Group in the PRC. The historical disclosures and statistical information set out in the Company’s annual reports with respect to the Group’s exhibition activities in the PRC represent the business of the OSGH (China) Group.

Set out below are the operating statistics of the OSGH (China) Group in the PRC during the Relevant Period:

	As at 31 December		
	2015	2014	2013
Number of cinemas	67	59	49
Number of screens	474	420	354
Admissions (million)	21.3	16.5	12.9
Net average ticket price (RMB)	33	32	31
Gross box office receipts (RMB million) [#]	752	581	438

[#] *before deduction of government taxes and charges*

In 2013, the market gross box office receipts of urban areas in the PRC increased to RMB21.8 billion by 27% while the OSGH (China) Group’s gross box office receipts generated by multiplexes in the PRC increased by 39% compared with the year 2012. During the year 2013, the OSGH (China) Group opened 7 new cinemas with 48 screens in the cities of Beijing, Dongguang, Fushun, Jinan, Maanshan, Nantong and Yancheng in the PRC. Due to a strong Chinese films lineup during the year 2013, growing demand for a high quality entertainment experience and favourable policies implemented by the Chinese government, the OSGH (China) Group’s multiplexes in the PRC served approximately 12.9 million patrons, representing 56% growth from the year 2012. The average ticket price dropped from RMB35 to RMB31 because fewer 3D films with higher ticket prices were released during the year 2013 and more discount promotions were offered for newly opened multiplexes as well as special group ticket promotion campaigns to maintain the competitiveness of the OSGH (China) Group with other cinema operators.

In 2014, the market gross box office receipts of urban areas in the PRC increased by 36% to RMB29.6 billion while the OSGH (China) Group’s gross box office receipts generated by multiplexes in the PRC increased by 33% compared with same period in the year 2013, in-line with general market growth. During the year 2014, the OSGH (China) Group opened 10 new cinemas with 66 screens in the cities such as Beijing, Shanghai, Wuxi and Chengdu. The OSGH (China) Group’s multiplexes in the PRC served approximately 16.5 million patrons,

representing 28% growth from same period in the year 2013. The average ticket price slightly increased from RMB31 to RMB32 due to more 3D films with higher ticket prices being released during the year 2014.

In 2015, the market gross box office receipts of urban areas in the PRC increased by 48% to RMB44 billion while the OSGH (China) Group's gross box office receipts generated by multiplexes in the PRC increased by 30% compared with the same period in the year 2014. During the year 2015, the OSGH (China) Group opened 3 new cinemas with 25 screens in the cities of Shenyang, Wuhan and Changsha and acquired 6 cinemas with 32 screens from local operators in the cities of Shenzhen, Shanghai, Changchun and Fushun. The OSGH (China) Group's multiplexes in the PRC served approximately 21.3 million patrons, representing 29% growth from the same period in the year 2014. The average ticket price slightly increased from RMB32 to RMB33 because more 3D films with higher ticket prices were released and because of the OSGH (China) Group's price adjusting policy launched in third quarter of the year 2015.

Significant Investment

There were no significant investments by the OSGH (China) Group during the Relevant Period.

Future Prospects and Funding of the OSGH (China) Group

The OSGH (China) Group intends to sustain its organic growth by building its own cinemas, while expanding its exhibition network through acquisition of cinemas with more than three years' operating experience, thereby increasing the stability of the customer base for its cinemas and the resulting box office income from its operations.

In 2016, the OSGH (China) Group is expected to open 9 cinemas with 60 screens in various cities in the PRC by the end of 2016. It is expected that the proceeds of the Subscription will be used to fund the expansion of the PRC exhibition business in the coming year.

Material acquisitions

During the year 2015, the OSGH (China) Group acquired 6 cinemas with 32 screens from certain independent local operators in the cities of Shenzhen, Shanghai, Changchun and Fushun in the PRC, for an aggregate consideration of approximately RMB61 million, in order to expand its exhibition business. The OSGH (China) Group did not carry out any material acquisitions or disposals in the years 2013 and 2014.

