THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Emperor Culture Group Limited, you should at once hand this circular with the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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英皇文化產業集團有限公司
Emperor Culture Group Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 491)

(I) MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE EQUITY INTEREST IN TALE SUCCESS LIMITED AND SALE LOAN AND (II) NOTICE OF SPECIAL GENERAL MEETING

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

PELICAN FINANCIAL
百利勤金融

A letter from the Board is set out from pages 6 to 15 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on page 16 of this circular. A letter from Pelican, the Independent Financial Adviser, containing its advice to the Independent Board Committee and Independent Shareholders in relation to the Acquisition is set out from pages 17 to 32 of this circular.

A notice convening the SGM to be held via electronic facilities on Thursday, 14 April 2022 at 11:30 a.m. is set out from pages SGM-1 to SGM-3 of this circular. Whether or not you intend to attend and vote at the SGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited ("**Branch Share Registrar**") at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or via the designated URL (https://spot-emeeting.tricor.hk) by using the login username and password provided on the notification letter sent by Branch Share Registrar, as soon as possible, but in any event not less than 48 hours before the time of the SGM (i.e. before 11:30 a.m. on 12 April 2022) or any adjournment thereof (as the case may be).

Shareholders, proxies or corporate representatives may attend, vote and submit questions during the virtual meeting through a live webcast and they will not be permitted entry to the venue of the SGM, except as specifically arranged due to any legal requirements or otherwise.

25 March 2022

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To conform to the regulatory requirements and to safeguard the interests of public health and safety, the SGM will be held via electronic facilities with arrangements as follows:–

ATTENDING THE SGM BY ELECTRONIC MEANS

To minimize the continuing risks posed by the Covid-19 pandemic, the SGM will be held by way of an online virtual meeting via electronic facilities. No Shareholder, proxy or corporate representative should attend the SGM physically and they will not be permitted entry to the venue of the SGM except as specifically arranged due to any legal requirements or otherwise.

All Shareholders, proxies and corporate representatives will be able to login the SGM via the e-Meeting System provided by Branch Share Registrar which can be accessed from any location with access to the internet via smartphone, tablet device or computer 30 minutes prior to the commencement time of the SGM.

Through the e-Meeting System, all Shareholders, proxies or corporate representatives will be able to view the live video broadcast and participate in voting and submit questions online. Each registered Shareholders' personalized username and password regarding the e-Meeting System will be sent under separate letter later.

HOW TO ATTEND

Shareholders who wish to attend the SGM and exercise their voting rights can be achieved in one of the following ways:

(1) appoint the chairperson of the SGM (highly recommended) or other persons as their proxies by providing their email addresses for receiving the designated login username and password to attend and vote on their behalf via the e-Meeting System; or

(2) attend the SGM via e-Meeting System which enables live streaming and interactive platform for submitting questions and voting online.

If you are a non-registered Shareholder and wish to attend the SGM, you should contact your banks, brokers, custodians, nominees or HKSCC Nominees Limited through which your shares are held (as the case may be) (collectively the "**Intermediary**") and instruct the Intermediary to appoint you as proxy or corporate representative to attend and vote via e-Meeting System at the SGM and in doing so, you will be asked to provide your email address before the time limit required by the relevant Intermediary. Details regarding the e-Meeting System including the login details will be emailed to you by 5:00 p.m. on Wednesday, 13 April 2022 by the Branch Share Registrar.

Completion and return of the form of proxy will not preclude a member from attending and voting via the e-Meeting System at the SGM or any adjournment thereof (as the case may be) and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

In order to qualify for the right to attend and vote at the SGM, all relevant share certificates and properly completed transfer forms must be lodged for registration with the Branch Share Registrar at the above address before 4:30 p.m. on Friday, 8 April 2022.

If you have any questions relating to the SGM, please contact Branch Share Registrar for assistance with the following details:

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Email: emeeting@hk.tricorglobal.com
Telephone: (852) 2975 0928
Fax: (852) 2861 1465

Due to the constantly evolving Covid-19 pandemic situation in Hong Kong, the Company may be required to adopt further changes to the SGM arrangements at a short notice. Shareholders are advised to check the websites of the Company (https://www.empculture.com) and the Stock Exchange (https://www.hkexnews.hk) for the latest announcement and information relating to the SGM.

QUESTIONS AT OR PRIOR TO THE SGM

Shareholders attending the SGM through the e-Meeting System may submit questions relevant to the proposed resolution online during the SGM. Shareholders can also send their emails to ir491@emperorgroup.com if they have any question about the relevant resolution or about the Company, or any matter for communication with the Board, as early as possible before the SGM date. The Company will endeavour to reply as soon as practicable.

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

"Acquisition"	the acquisition of the Sale Shares and the Sale Loan by the Purchaser under the Sale and Purchase Agreements
"associates"	has the meaning ascribed to it in the Listing Rules
"Board" or "Directors"	the board of directors of the Company
"Business Day(s)"	a day other than a Saturday, Sunday or public holiday (or a day on which a tropical cyclone No.8 or above or a "black" rainstorm warning is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m. on weekdays) on which banks are open in Hong Kong to the general public for business
"BVI"	the British Virgin Islands
"Bye-laws"	the bye-laws of the Company adopted on 20 May 1992 as amended from time to time
"Companies Act"	the Companies Act 1981 of the laws of Bermuda, as amended
"Company"	Emperor Culture Group Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	the completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreements
"Completion Date"	the date on which the Completion takes place which shall be within five Business Days (or such other day as mutually agreed by the Vendor and the Purchaser) following satisfaction (or where permitted, waived) of all conditions precedent to Completion pursuant to the Sale and Purchase Agreements
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Dr. Albert Yeung"	Dr. Yeung Sau Shing, Albert
"Emperor Cinemas (China)" or "Purchaser"	Emperor Cinemas (China) Limited, a company incorporated in Hong Kong with limited liability and indirectly wholly-owned by the Company

"Emperor Motion Picture Enterprise" or "Vendor"	Emperor Motion Picture Enterprise Limited, a company incorporated in Hong Kong with limited liability
"Encumbrance"	mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance or security interest of any kind, or any other type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect and any agreement or obligation to create or grant any of the aforesaid
"Enlarged Group"	the Group enlarged by acquisition of the Target Group
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, being the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	the independent board committee of the Board comprising of all of the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Acquisition
"Independent Shareholders"	the Shareholders who do not have material interest in the transactions contemplated under the Sale and Purchase Agreements
"Independent Third Party(ies)"	third party independent of and not connected with the Company and its connected persons (as defined in the Listing Rules)
"Independent Financial Adviser" or "Pelican"	Pelican Financial Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Latest Practicable Date"	17 March 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Sale Loan"	all the loans and sums owing by the Target Company to the Vendor as at the Completion Date

"Sale Loan SPA"	the sale and purchase agreement dated 31 January 2022 entered into between the Vendor and the Purchaser in relation to the acquisition of the Sale Loan
"Sale Shares"	two issued ordinary shares of US$1.0 each in the Target Company being the entire issued shares in the Target Company
"Sale Shares SPA"	the sale and purchase agreement dated 31 January 2022 entered into between the Vendor and the Purchaser in relation to the acquisition of the Sale Shares
"Sale and Purchase Agreements"	collectively, the Sale Shares SPA and the Sale Loan SPA
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting (or an adjournment thereof) of the Company to be held on Thursday, 14 April 2022 at 11:30 a.m. to consider and, if think fit, to approve, among other things, the Sale and Purchase Agreements and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholders"	holder(s) of the Share
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"Tale Success" or "Target Company"	Tale Success Limited, a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Vendor
"Target Group"	Target Company, its subsidiaries and its investments
"US$"	United States dollar, the lawful currency of United States of America
"%"	per cent

英皇文化產業集團有限公司
Emperor Culture Group Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 491)

Executive Directors:
Ms. Fan Man Seung, Vanessa
Mr. Wong Chi Fai
Mr. Yeung Ching Loong, Alexander
Ms. Shirley Percy Hughes

Independent Non-executive Directors:
Ms. Chan Sim Ling, Irene
Mr. Ho Tat Kuen
Ms. Tam Sau Ying

Registered Office:
Clarendon House,
2 Church Street,
Hamilton HM11
Bermuda

Head Office and Place of Principal Business in Hong Kong:
28th Floor
Emperor Group Centre
288 Hennessy Road
Wanchai,
Hong Kong

25 March 2022

To the Shareholders

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE ENTIRE EQUITY INTEREST
IN TALE SUCCESS AND SALE LOAN

INTRODUCTION

Reference is made to the announcement of the Company dated 31 January 2022 whereby the Board announced that the Vendor and the Purchaser entered into the Sale and Purchase Agreements, pursuant to which, the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase the entire equity interest in the Target Company and the loan due from the Target Company to the Vendor at an aggregate consideration of HK$4.0.