Financial Review

Reportable segment revenue and reportable segment profit or loss

The OSGH (China) Group recorded reportable segment revenue for each of the financial years ended 31 December 2013, 2014 and 2015 of approximately HK\$674,698,000, HK\$859,104,000, and HK\$1,020,710,000 respectively. Reportable segment revenue of the

OSGH (China) Group increased over the Relevant Period, mainly attributable by the increase of the number of cinemas operated by the OSGH (China) Group and the general market growth.

The OSGH (China) Group recorded a reportable segment profit for each of the financial years ended 31 December 2013 and 2014 of approximately HK\$35,462,000 and HK\$51,230,000, and recorded a reportable segment loss for the financial year ended 31 December 2015 of HK\$14,836,000.

Financial resources and liquidity

As of 31 December 2013, 2014 and 2015, the OSGH (China) Group had cash and cash equivalents amounting to HK\$310 million, HK\$324 million and HK\$136 million respectively, and outstanding bank loans of HK\$431 million, HK\$413 million and HK\$411 million respectively. All of the bank borrowings of the OSGH (China) Group are denominated in RMB, and bear interest at floating interest rates which approximate market rates of interest. The OSGH (China) Group at this moment has reasonable financial leverage. The OSGH (China) Group believes that its current cash holding and available financial facilities will provide sufficient resources for its working capital requirements.

The OSGH (China) Group's gearing ratio, calculated on the basis of bank borrowings over total assets stood at 23% in 2013, 22% in 2014 and 22% in 2015. As of 31 December 2013, 2014 and 2015, the OSGH (China) Group had HK\$1.9 million, HK\$1.9 million and HK\$37.2 million pledged cash balances to secure its banking facilities respectively. Save as aforesaid, the OSGH (China) Group had no charges on group assets during the Relevant Period. For each of the three years ended 31 December 2013, 2014 and 2015, the OSGH (China) Group did not have any significant contingent liabilities or off-balance sheet obligations.

During the Relevant Period, most of the sales and purchases carried out by the OSGH (China) Group were denominated in RMB. Accordingly, the OSGH (China) Group is not expected to be exposed to significant foreign exchange risks, and the OSGH (China) Group did not have any foreign currency hedging activity during the Relevant Period.

Employees and remuneration policy

As at 31 December 2013, 2014 and 2015 respectively, the OSGH (China) Group had 1,163, 1,268 and 1,263 permanent employees. The remuneration policy and packages of the OSGH (China) Group are maintained at market levels, and reviewed annually or as its management considers appropriate. Apart from basic salaries payable to its employees, the OSGH (China) Group also makes contributions to the state-sponsored retirement scheme operated by the PRC government (the "**State Scheme**"). Contributions to such State Scheme are made based on a percentage of the employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the State Scheme.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS IN SECURITIES

2.1 Interests and short positions of Directors and chief executive in shares and debentures

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

Name of Director/ Chief Executive	Capacity	Note	Number of Shares held	Number of underlying Shares	Total number of Shares and underlying Shares	*Approximate percentage of Shares and underlying Shares in the issued share capital of the Company
Wu Kebo	Interest of controlled corporations	1	1,723,894,068(L)	—	1,723,894,068(L)	62.86%
	Beneficial owner	1	117,775,000(L)	—	117,775,000(L)	4.29%
Wu Keyan	Beneficial owner	2	500,000(L)	2,000,000(L)	2,500,000(L)	0.09%
Li Pei Sen	Beneficial owner	2	200,000(L)	27,200,000(L)	27,400,000(L)	1.00%
Leung Man Kit	Beneficial owner	2	200,000(L)	170,000(L)	370,000(L)	0.01%
Mao Yimin	Beneficial owner	2	—	27,400,000(L)	27,400,000(L)	1.00%
Wong Sze Wing	Beneficial owner	2	—	170,000(L)	170,000(L)	0.01%
Chow Sau Fong, Fiona	Beneficial owner	2	—	27,400,000(L)	27,400,000(L)	1.00%

* Such percentages have been compiled based on the total number of Shares in issue (i.e. 2,742,519,248) as at the Latest Practicable Date.

Abbreviations:

“L” stands for long position

Notes:

1. By virtue of the SFO, as at the Latest Practicable Date, Mr. Wu Kebo (“**Mr. Wu**”) was deemed to be interested in a total of 1,723,894,068 Shares, of which (i) 439,791,463 Shares were held by Skyera International Limited (a company wholly owned by Mr. Wu); (ii) 408,715,990 Shares were held by Mainway Enterprises Limited (a company wholly owned by Mr. Wu); (iii) 129,666,667 Shares were held by Noble Biz International Limited (a company wholly owned by Mr. Wu); (iv) 565,719,948 Shares held by Orange Sky Entertainment Group (International) Holding Company Limited (a company 80% owned by Mr. Wu) and (v) 180,000,000 Shares were held by Cyber International Limited (a company owned by an associate of Mr. Wu).

In addition, Mr. Wu is interested in 117,775,000 Shares as at the Latest Practicable Date which were beneficially held by him in his own name.

2. These underlying Shares represented the Shares which may be issued upon the exercise of share options granted by the Company under the share option scheme adopted by the Company on 11 November 2009.

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

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

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company in accordance with disclosure by the substantial shareholders under Part XV of the SFO, the following substantial shareholders of the Company within the meaning of the Listing Rules and other persons (in each case other than the Directors and chief executive of the Company) had an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Capacity	Note	Number of Shares held	Number of underlying Shares	Total number of Shares and underlying Shares	*Approximate percentage of Shares and underlying Shares in the issued share capital of the Company
Wu Kebo	Interest of controlled corporations	1	1,723,894,068(L)	—	1,723,894,068(L)	62.86%
	Beneficial owner	1	117,775,000(L)	—	117,775,000(L)	4.29%
Skyera International Limited (“Skyera”)	Beneficial owner	2	439,791,463(L)	—	439,791,463(L)	16.04%
Mainway Enterprises Limited (“Mainway”)	Beneficial owner	3	408,715,990(L)	—	408,715,990(L)	14.90%
Noble Biz International Limited (“Noble Biz”)	Beneficial owner	4	129,666,667(L)	—	129,666,667(L)	4.73%
Orange Sky Entertainment Group (International) Holding Company Limited (“OSEG”)	Beneficial owner	5	565,719,948(L)	—	565,719,948(L)	20.63%
Cyber International Limited (“Cyber”)	Beneficial owner	6	180,000,000(L)	—	180,000,000(L)	6.56%
China Construction Bank Corporation	Interest of controlled corporations	7	—	300,000,000(L)	300,000,000(L)	10.94%
Central Huijin Investment Ltd.	Interest of controlled corporations	7	—	300,000,000(L)	300,000,000(L)	10.94%
Wan Tai Investments Limited	Beneficial owner	7	—	300,000,000(L)	300,000,000(L)	10.94%

* Such percentages have been compiled based on the total number of Shares in issue (i.e. 2,742,519,248) as at the Latest Practicable Date.

Abbreviations:

“L” stands for long position

Notes:

1. By virtue of the SFO, as at the Latest Practicable Date, Mr. Wu is deemed to have interest in a total of 1,723,894,068 Shares, of which (i) 439,791,463 Shares were held by Skyera; (ii) 408,715,990 Shares were held by Mainway; (iii) 129,666,667 Shares were held by Noble Biz; (iv) 565,719,948 Shares were held by OSEG (a company 80% owned by Mr. Wu) and (v) 180,000,000 Shares were held by Cyber. In addition, Mr. Wu is interested in 117,775,000 Shares as at the Latest Practicable Date which were beneficially held in his own name.
2. Skyera is a company wholly owned by Mr. Wu, who is also a director of Skyera.
3. Mainway is a company wholly owned by Mr. Wu, who is also a director of Mainway.
4. Noble Biz is a company wholly owned by Mr. Wu, who is also a director of Noble Biz.
5. OSEG (a company 80% owned by Mr. Wu) was interested in 565,719,948 Shares. Mr. Wu is a director of OSEG and Mr. Li Pei Sen is the associate Chairman of OSEG.
6. Cyber is a company owned by an associate of Mr. Wu.
7. These underlying Shares represented the Shares which may be issued upon the conversion of convertible bonds issued by the Company under the General Mandate granted to the Directors at the annual general meeting of the Company held on 5 June 2015.