The purpose of this circular is to provide you with, amongst other, (i) further details of the Acquisition; (ii) the financial information of the Target Group; (iii) a letter from Pelican to the Independent Board Committee and the Independent Shareholders regarding the Acquisition; (iv) the unaudited pro forma financial information of the Enlarged Group; (v) the financial information of the Company; (vi) other information as required under the Listing Rules; and (vii) a notice of the SGM to be convened for the purpose of considering and, if think fit, approving, by way of poll, the Sale and Purchase Agreements and the transactions contemplated thereunder.

SALE AND PURCHASE AGREEMENTS DATED 31 JANUARY 2022

The Vendor: Emperor Motion Picture Enterprise

The Purchaser: Emperor Cinemas (China)

Assets to be acquired of

(i) the Sale Shares; and

(ii) the Sale Loan.

Consideration and payment terms

The consideration payable by the Purchaser to the Vendor for the acquisition of the Sale Shares and the Sale Loan shall be HK$3.0 and HK$1.0 respectively, implying an aggregate consideration of HK$4.0, and shall be payable by the Purchaser to the Vendor upon Completion.

The aggregate consideration of HK$4.0, which is considered as a nominal consideration, was determined after arm's length negotiation between the Vendor and the Purchaser taken into account (i) the net liabilities of the Target Group remained approximately HK$210.1 million after excluding the Sale Loan of approximately HK$322.0 million as at 30 September 2021; (ii) the opportunity cost of developing new cinemas by the Group which, in general, involves an initial investment cost of approximately HK$40 million (excluding the lease and/or acquisition cost of the premise) and approximately three to six months time to set up a new cinema; and (iii) the reason and benefits as stated under section headed "Reasons for and Benefits of the Acquisition" below. As at the Latest Practicable Date, the amount of Sale Loan was approximately HK$322.0 million. The Purchaser has agreed not to demand the settlement of the Sale Loan until such time when the Target Group is in a position to repay the amount due without impairing its liquidity position. The Board considered that the transactions under the Sale and Purchase Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent of the Sale Shares SPA

Completion for the acquisition of the Sale Shares shall be conditional upon the following conditions precedent:

(a) the Vendor being the sole legal and beneficial owner of the Sale Shares free from all Encumbrances and having the capacity and power to sell and assign the Sale Shares to the Purchaser free from all Encumbrances at Completion;

(b) the Purchaser having completed its due diligence investigation on the business, financial, legal and other aspects of the Target Group and reasonably satisfied with the result thereof;

(c) the transaction contemplated under the Sale Shares SPA having been approved by the Independent Shareholders at the SGM;

(d) the Vendor's representations, warranties and undertaking under the Sale Shares SPA being true and accurate in all material aspects and no materially misleading as if the Vendor had given them at Completion by reference to the facts and circumstances then existing as at Completion; and

(e) any consents or conditions from any relevant parties as reasonably required by the Purchaser having been obtained and have not been revoked.

If any of the foregoing conditions is not fulfilled (or waived by the Purchaser in writing, except condition (c) above which cannot be waived) in accordance with the Sale Shares SPA within nine months from the date of the Sale Shares SPA, either party shall be entitled to terminate the Sale Shares SPA by giving at least five Business Days' prior notice in writing to the other party and the Sale Shares SPA shall be terminated upon expiry of such notice and cease to have further effect thereafter. As at the Latest Practicable Date, conditions (b) and (d) have been fulfilled.

Conditions precedent of the Sale Loan SPA

Completion for the assignment of the Sale Loan shall be conditional upon the following conditions precedent:

(a) the Vendor being the sole legal and beneficial owner of the Sale Loan free from all Encumbrances and having the capacity and power to sell and assign the Sale Loan to the Purchaser free from all Encumbrances at Completion;

(b) the transaction contemplated under Sale Loan SPA having been approved by the Independent Shareholders at the SGM; and

(c) the sale and purchase of the Sale Shares having been completed in accordance with the terms and conditions of the Sale Shares SPA.

If any of the foregoing conditions is not fulfilled (or waived by the Purchaser in writing, except conditions (b) and (c) which cannot be waived) in accordance with the Sale Loan SPA within nine months from the date of the Sale Loan SPA, either party shall be entitled to terminate the Sale Loan SPA by giving at least five Business Days' prior notice in writing to the other party and the Sale Loan SPA shall be terminated upon expiry of such notice and cease to have further effect thereafter. As at the Latest Practicable Date, none of the above conditions precedent has been fulfilled.

Completion

Subject to the fulfilment of all the above conditions precedent (or waived by the Purchaser), Completion shall take place at or before 12:00 noon on the Completion Date at the place mutually agreed by the Vendor and the Purchaser or at such time or other place as may be agreed by the Vendor and the Purchaser in writing pursuant to the Sale and Purchase Agreements. The Completion is expected to take place on or before 22 April 2022.

If the Sale and Purchase Agreements are terminated due to unfulfillment of any conditions precedent, neither party shall have any claim against the other party save and except for any antecedent breach.

INFORMATION OF THE VENDOR

The Vendor is an investment holding company incorporated in Hong Kong and is indirectly controlled by the Company's substantial shareholder, namely Albert Yeung Entertainment Holdings Limited (the "**Controlling Shareholder**"). After Completion, save for the Group, the Vendor, together with the other companies controlled by the Controlling Shareholder will cease to be engaged in cinema operation.

INFORMATION OF THE COMPANY AND THE PURCHASER

The Company is an investment holding company and its subsidiaries are principally engaged in entertainment, media and cultural development businesses which include (i) cinema operation; and (ii) investments in films and a variety of cultural events.

The Purchaser is an indirect wholly-owned subsidiary of the Company with principal business of investment holding.

INFORMATION OF THE TARGET GROUP

The Target Company is an investment holding company incorporated in the BVI and a direct wholly-owned subsidiary of the Vendor. The Target Company owns (i) 100% interest in a cinema operation located in Hong Kong; (ii) 70% interest in 7 cinema operations located in Shanghai, Shenzhen, Chengdu, Foshan and Zhuhai of mainland China (whereas the remaining 30% is owned by an Independent Third Party); and (iii) 45% interest in a cinema operation located in Hefei of mainland China (whereas the remaining 55% is owned by the Group).

All premises where the cinemas of the Target Group operate are leased from landlords who are Independent Third Parties. The remaining terms of the leases for the premises are ranging from 3 to 11 years. As at the Latest Practicable Date, the total future minimum lease payments under non-cancellable operating leases of the Target Group's cinemas mentioned above fall due as follows:

	HK$'000
Within one year	72,795
In the second-to-fifth year, inclusive	286,590
After five years	138,783
	498,168

The operating leases of cinemas also called for contingent rentals, which would be based on a certain percentage of revenue of the operations being undertaken therein pursuant to the terms and conditions as stipulated in the respective tenancy agreements. As the future revenue of these cinemas could not be reliably determined as at the Latest Practicable Date, the relevant contingent rentals have not been included in the above total future minimum lease payments.

The audited combined financial information of the Target Group for the two years ended 30 June 2020 and 2021, assuming the group structure of the Target Group had been in existence at those dates, is set out below:

	For the year ended 30 June 2020 (Audited) *HK$'000*	**For the year ended 30 June 2021 (Audited)** *HK$'000*
Revenue	99,501	97,779
Net loss before taxation *(Note)*	(228,090)	(56,694)
Net loss after taxation *(Note)*	(228,090)	(56,694)

Note:

Due to the outbreak of Covid-19 pandemic ("**Pandemic**") since early 2020, the Target Group had made an impairment of property, plant and equipment and right-of-use assets in aggregate of HK$149.9 million and HK$25.6 million for the two financial years ended 30 June 2020 and 2021 respectively. For illustration purpose, the adjusted net loss before (or after) taxation for the two financial years ended 30 June 2020 and 2021 would be HK$78.2 million and HK$31.1 million respectively, excluding these impairment losses.

The audited combined total asset value and net liabilities (including the Sale Loan) of the Target Group as at 30 September 2021 were approximately HK$255.0 million and HK$532.1 million respectively.

FINANCIAL EFFECTS OF THE ACQUISITION

Immediately upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company. The financial statements of the Target Group will be consolidated into the financial statements of the Group and the financial effects of the Acquisition to the Enlarged Group are summarised below:

Earnings

After the Acquisition, the Group will consolidate the financial results of the Target Group into its consolidated statement of profit or loss and it is expected that the revenue of the Enlarged Group will be increased and the earnings of the Enlarged Group will be basically affected by the results of the Target Group in the same level. After considering the factors set out in the section headed "Reasons for and Benefits of the Acquisition" in this letter, the Directors expect that the Acquisition will have a positive impact on the Group's earning in the long run. However, the financial impact will depend on the future operating performance of the Target Group after the Acquisition.

Net assets

As extracted from the interim report of the Company for the six months ended 31 December 2021, the unaudited consolidated total assets and total liabilities of the Group were approximately HK$1,791.9 million and HK$1,834.0 million respectively. The unaudited net liabilities as at 31 December 2021 was approximately HK$42.1 million. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular, assuming Completion had taken place on 31 December 2021, the unaudited pro forma consolidated total assets and total liabilities of the Enlarged Group would increase to approximately HK$2,044.8 million and HK$2,255.5 million respectively. The unaudited pro forma net liabilities of the Enlarged Group would have been approximately HK$210.7 million.

REASONS FOR AND BENEFIT OF THE ACQUISITION

The Group has always been exploring opportunities to expand its cinema network, especially within the Greater China region. The Acquisition is in line with the overall business development strategy of the Group. Upon Completion, the Group will continue to operate the cinemas under the Target Group and the coverage of the Group's film exhibition network will be further expanded into the central business district in Hong Kong, and tier-1 and tier-2 cities in the mainland China, which will cement the Group's position in the film exhibition industry.

The cinemas under the Target Group are currently operated with the brand "*Emperor*" which will be unified under the Group upon Completion. From the operational perspective, the Acquisition will enable the Group to master the entire cinema network with the brand "*Emperor*" by achieving better resources allocation, enjoying economies of scale and implementing integrated marketing strategy. From the investment perspective, it will enable the existing Shareholders and potential investors to better assess the investment values of the Group by understanding the layout and performance of the entire cinema operation with the brand "*Emperor*".

The Directors have considered that (i) China has been the world's largest box office market for the second consecutive years since 2020, indicating a rapid recovery of China's film exhibition industry; (ii) riding on the continuous expansion of the middle-income group in China, there will have further impetus for the growth of entertainment and leisure demand; (iii) the suppressed desire for leisure and pent-up demand will be released if the Pandemic is well contained; (iv) the upcoming release of blockbuster movies; (v) the overall strength of and synergies with other entertainment companies under the parent company of the Group; (vi) based on the initial investment cost of approximately HK$40 million per cinema in general with reference to the historical capital expenditure of the cinemas of the Group and the Target Group, the net liabilities of the Target Group of approximately HK$210.1 million (after excluding the Sale Loan) is less than the estimated aggregate initial investment cost up to approximately HK$360 million for 9 cinemas assuming which to be set up as at the date of this circular; and (vii) the internal fit-out period of three to six months for setting up a new cinema, during which no revenue will be generated, as compared to the immediate revenue generating ability of the Target Group's ready-to-operate cinemas and therefore regarded the Acquisition a precious acquisition opportunity.

In addition, the decrease in revenue of the Target Group for the years ended 30 June 2020 and 2021 was in line with the general economic downturn as a result of the Pandemic and the quarantine measures imposed in Hong Kong and mainland China, which are considered to be temporary and extreme situation. However, the adjusted net loss (excluding the impairment of property, plant and equipment and right-of-use assets) for the two financial years ended 30 June 2020 and 2021 of the Target Group has significantly reduced from HK$78.2 million to HK$31.1 million, which indicated the trend of recovery of the industry since the second half of 2020 and reflected the strong box office market in mainland China. Regarding the unfavourable financial position of the Target Group, no immediate cashflow pressure is expected from the repayment of the liabilities of the Target Group. The Group will be capable to finance the liabilities of the Target Group according to the respective credit terms and lease agreements with cash flows generated from its operations, and in case of any shortage, by utilising the existing long-term loan facility obtained from a related party, who is a family member of a Director and Dr. Albert Yeung, in an amount of HK$1,200.0 million, which is unsecured and interest-bearing at Hong Kong Interbank Offer Rate (HIBOR) plus 2.0% per annum. The related party has agreed not to demand repayment of such loan together with all accrued interest and all outstanding amounts until 20 January 2024. As at the Latest Practicable Date, the Company does not have any commitment of the Target Company.

With the good progress on the implementation of vaccination programme and effective precautionary measures in both Hong Kong and mainland China, the management of the Group remains positive towards the outlook of film exhibition market in the long-run and is confident to seize the opportunities to be brought by the industry revival when the leisure life returns to normal, after taking into consideration the recent outbreak of coronavirus variant in Hong Kong and mainland China, as well as the historical financial performance of the Target Group and the operating companies under the Target Group during the Pandemic.

The Directors (excluding all the independent non-executive Directors who will give their opinion based on the recommendation from the Independent Financial Adviser which is set out in this circular) considered that the terms and conditions for the Acquisition are on normal commercial terms, which are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Vendor is an indirect wholly-owned subsidiary of the Controlling Shareholder. As such, under Chapter 14A of the Listing Rules, the Vendor is a connected person of the Company and accordingly, the Acquisition constitutes a connected transaction for the Company. As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 25% but all of them are less than 100%, the Acquisition constitutes a major and connected transaction for the Company under Chapter 14 and Chapter 14A of the Listing Rules and is subject to announcement, Independent Shareholders' approval and reporting requirement under the Listing Rules.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of the terms of the Sale and Purchase Agreements and the transactions contemplated thereunder and an independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

Mr. Wong Chi Fai and Ms. Fan Man Seung, Vanessa, executive Directors, have been involved in the management of the Vendor's group companies. For prudent sake, they did abstain from voting on the relevant board resolution of the Company regarding the Acquisition.

Mr. Yeung Ching Loong, Alexander, an executive Director, did also abstain from voting on the same board resolution in view of his deemed interest in the Acquisition by virtue of being one of the eligible beneficiaries of the private discretionary trust which indirectly controls the Vendor.

Save as disclosed above, none of the other Directors has material interest or conflict of role in the transactions and has abstained from voting/was required to abstain from voting on the board resolution(s) regarding the Acquisition.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Company has established an Independent Board Committee comprising Ms. Chan Sim Ling, Irene, Mr. Ho Tat Kuen and Ms. Tam Sau Ying (all of whom are independent non-executive Directors) to advise the Independent Shareholders as to (i) whether the terms of the Sale and Purchase Agreements are fair and reasonable; (ii) whether the transactions thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the transactions are in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on the transactions. Pelican has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

SGM

A notice convening the SGM to be held via electronic facilities on Thursday, 14 April 2022 at 11:30 a.m. is set out from pages SGM-1 to SGM-3 of this circular. An ordinary resolution (the "**Resolution**") will be proposed at the SGM for the Independent Shareholders to approve the Sale and Purchase Agreements and the transactions contemplated thereunder.

As at the Latest Practicable Date, both the Purchaser and the Vendor were indirectly owned by the Controlling Shareholder. As such, the Controlling Shareholder and its associates will abstain from voting on the Resolution. In compliance with the Listing Rules, the Resolution will be voted by way of poll and the results of the SGM will be published after the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Such form of proxy is also published on the Stock Exchange's website (https://www.hkexnews.hk) and the Company's website (https://www.empculture.com). Shareholders are highly recommended to appoint the chairperson of the SGM as their proxy by completing the enclosed form of proxy in accordance with the instructions printed thereon and return the same as soon as possible to the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, or via the designated URL (https://spot-emeeting.tricor.hk) by using the login username and password provided on the notification letter sent by the Branch Share Registrar, and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the SGM (or any adjourned meeting) if you so wish and in such event, the instrument appointing a proxy will be deemed to be revoked.

In accordance with Rule 13.39(4) of the Listing Rules, all votes of the Independent Shareholders at the SGM shall be taken by poll.

In order to qualify for the right to attend and vote at the above meeting, all relevant share certificates and properly completed transfer forms must be lodged for registration with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Friday, 8 April 2022.

The Company is not aware that the aforesaid SGM arrangement is prohibited by the Bye-laws nor the Companies Act.