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

2.3 Directors' interests in contracts and assets

- (a) On 25 September 2015, Beijing Orange Sky Golden Harvest Xiangyun Management Co. Ltd. ("**Beijing OSGH**"), an indirect wholly owned subsidiary of the Company, entered into an agreement with Mr. Wu Keguan, Ms. Yan Huimin, Mr. Zhong Guixiong and Jining Yueyinghui Cinema Investment Co., Ltd. ("**Jining**"), a company established in the PRC and 100% beneficially owned by Mr. Wu Keguan, in relation to the acquisition of the entire equity interest in Jining for a consideration of RMB20,000,000 (equivalent to approximately HK\$24,000,000). Mr. Wu Keguan is a connected person of the Company by virtue of being an associate of Mr. Wu Kebo, who is the Chairman, a Director and controlling Shareholder of the Company.

- (b) On 28 June 2013, 北京橙天影院投資管理有限公司 (Beijing Orange Sky Cinema Investment Management Company Limited) (“**Beijing Orange Sky**”), wholly owned by Mr. Wu Kebo and Ms. Wu Keyan, renewed a sub-lease agreement with 北京橙天嘉禾影視製作有限公司 (Orange Sky Golden Harvest (Beijing) TV & Film Production Co. Ltd), an indirect wholly owned subsidiary of the Company, in respect of sub-leasing of office premises on the First Floor and Second Floor of House No.3 at No.1 Anjialou, Xiaoliangmaqiao Ave, Chaoyang District, Beijing, the PRC, with a total floor area of approximately 166.49 square metres with an additional floor area of approximately 25.39 square metres, from 1 July 2013 to 30 June 2016.

On the same day, Beijing Orange Sky and 北京嘉禾影城管理諮詢有限公司 (Golden Harvest (Beijing) Cinema Management Consultancy Company Limited), an indirect wholly owned subsidiary of the Company and a wholly owned subsidiary of OSGH (China), entered into the second sub-lease agreement in respect of sub-leasing of office premises at the part of Second Floor and Third Floor of House No.3 and part of First Floor of House No.7 at No.1 Anjialou, Xiaoliangmaqiao Ave, Chaoyang District, Beijing, the PRC, with a total floor area of approximately 1,020.61 square metres, from 1 July 2013 to 30 June 2016.

The aggregate amount paid by the Group to Beijing Orange Sky for the year ended 31 December 2015 amounted to approximately RMB2,611,560, which is within the annual cap of RMB2,650,000.

- (c) On 6 November 2013, OSGH (China), as landlord, and Beijing Orange Sky, as tenant, entered into a lease agreement, pursuant to which Beijing Orange Sky will lease the portions of 4th Floor under household no. 100040001, 5th Floor under household no. 100050001 and 6th Floor under household nos. 100060001 and 100060003 (collectively referred to as Unit 4108) of Bohai New World Shopping Centre of No. 88 Xinhua West Road, Tangshan City, Hebei Province, the PRC, with a total gross floor area of approximately 5,504.43 square metres (the “**Leased Premises**”) from OSGH (China) for a period of 12 years (“**Tangshan Lease Agreement**”). Beijing Orange Sky intends to operate a cinema with approximately 7 separate screens and 1,200 seats in the Leased Premises.

The annual cap under the Tangshan Lease Agreement for the year ended 31 December 2015 was RMB2,400,000. There was no payment received by the Group from Beijing Orange Sky during the year ended 31 December 2015.

- (d) OSGH (China) and 北京橙地影院投資管理有限公司 (Beijing Orange Land Cinema Investment Management Company Limited) (“**Jiangyin Orange Land**”), a company established in the PRC and 84.19% beneficially owned by Mr. Wu entered into the Jiangyin Lease Agreement on 25 September 2012. On 2 December 2014, OSGH (China) and Jiangyin Orange Land entered into a supplemental agreement to the Jiangyin Lease Agreement, pursuant to which Jiangyin Orange Land agreed to refund the prepayment of RMB100,000,000 and also pay the interest of RMB13,625,000, at a rate of 7.5% per annum on the amounts of base rental prepayment from the respective dates of such payment during the period from October 2012 to November 2014, to OSGH (China) as stated in the announcement of the Company dated 25 June 2014. During the year ended 31 December 2015, no payment was made to Jiangyin Orange Land under the Jiangyin Lease Agreement, for which an annual cap is not applicable.

Save as disclosed above, as at the Latest Practicable Date,

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

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has any service contract with any member of the Group (excluding contracts expiring or be terminable by the Group within one year without payment of compensation (other than statutory compensation)).

4. COMPETING INTERESTS

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

5. MATERIAL CONTRACTS

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

- (a) the subscription agreement dated 22 January 2016 (the “**CB Subscription Agreement**”) entered into between the Company and Wan Tai Investments Limited in relation to the issue of the 5% Series 1 Convertible Bonds due 2019 (as defined in the CB Subscription Agreement) in the principal amount of HK\$200 million, and the proposed issue of the Series 2 Convertible Bonds (as defined in the CB Subscription Agreement) in the principal amount of HK\$100 million.

6. PENDING LITIGATION OR CLAIMS

On 27 May 2014, the Company announced that there has been a shareholders’ dispute in Vie Show, a Taiwan incorporated company which is 35.71% owned by Golden Sky Entertainment Limited, a wholly owned subsidiary of the Company (“**GSE**”), one of the principal businesses of which is operating and managing cinemas in Taiwan, whereby GSE and two other shareholders of Vie Show (the “**Vie Show Shareholders**”) served a written notice on Bau Tzuoh Investment Co., Ltd. (寶座投資股份有限公司), 泰建投資股份有限公司 (Taijian Investment Holdings Co., Ltd.*) and 泰聯投資股份有限公司 (Tailuen Investment Holdings Co., Ltd.*) (collectively, “**Bau Tzuoh Companies**”) to, among other things, terminate the shareholders’ agreement with the Bau Tzuoh Companies with effect from 23 May 2014 according to the laws in Taiwan and requesting a forced sale of all of the issued shares of Vie Show held by Bau Tzuoh Companies to GSE and two other shareholders of Vie Show. On 21 July 2014 and 20 January 2016 (the “**Vie Show Announcements**”), the Company further announced that, among other things, (i) the Vie Show Shareholders had filed a lawsuit against the Bau Tzuoh Companies with the Taipei District Court of Taiwan (the “**Court**”) (the “**Claim**”) on 15 July 2014, (ii) on 15 January 2016, the Court issued and judgment and dismissed the Claim by the Vie Show Shareholders against the Bao Tzuoh Companies (the “**Judgment**”), and (iii) in November 2014, the Bau Tzuoh Companies filed a separate law suit against the Vie Show Shareholders with the Court, seeking the Court’s judgment for a transfer of the entire issued shares held by the Vie Show Shareholders to the Bau Tzuoh Companies (the “**Bao Tzuoh Companies’ Claim**”). As at the Latest Practicable Date, no judgment has been made by the Court in relation to the Bao Tzuoh Companies’ Claim. As disclosed in the Vie Show Announcements, the Company intends to actively defend the Bao Tzuoh Companies’ Claim or any other claims that may be brought by the Bau Tzuoh Companies.

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

7. MISCELLANEOUS

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The company secretary of the Company is Ms. Leung Wing Chong, a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of the Chartered Certified Accountants.
- (d) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

8. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the bye-laws of the Company;
- (b) the annual reports of the Company for the two financial years ended 31 December 2014 and 2015;
- (c) the Subscription Agreement, the First Supplemental Agreement, the Second Supplemental Agreement and the Letter of Undertaking;
- (d) each of the material contracts as referred to in the section headed "Material Contracts" in this Appendix; and
- (e) this circular.