RECOMMENDATION

The Board is of the view that the terms of the Sale and Purchase Agreements have been negotiated on an arm's length basis, on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the Resolution to be proposed at the SGM. Before deciding how to vote on the Resolution at the SGM, you are advised to read (i) the Letter from the Independent Board Committee on page 16 of this circular; and (ii) the Letter from Pelican from pages 17 to 32 of this circular which contains its advice to the Independent Board Committee and Independent Shareholders in relation to the Sale and Purchase Agreements and the transactions contemplated thereunder as well as the principal factors and reasons considered by it in arriving its opinions.

ADDITIONAL INFORMATION

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

In light of the current Covid-19 situation, your attention is also drawn to the section headed "Guidance for the SGM" set out on pages 1 to 2 of this circular for further information.

WARNING

Shareholders and potential investors should note that the Completion is conditional upon the satisfaction or, if applicable, waiver of the conditions precedent set out in the Sale and Purchase Agreements. Accordingly, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

By order of the board
Emperor Culture Group Limited
Fan Man Seung, Vanessa
Chairperson

The following is the text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Sale and Purchase Agreements and the transactions contemplated thereunder for the purpose of incorporation in this circular.

英皇文化產業集團有限公司
Emperor Culture Group Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 491)

25 March 2022

To the Independent Shareholders of Emperor Culture Group Limited

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE ENTIRE EQUITY INTEREST
IN TALE SUCCESS AND SALE LOAN

We refer to the circular of the Company to the Shareholders dated 25 March 2022 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings as those defined in the Circular.

We, Independent Board Committee, has been appointed by the Board to advise you on the terms of the Sale and Purchase Agreements and the transactions contemplated thereunder, Pelican has been appointed to advise you and us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out from pages 17 to 32 of the Circular. Your attention is also drawn to the "**Letter from the Board**" and the "**Letter from Pelican**" in the Circular and the additional information set out in the appendices thereto.

Having considered the advice given by Pelican, in particular the principal factors, reasons and recommendation as set out in its letter, we consider that (i) the entering into the Sale and Purchase Agreements and the transactions contemplated thereunder is in ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (ii) the terms and conditions of the Sale and Purchase Agreements and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend you to vote in favour of the relevant ordinary resolution to be proposed at the SGM to approve the Sale and Purchase Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Emperor Culture Group Limited

Chan Sim Ling, Irene **Ho Tat Kuen** **Tam Sau Ying**
Independent Non-executive Directors

The following is the full text of a letter of advice from Pelican, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreements and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.

PELICAN FINANCIAL
百 利 勤 金 融

PELICAN FINANCIAL LIMITED

21/F, Lee Garden Three, 1 Sunning Road, Causeway Bay, Hong Kong

25 March 2022

To the Independent Board Committee and the Independent Shareholders of Emperor Culture Group Limited

Dear Sirs/Madams,

MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF ENTIRE EQUITY INTEREST
IN TALE SUCCESS AND SALE LOAN

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular of the Company dated 25 March 2022 (the "**Circular**"), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As set out in the Board Letter, on 31 January 2022 (after trading hours), the Vendor and the Purchaser entered into the Sale and Purchase Agreements, pursuant to which, the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase the entire equity interest in the Target Company and the loan due from the Target Company to the Vendor pursuant to the terms and conditions of the Sale and Purchase Agreements.

Given that the Purchaser is an indirect wholly-owned subsidiary of the Company and the Vendor is an indirect wholly-owned subsidiary of the Controlling Shareholder (as defined below), the Vendor is a connected person of the Company, and hence the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceed 25% but all of them are less than 100%, the Acquisition constitutes a major and connected transaction for the Company under Chapter 14 and Chapter 14A of the Listing Rules and is subject to announcement, Independent Shareholders' approval and reporting requirement under the Listing Rules.

An Independent Board Committee comprising all the independent non-executive Directors has been established to make recommendations to the Independent Shareholders in respect of the terms of the Sale and Purchase Agreements and the transactions contemplated thereunder. We have been appointed by the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect and such appointment has been approved by the Independent Board Committee.

Pelican is not connected with the Directors, chief executive of the Company or substantial Shareholders or any of their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. In the last two years, we had not been engaged by the Company for the provision of other services that would affect our independence. Apart from normal professional fees payable to us in connection with this appointment of us as Independent Financial Adviser, no arrangement exists whereby Pelican will receive any fees or benefits from the Company or the Directors, chief executive of the Company or substantial Shareholders or any of their respective associates.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the Sale and Purchase Agreements and transactions contemplated thereunder are on normal commercial terms and were entered into in the ordinary and usual course of business of the Group; (ii) whether the terms of the Sale and Purchase Agreements and transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote on the relevant resolution(s) in respect of the Sale and Purchase Agreements and transactions contemplated thereunder at the SGM.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions which include, among other things, review of relevant agreements, documents as well as information provided by the Company and verified them, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. The documents reviewed include, but are not limited to, the annual report of the Company for the year ended

30 June 2021 (the "**2021 Annual Report**"); the Sales and Purchase Agreements, the consolidated financial information of the Target Group for the three years ended 30 June 2021 and the three months ended 30 September 2021 (as disclosed in Appendix II of the Circular), the unaudited pro forma financial information of the Enlarged Group (as disclosed in Appendix III of the Circular), the historical investment costs schedule for the Group and the Target Group's cinemas in mainland China and Hong Kong; the announcement of the Company dated 31 January 2022 and the Circular. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of an in-depth investigation into the business and affairs or the prospects of the Group.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Acquisition, we have considered the following principal factors and reasons:

1. Background of the Acquisition

1.1. Information of the Group

The Company is an investment holding company and its subsidiaries are principally engaged in entertainment, media and cultural development businesses which include (i) cinema operation; and (ii) investments in films and a variety of cultural events.

Set out below is a breakdown of the Group's revenue and other financial information for the two years ended 30 June 2020 and 2021 as extracted from the 2021 Annual Report:

Table 1: Revenue breakdown and other financial information of the Group

	For the year ended 30 June	
	2021	**2020**
	(Audited)	**(Audited)**
	HK$'000	*HK$'000*
Cinema operation		
Box office takings	164,097	100,851
Sale of concession goods	11,684	11,859
Screen advertising services	7,116	7,348
Others	10,011	6,187
Total revenue	**192,908**	**126,245**
Gross profit	111,172	75,903
Loss for the year	**228,078**	**353,226**

The Group's total revenue increased by approximately HK$66.7 million or 52.8%, from approximately HK$126.2 million for the year ended 30 June 2020 to approximately HK$192.9 million for the year ended 30 June 2021. The increase was mainly attributable to the increase of box office takings due to the gradual recovery in the film exhibition market together with the gradual easing of social distancing measures, as well as the fact that the number of the Group's cinemas increased from 14 as at 30 June 2020 to 16 as at 30 June 2021. During the year ended 30 June 2021, the Group continued adopting various measures to alleviate the adverse impacts caused by the Covid-19 pandemic (the "**Pandemic**"), including negotiating with landlords for rental reductions, implementing staff cost-saving measures, improving the customers' experience, and launching various promotional programs. With an increase in total revenue together with its cost-saving measures, and no further impairment of its cinema assets during the year ended 30 June 2021, the Group had reduced the loss for the year to approximately HK$228.1 million as compared with the loss of approximately HK$353.2 million for the previous year.

Meanwhile, set out below is a summary of the Group's financial position as at 30 June 2021 as extracted from the 2021 Annual Report:

Table 2: Financial position of the Group

	As at 30 June 2021 (Audited) *HK$'000*	**As at 30 June 2020 (Audited)** *HK$'000*
Total assets		
– Non-current assets	1,615,191	1,625,189
– Current assets	110,556	91,155
Total liabilities		
– Non-current liabilities	1,473,595	1,338,474
– Current liabilities	199,127	120,323
Net current liabilities	88,571	29,168
Net assets	53,025	257,547
Gearing ratio	19.3%	11.2%

As shown in the above table, the net assets of the Group decreased from approximately HK$257.5 million as at 30 June 2020 to approximately HK$53.0 million as at 30 June 2021, representing a decrease of approximately 79.4%, which was a combined result of (i) the loss for the year of approximately HK$228.1 million; and (ii) the increase in exchange fluctuation reserve of approximately HK$23.6 million, for the year ended 30 June 2021. In addition, the Group's gearing ratio, which is calculated by dividing the total borrowings (including amount due to non-controlling interests and interest-bearing bank and other borrowings) by total assets, was about 19.3% as at 30 June 2021, which was about 8.1 percentage points higher than that as at 30 June 2020.

1.2. Information of the Purchaser

The Purchaser is an indirect wholly-owned subsidiary of the Company with the principal business of investment holding.

1.3. Information of the Vendor

The Vendor is an investment holding company incorporated in Hong Kong and is indirectly controlled by the Company's substantial shareholder, namely Albert Yeung Entertainment Holdings Limited (the "**Controlling Shareholder**").

After Completion, save for the Group, the Vendor, together with the other companies controlled by the Controlling Shareholder will cease to be engaged in cinema operation.

1.4. Information of the Target Group

The Target Company is an investment holding company incorporated in the BVI and a direct wholly-owned subsidiary of the Vendor. As at the Latest Practicable Date, the Target Company owned (i) 100% interest in a cinema operation located in Hong Kong; (ii) 70% interest in seven cinema operations located in Shanghai, Shenzhen, Chengdu, Foshan and Zhuhai of mainland China (whereas the remaining 30% was owned by an Independent Third Party); and (iii) 45% interest in a cinema operation located in Hefei of mainland China (whereas the remaining 55% was owned by the Group).

All premises where the cinemas of the Target Group operate are leased from landlords who are Independent Third Parties. The remaining terms of the leases for the premises are ranging from 3 to 11 years. As at the Latest Practicable Date, the total future minimum lease payments under non-cancellable operating leases of the Target Group's cinemas mentioned above fall due as follows:

	HK$'000
Within one year	72,795
In the second-to-fifth year, inclusive	286,590
After five years	138,783
	498,168

The operating leases of cinemas also called for contingent rentals, which would be based on a certain percentage of revenue of the operations being undertaken therein pursuant to the terms and conditions as stipulated in the respective tenancy agreements. As the future revenue of these cinemas could not be reliably determined as at Latest Practicable Date, the relevant contingent rentals have not been included in the above total future minimum lease payments.

As disclosed in the Board Letter, the audited combined financial information of the Target Group for the two years ended 30 June 2020 and 2021, assuming the group structure of the Target Group had been in existence at those dates, is set out below:

	For the year ended 30 June 2020 (Audited) *HK$'000*	**For the year ended 30 June 2021 (Audited)** *HK$'000*
Revenue	99,501	97,779
Net loss before taxation *(Note)*	228,090	56,694
Net loss after taxation *(Note)*	228,090	56,694

Note:

Due to the outbreak of the Pandemic in early 2020, the Target Group had made an impairment of property, plant and equipment and right-of-use assets in aggregate of HK$149.9 million and HK$25.6 million for the respective financial years ended 30 June 2020 and 2021. For illustration purposes, the adjusted net loss before (or after) taxation for the two financial years ended 30 June 2020 and 2021 would be HK$78.2 million and HK$31.1 million respectively, excluding these impairment losses.

The audited combined total asset value and net liabilities (including the Sale Loan) of the Target Group as at 30 September 2021 were approximately HK$255.0 million and HK$532.1 million respectively.

2. Review of the development of the film exhibition industry in Hong Kong and mainland China

Since the start of the Pandemic, various social distancing measures and capacity limitation measures have been in place. These measures had severely affected the film exhibition industry in mainland China and Hong Kong. With the hope of the ease of anti-Pandemic measures and the recovery of entertainment market sentiment, it is expected that the film exhibition industry will be revived in a short period of time.

According to the information released by China Film Administration, China's film exhibition industry was undergoing a rapid recovery in 2021 and remained to be the largest market in the world in terms of box office revenue for the second consecutive year. In particular, China's movie box office revenue hit approximately RMB47.2 billion in 2021, which was about 74% of movie box office revenue at the pre-covid level[1].

Also, according to an industry forecast conducted by iiMedia Research, an independent third-party research company in China, China's film exhibition market is expected to reach RMB69.1 billion in 2024[2], representing a compound annual growth rate ("**CAGR**") of about 13.6% from 2021 to 2024.

On the other hand, according to the Hong Kong Trade Development Council, the movie box office revenue in Hong Kong recorded approximately HK$537.0 million in 2020, which was down by approximately 72.1% from approximately HK$1,923.0 million in 2019 due to the Pandemic. However, speedy revival in the movie industry was observed once the anti-Pandemic measures were released in 2021, as the movie box revenue reached approximately HK$376.0 million during the first half of 2021, which was already about 70.0% of the previous year[3]. Furthermore, based on the research conducted by PwC Hong Kong in July 2021, it is expected that the film exhibition industry's revenue would recover to US$276.0 million (equivalent to approximately HK$2,147.3 million) in 2025, at a CAGR of 31.6% from 2020[4].

3. Reasons for and benefits of the Acquisition

As mentioned in the Board Letter and above, the Group is engaged in entertainment, media and cultural development businesses, which include (i) cinema operation; and (ii) investments in films and a variety of cultural events. As disclosed in the 2021 Annual Report, the Group had a total of 14 cinemas with the brand "*Emperor*", among which eight of them are in mainland China, five in Hong Kong and one in Malaysia. It is noted that the Group has been exploring opportunities to expand its cinema network, especially in Greater China.

As the Target Group owns one cinema in Hong Kong and eight cinemas in mainland China, the Acquisition is in line with the business development strategy of the Group. Upon Completion, the coverage of the Group's film exhibition network will be further expanded into the central business district in Hong Kong, and tier-1 and tier-2 cities in mainland China, which will cement the Group's position in the film exhibition industry. Meanwhile, given that the Target Group operates its cinemas with the brand "*Emperor*", the Acquisition would allow the Group to strengthen the brand awareness for "*Emperor*" by enabling it to employ integrated marketing strategies and better resources allocation, and hence achieve operational and management efficiency.

1 Please refer to https://www.chinafilm.gov.cn/chinafilm/contents/142/4075.shtml

2 Please refer to https://baijiahao.baidu.com/s?id=1718116165205681230&wfr=spider&for=pc; and https://data.iimedia.cn/data-classification/detail/44280629.html

3 Please refer to https://research.hktdc.com/en/article/MzExMjc4NDIz

4 Please refer to https://www.pwchk.com/en/industries/telecommunications-media-and-technology/publications/entertainment-and-media-outlook-2021-2025.html

As discussed above, the Target Group had been loss-making in the past consecutive three years and was in a net liability position even after excluding the Sale Loan. In this regard, we noted the Directors have balanced against (i) the fact that China had been the largest box office market for two consecutive years since 2020; (ii) the rapid recovery of the film exhibition industry in mainland China and Hong Kong; (iii) the growth of entertainment and leisure demand brought by the continuous expansion of the middle-income group in mainland China; (iv) the suppressed desire and pent-up demand for leisure and entertainment that will be released when the Pandemic is well contained; (v) the synergies between the entertainment companies under the parent company of the Group upon Completion which will strengthen the market position and broaden the revenue base of the Group; and (vi) the extensive amount of time and initial investment costs to set up new cinemas and promote them compared to the Acquisition.

In terms of the prospect of the film exhibition industry, based on our abovementioned online industry research, we agree with the Directors that the film exhibition industry will be revived in a short period of time once the Pandemic in Hong Kong and mainland China starts to wane, and the Acquisition would allow the Group to consolidate its businesses with the brand "*Emperor*" and enjoy the synergistic benefits so as to capture the growth opportunities in the film exhibition market.

Meanwhile, despite the Target Group's loss-making position in recent years, we are of the view that it does not fairly represent its earning potential, given that during this period, both mainland China and Hong Kong, and in fact, the world, have been hit hard economically because of the Pandemic. The film exhibition industry has been one of those industries that have taken a great hit because of the quarantine measures imposed in mainland China and Hong Kong. However, as discussed above, it was also one that was quick to rebound once the quarantine measures were eased in 2021. Therefore, although the Acquisition would worsen the financial position of the Group as discussed in the below section headed "Possible financial effects of the Acquisition" of this letter, we are of the view that the Target Group's loss-making situation is temporary and should not deter the Group from the Acquisition, especially given that the Group is experienced in the film exhibition industry in both mainland China and Hong Kong, and hence the Acquisition would enable the Group to further widen its cinema network, particularly in mainland China, and strengthen its industry position therein as well as achieve overall operational efficiency.

On the other hand, as further discussed in the below section headed "Assessment of the principal terms of the Sale and Purchase Agreements" of this letter, although the Target Group remains in a net liability position even after excluding the Sale Loan, the Group is not expected to experience any immediate cashflow pressure either from the payment of the Consideration or the repayment of the liabilities, which is not usually the case in acquisition transactions. Hence, upon Completion, the Group could immediately focus on streamlining its and the Target Group's businesses and achieving greater success for the Enlarged Group. We consider this a favorable term of the Acquisition, which might not have happened if the Acquisition were not conducted during these difficult economic times and the film exhibition industry had not been hit hard by the Pandemic.

We have also reviewed the historical investment costs schedule for the Group and the Target Group's cinemas in mainland China and Hong Kong, which lists out the capital expenditure on each cinema and house, as well as the deposits required. We noted that the initial investment cost per new cinema was approximately HK$40 million. Considering that the Target Group owns a total of nine cinemas in mainland China and Hong Kong, the estimated aggregate initial investment cost could amount to approximately HK$360 million, which is more than the net liabilities of the Target Group of approximately HK$210.1 million (after excluding the Sale Loan). Apart from such upfront investment cost, based on the Group's experience in setting up new cinemas, a period of at least three to six months would also be needed for the internal renovation and fitting of a new cinema, which would require plenty of human resources and effort of the Group. On the other hand, the ready-to-operate cinemas of the Target Group can generate revenue immediately, allowing the Group to maximise its value to the Shareholders. In view of this, we agree with the Board that the Acquisition is a precious acquisition opportunity that represents a lower opportunity cost and a greater potential upside for the Company and the Shareholders.

Taking into account the Group's plan to expand its cinema network in mainland China, the current financial performance of the Target Group presents an excellent opportunity for the Group to acquire it at a bargain price, which would unlikely be possible before the Pandemic. Accordingly, we consider that the Consideration (as defined below), which is a nominal one, is fair and reasonable so far as the Independent Shareholders are concerned. In light of the other merits of the Acquisition as discussed above, we also concur with the Directors that the Acquisition is in the ordinary and usual course of business of the Group, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Sale and Purchase Agreements

Below summarises the major terms of the Sale and Purchase Agreements:

Date:	31 January 2022
Vendor:	Emperor Motion Picture Enterprise
Purchaser	Emperor Cinemas (China)
Assets to be acquired of	(i) the Sale Shares; and
	(ii) the Sale Loan

4.1. Consideration and payment terms

Pursuant to the Sale and Purchase Agreements, the consideration payable by the Purchaser to the Vendor for the acquisition of the Sale Shares and the Sale Loan shall be HK$3.0 and HK$1.0 respectively, implying that an aggregate consideration of HK$4.0 (the "**Consideration**") and shall be payable by the Purchaser to the Vendor upon Completion.

The Consideration, which is a nominal consideration, was determined after arm's length negotiation between the Vendor and the Purchaser taking into account (i) the net liabilities of the Target Group of approximately HK$210.1 million even after excluding the Sale Loan of approximately HK$322.0 million as at 30 September 2021; (ii) the opportunity cost of setting up new cinemas by the Group which, in general, involves an initial investment cost of approximately HK$40 million (excluding the lease and/or acquisition cost of the premise) and approximately three to six months per new cinema; and (iii) the reasons for and benefits of the Acquisition as stated in the section headed "Reason and Benefits of the Acquisition" of the Board Letter. As at the Latest Practicable Date, the amount of the Sale Loan was approximately HK$322.0 million. As further discussed below, the Vendor agreed to sell its lender's title in the Sale Loan to the Purchaser, meaning that the Group will not need to repay the Vendor the Sale Loan upon Completion. Meanwhile, the Purchaser agreed not to demand the settlement of the Sale Loan until such time when the Target Group is in a position to repay the amount due without impairing its liquidity position. Accordingly, there will be no immediate cashflow pressure on the Target Group and/or the Group.

4.2. Conditions precedent of the Sale Shares SPA

Completion for the acquisition of the Sale Shares shall be conditional upon the following conditions precedent:

(a) the Vendor being the sole legal and beneficial owner of the Sale Shares free from all Encumbrances and having the capacity and power to sell and assign the Sale Shares to the Purchaser free from all Encumbrances at Completion;

(b) the Purchaser having completed its due diligence investigation on the business, financial, legal and other aspects of the Target Group and reasonably satisfied with the result thereof;

(c) the transaction contemplated under the Sale Shares SPA having been approved by the Independent Shareholders at the SGM;

(d) the Vendor's representations, warranties and undertaking under the Sale Shares SPA being true and accurate in all material aspects and not materially misleading as if the Vendor had given them at Completion by reference to the facts and circumstances then existing as at Completion; and

(e) any consents or conditions from any relevant parties as reasonably required by the Purchaser having been obtained and have not been revoked.

If any of the foregoing conditions is not fulfilled (or waived by the Purchaser in writing, except condition (c) above which cannot be waived) in accordance with the Sale Shares SPA within nine months from the date of the Sale Shares SPA, either party shall be entitled to terminate the Sale Shares SPA by giving at least five Business Days' prior notice in writing to the other party and the Sale Shares SPA shall be terminated upon expiry of such notice and cease to have further effect thereafter. As at the Latest Practicable Date, conditions (b) and (d) have been fulfilled.

4.3. Conditions precedent of the Sale Loan SPA

Completion for the assignment of the Sale Loan shall be conditional upon the following conditions precedent:

(a) the Vendor being the sole legal and beneficial owner of the Sale Loan free from all Encumbrances and having the capacity and power to sell and assign the Sale Loan to the Purchaser free from all Encumbrances at Completion;

(b) the transaction contemplated under Sale Loan SPA having been approved by the Independent Shareholders at the SGM; and

(c) the sale and purchase of the Sale Shares having been completed in accordance with the terms and conditions of the Sale Shares SPA.

If any of the foregoing conditions is not fulfilled (or waived by the Purchaser in writing, except conditions (b) and (c) which cannot be waived) in accordance with the Sale Loan SPA, within nine months from the date of the Sale Loan SPA, either party shall be entitled to terminate the Sale Loan SPA by giving at least five Business Days' prior notice in writing to the other party and the Sale Loan SPA shall be terminated upon expiry of such notice and cease to have further effect thereafter. As at the Latest Practicable Date, none of the above conditions precedent has been fulfilled.

4.4. Completion

Subject to the fulfilment of all the above conditions precedent (or waived by the Purchaser), Completion shall take place at or before 12:00 noon on the Completion Date at the place mutually agreed by the Vendor and the Purchaser or at such time or other place as may be agreed by the Vendor and the Purchaser in writing pursuant to the Sale and Purchase Agreements. The Completion is expected to take place on or before 22 April 2022.

If the Sale and Purchase Agreements are terminated due to unfulfillment of any conditions precedent, neither party shall have any claim against the other party save and except for any antecedent breach.

5. Assessment of the principal terms of the Sale and Purchase Agreements

5.1. Consideration

As stated in the Board Letter and our discussion with the management of the Group, the Consideration was arrived at after arm's length negotiation between the Vendor and the Purchaser taking into account (i) the net liabilities of the Target Group of approximately HK$210.1 million even after excluding the Sale Loan of approximately HK$322.0 million as at 30 September 2021; (ii) the opportunity cost of setting up new cinemas by the Group; and (iii) the reasons for and benefits of the Acquisition as stated in section headed "Reason and Benefits of the Acquisition" of the Board Letter.

To assess the fairness and reasonableness of the Consideration, we have, amongst other things, reviewed the audited financial information of the Target Group (as disclosed in Appendix II of the Circular) and confirmed that the Target Group recorded combined net liabilities of approximately HK$532.1 million as at 30 September 2021, among which, approximately HK$322.0 million was the Sale Loan which the Target Group owed to the Vendor through the Vendor itself and its fellow subsidiary.

We also noticed that the audited total assets of the Target Group as at 30 September 2021 was approximately HK$255.0 million, among which approximately HK$156.3 million were right-of-use assets, approximately HK$50.7 million were property, plant and equipment and approximately HK$22.7 million were cash and cash equivalents. Given that as discussed in the above section headed "Reasons for and benefits of the Acquisition" of this letter, it has been the Group's plan to expand its cinema network in mainland China, the Acquisition is not only in line with the business development strategy of the Group to expand its cinema network, but also a precious opportunity for the Group to acquire the required operating assets at a minimal cost.

In addition, given that the Consideration was determined on an arm's length basis, in view that the net liabilities of the Target Group remained in excess of the Sale Loan by approximately HK$210.1 million as at 30 September 2021, meaning that the Target Group does not have sufficient assets to finance its liabilities, the Vendor agreed to sell its lender's title in the Sale Loan to the Purchaser (i.e., the Target Group will owe the Sale Loan to the Purchaser, instead of the Vendor, upon Completion), so that the Group will not need to repay the Vendor the Sale Loan upon Completion. We also understand that, the Purchaser agreed not to demand repayment of the Sale Loan until such time when the Target Group is in a position to repay the amount due without impairing its liquidity position, and that the Group intends to finance the liabilities of the Target Group after the Acquisition with cash flows generated from its operations, and in case of any shortage, by utilising a long-term loan facility obtained from a related party, who is family member of a Director and Dr. Albert Yeung, in an amount of HK$1,200.0 million, which is unsecured and interest-bearing at Hong Kong Interbank Offer Rate (HIBOR) plus 2.0% per annum. The related party has agreed not to demand repayment of such loan together with all accrued interest and all outstanding amounts until 20 January 2024. Accordingly, the Acquisition is not expected to have a material impact on the Group's working capital position in the foreseeable future, which we consider a favorable term of the Acquisition that might not have happened if the Acquisition were not conducted during these difficult economic times and the film exhibition industry had not been hit hard by the Pandemic.

Last but not least, as discussed in the above section headed "Reasons for and benefits of the Acquisition" of this letter, based on the historical investment cost per new cinema of the Group and the Target Group of approximately HK$40 million, the estimated aggregate investment cost of setting up nine cinemas (i.e., the number of cinemas owned by the Target Group) could amount to approximately HK$360 million, which is more than the net liabilities of the Target Group of approximately HK$210.1 million (after excluding the Sale Loan). As such, the Acquisition is a precious opportunity that represents a lower opportunity cost and a greater potential upside for the Company and the Shareholders.

Given that the Consideration is merely a nominal consideration determined for the purpose of proceeding with the Acquisition, in assessing its fairness and reasonableness, one should consider the overall merits of the Acquisition, including the fact that, (i) the Acquisition would allow the Group to acquire the required operating assets for its cinema network expansion at a minimal cost; (ii) there will be no immediate cash outflow pressure on the Group upon Completion, given that (a) the Vendor agreed to sell its lender's title in the Sale Loan to the Purchaser, meaning that the Group will not need to repay the Vendor the Sale Loan upon Completion, and (b) the Group will be able to finance the liabilities arose from the Acquisition through a long-term loan facility obtained from a related party; and (iii) the Acquisition provides other benefits as discussed in the above section headed "Reasons for and benefits of the Acquisition" of this letter. In light of the above, we considered that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

5.2. Other principal terms of the Sale and Purchase Agreements

We have also reviewed other principal terms (i.e., payment terms, conditions precedent, Completion, etc.) of the Sale and Purchase Agreements and compared them to those in other transactions similar to the Acquisition, particularly equity interest acquisition transactions, conducted by other companies listed on the Stock Exchange, and noted that similar principal terms were also adopted by other listed companies. Accordingly, we are of the view that other principal terms of the Sale and Purchase Agreements are in line with the market practice and we consider that they are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

6. Possible financial effects of the Acquisition

Upon Completion, the Target Group will be wholly-owned subsidiaries of the Company and their respective financial results will be consolidated into the consolidated financial statements of the Group.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III of the Circular, the financial effects of the Acquisition on the Enlarged Group's net asset value, earnings and gearing ratio are set out below. It should be noted that the analysis below is for illustrative purposes only and does not purport to represent how the financial position of the Enlarged Group would be upon Completion.

6.1. Net Assets

Assuming Completion had taken place on 31 December 2021, the unaudited pro forma consolidated total assets and total liabilities of the Enlarged Group would have increased to approximately HK$2,044.8 million and HK$2,255.5 million respectively. Accordingly, the unaudited pro forma consolidated net liabilities of the Enlarged Group would have been approximately HK$210.7 million.

6.2. Earnings

Given that the financial results of the Target Group will be consolidated into the consolidated financial statements of the Group upon Completion, it is expected that the earnings of the Enlarged Group will increase at the same level as those of the Target Group.

Meanwhile, given the factors as listed in the above section headed "Reasons for and benefits of the Acquisition" of this letter, it is expected that the Acquisition will have a positive impact on the Enlarged Group's earnings in the long run. However, the financial impact will depend on the future operating performance of the Enlarged Group after the Acquisition.

6.3. Gearing ratio

Assuming Completion had taken place on 31 December 2021, the total borrowings of the Enlarged Group would have increased to approximately HK$507.7 million, representing the sum of interest-bearing bank and other borrowings and amount due to non-controlling interests of approximately HK$437.5 million and HK$70.2 million respectively, and the Enlarged Group's gearing ratio (calculated on the basis of total borrowings over total assets) would have been 24.8%.

While we noted that the Acquisition would have negative financial effects on the Enlarged Group's net assets position and gearing ratio, having considered the reasons for and benefits of the Acquisition, we are of the view that the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the Sale and Purchase Agreements and the transactions contemplated thereunder are on normal commercial terms and were entered into in the ordinary and usual course of business of the Group. We are also of the view that the terms of the Sale and Purchase Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and its Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolution to be proposed at the SGM to approve the Sale and Purchase Agreements and the transactions contemplated thereunder. We also recommend the Independent Shareholders to vote in favour of the Sale and Purchase Agreements and the transactions contemplated thereunder at the SGM.

Yours faithfully,
For and on behalf of
Pelican Financial Limited
Charles Li*
Managing Director

* *Mr. Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and has over 30 years of experience in the accounting and financial services industry.*

A. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the years ended 30 June 2019, 2020 and 2021 and 30 June 2020 and for the six months ended 31 December 2021 are disclosed in the following documents which have been published on the website of the Stock Exchange at https://www.hkexnews.hk, and the website of the Company at https://www.empculture.com:

Annual report of the Company for the year ended 30 June 2019:
https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1017/ltn20191017047.pdf

Annual report of the Company for the year ended 30 June 2020:
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1019/2020101900398.pdf

Annual report of the Company for the year ended 30 June 2021:
https://www1.hkexnews.hk/listedco/listconews/sehk/2021/1018/2021101800551.pdf

Interim report of the Company for the six months ended 31 December 2021:
https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0310/2022031000645.pdf

B. INDEBTEDNESS

At the close of business on 31 January 2022 (being the latest practicable date for ascertaining information regarding this indebtedness statement), the Group had an aggregate outstanding indebtedness amounting to approximately HK$1,607.7 million, which consist of:

Bank and other borrowings

The Group had unsecured, unguaranteed and interest-bearing other loan and bank borrowing of approximately HK$378.2 million and HK$20.0 million respectively. The lender of the other loan who is a related party of the Group had agreed not to demand repayment of the other loan together with all accrued interest and all outstanding amounts until 20 January 2024 while the terms of the bank borrowing contain a repayment on demand clause in accordance with the facility letter.

The Group had amount due to non-controlling interests of approximately HK$43.6 million which is unsecured, unguaranteed, interest-free and repayable after one year from the date of the close of business on 31 January 2022.

Lease liabilities

The Group measures the lease liabilities at the present value of the remaining lease payments, discounted by using the Group's incremental borrowing rates. At the close of business on 31 January 2022, the Group had total lease liabilities amounting to HK$1,165.9 million.

Disclaimer

Save for the aforesaid and apart from intra-group liabilities, at the close of business on 31 January 2022, the Group did not have any debt securities issued and outstanding, or any other borrowings or indebtedness including bank overdrafts and liabilities under acceptances (other than normal trade payables) or acceptance credits or hire purchases commitments, or any other borrowings subject to mortgages or charges, or any other material contingent liabilities or guarantees.

C. WORKING CAPITAL

After taking into account the present internal financial resources available to the Group, including cash and bank balances as well as the available loan and banking facilities, the Directors are of the opinion that the working capital available to the Group is sufficient for the Group's requirement for at least 12 months from the Latest Practicable Date.

D. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any circumstances or events that may give rise to a material adverse change in the financial or trading position of the Group since 30 June 2021, being the date to which the latest audited consolidated financial statements of the Group were made up.

E. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

According to figures published by the China Film Administration, China's movie box office revenue reached RMB47.2 billion in 2021, with RMB40.0 billion of the revenue contributed by movies produced in China, representing 84.7% of the total movie box office revenue. China once again surpassed the United States in annual box office revenue, and remained the world's largest movie market for the second consecutive year. Recently, the China Film Administration has laid out a five-year plan to help the country keep the top spot, including by releasing 50 films per year and expanding the number of theatres from 70,000 to 100,000 over the next five years. In addition, with a number of blockbusters by major studios potentially coming in 2022, the Group as well as the Enlarged Group believe that China movie industry will maintain the recovery momentum in the near term.

On the other hand, the prevalence of the Omicron variant of Covid-19 has been affecting the world and is driving the number of cases to new highs. Local Omicron cases were also identified in mainland China and Hong Kong, which hindered the recovery of the movie industry. Amid the volatile economic environment, the Group planned to seize the opportunities to enlarge its business network in order to expand the revenue base. After Completion, the Enlarged Group will closely monitor the market conditions and promptly respond as appropriate. Customers' habits and tastes are ever-changing, and the Enlarged Group will continue to enhance the offerings of its cinemas in order to provide patrons with the best cinematic experience. With its long-established "*Emperor*" brand label, the Enlarged Group will strive to strengthen its core competency as well as its position in the industry.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF EMPEROR CULTURE GROUP LIMITED

Introduction

We report on the historical financial information of Tale Success Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II – 4 to II – 70, which comprises the combined statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Target Group for each of the years ended 30 June 2019, 2020 and 2021, and the three months ended 30 September 2021 (the "**Relevant Periods**"), and the combined statements of financial position of the Target Group as at 30 June 2019, 2020 and 2021 and 30 September 2021, and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II – 4 to II – 70 forms an integral part of this report, which has been prepared for inclusion in the circular of Emperor Culture Group Limited (the "**Company**") dated 25 March 2022 (the "**Circular**") in connection with the proposed acquisition from Emperor Motion Picture Enterprise Limited ("**Emperor Motion Picture Enterprise**" or the "**Vendor**") the entire equity interest in the Target Company (the "**Share Acquisition**") and all the loans and sums owing by the Target Company to the Vendor as at the completion date.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company (the "**Target Company Directors**") are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the Target Company Directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Company is included, and such information is prepared based on accounting policies materially consistently with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Target Company Directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Company as at 30 June 2019, 2020 and 2021 and 30 September 2021 and the combined financial position of the Target Group as at 30 June 2019, 2020 and 2021 and 30 September 2021, and of the combined financial performance and combined cash flows of the Target Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Target Group which comprises the combined statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the three months ended 30 September 2020 and other explanatory information (the "**Interim Comparative Financial Information**"). The Target Company Directors are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II – 4 have been made.

Dividends

No dividends have been paid by the Target Company and the Target Group in respect of the Relevant Periods.

Ernst & Young
Certified Public Accountants
Hong Kong
25 March 2022

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

I. HISTORICAL FINANCIAL INFORMATION (continued)

COMBINED STATEMENTS OF PROFIT OR LOSS

		Year ended 30 June			Three months ended 30 September	
		2019	2020	2021	2020	2021
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
REVENUE	*5*	191,169	99,501	97,779	12,929	24,392
Cost of sales		(77,298)	(41,273)	(41,323)	(5,921)	(9,969)
Gross profit		113,871	58,228	56,456	7,008	14,423
Other income and gains	*6*	2,270	3,977	4,384	1,289	356
Selling, marketing and other cinema operating expenses		(139,298)	(108,510)	(73,869)	(13,162)	(20,067)
General and administrative expenses		(1,309)	(6,426)	(1,477)	(479)	(287)
Other expenses, net		(76,909)	(157,733)	(25,369)	27	–
Finance cost	*8*	–	(17,626)	(16,819)	(4,264)	(3,986)
LOSS BEFORE TAX	*7*	(101,375)	(228,090)	(56,694)	(9,581)	(9,561)
Income tax expense	*10*	–	–	–	–	–
LOSS FOR THE YEAR/PERIOD		(101,375)	(228,090)	(56,694)	(9,581)	(9,561)
Attributable to:						
Owners of the parent		(92,516)	(184,391)	(46,301)	(6,851)	(6,823)
Non-controlling interest		(8,859)	(43,699)	(10,393)	(2,730)	(2,738)
		(101,375)	(228,090)	(56,694)	(9,581)	(9,561)

I. HISTORICAL FINANCIAL INFORMATION (continued)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 30 June			Three months ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
LOSS FOR THE YEAR/PERIOD	(101,375)	(228,090)	(56,694)	(9,581)	(9,561)
OTHER COMPREHENSIVE LOSS					
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	(7,582)	(824)	(1,130)	(454)	(24)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD	(108,957)	(228,914)	(57,824)	(10,035)	(9,585)
Attributable to:					
Owners of the parent	(97,823)	(184,968)	(47,092)	(7,169)	(6,839)
Non-controlling interests	(11,134)	(43,946)	(10,732)	(2,866)	(2,746)
	(108,957)	(228,914)	(57,824)	(10,035)	(9,585)

I. HISTORICAL FINANCIAL INFORMATION (continued)

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 30 June			As at 30 September
		2019	**2020**	**2021**	**2021**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*11*	130,543	64,896	53,544	50,684
Right-of-use assets	*12*	–	197,899	162,341	156,304
Investment in an associate	*13*	–	–	–	–
Prepayments, deposits and other receivables	*16*	16,143	11,848	13,648	13,783
Total non-current assets		146,686	274,643	229,533	220,771
CURRENT ASSETS					
Inventories	*14*	1,334	1,685	1,126	1,220
Trade receivables	*15*	9,915	1,001	2,497	4,082
Prepayments, deposits and other receivables	*16*	5,946	5,754	8,030	6,288
Cash and cash equivalents	*17*	130,129	39,099	22,335	22,673
Total current assets		147,324	47,539	33,988	34,263
CURRENT LIABILITIES					
Trade payables, other payables and accruals	*18*	45,591	19,406	22,622	26,926
Contract liabilities	*19*	13,628	15,847	15,526	15,670
Lease liabilities	*12*	–	34,531	46,446	53,555
Amount due to the immediate holding company	*27(b)*	215,466	163,855	163,855	163,855
Amount due to a fellow subsidiary	*27(b)*	149,148	154,680	158,180	158,180
Amount due to non-controlling interests	*27(b)*	92,345	70,225	70,225	70,225
Total current liabilities		516,178	458,544	476,854	488,411
NET CURRENT LIABILITIES		(368,854)	(411,005)	(442,866)	(454,148)

I. HISTORICAL FINANCIAL INFORMATION (continued)

COMBINED STATEMENTS OF FINANCIAL POSITION (continued)

		As at 30 June			As at 30 September
		2019	2020	2021	2021
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		(222,168)	(136,362)	(213,333)	(233,377)
NON-CURRENT LIABILITIES					
Provisions	20	13,613	13,261	14,149	14,158
Lease liabilities	12	–	315,072	295,037	284,569
Total non-current liabilities		13,613	328,333	309,186	298,727
Net liabilities		(235,781)	(464,695)	(522,519)	(532,104)
EQUITY					
Issued capital	22	–	–	–	–
Reserves	23	(207,741)	(392,709)	(439,801)	(446,640)
		(207,741)	(392,709)	(439,801)	(446,640)
Non-controlling interests		(28,040)	(71,986)	(82,718)	(85,464)
Total equity		(235,781)	(464,695)	(522,519)	(532,104)

I. HISTORICAL FINANCIAL INFORMATION (continued)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent					
	Issued capital	Exchange fluctuation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2018	–	(4,230)	(105,688)	(109,918)	(16,906)	(126,824)
Loss for the year	–	–	(92,516)	(92,516)	(8,859)	(101,375)
Other comprehensive loss for the year:						
Exchange differences related to foreign operations	–	(5,307)	–	(5,307)	(2,275)	(7,582)
Total comprehensive loss for the year	–	(5,307)	(92,516)	(97,823)	(11,134)	(108,957)
At 30 June 2019 and 1 July 2019	–	(9,537)*	(198,204)*	(207,741)	(28,040)	(235,781)
Loss for the year	–	–	(184,391)	(184,391)	(43,699)	(228,090)
Other comprehensive loss for the year:						
Exchange differences related to foreign operations	–	(577)	–	(577)	(247)	(824)
Total comprehensive loss for the year	–	(577)	(184,391)	(184,968)	(43,946)	(228,914)
At 30 June 2020 and 1 July 2020	–	(10,114)*	(382,595)*	(392,709)	(71,986)	(464,695)
Loss for the year	–	–	(46,301)	(46,301)	(10,393)	(56,694)
Other comprehensive loss for the year:						
Exchange differences related to foreign operations	–	(791)	–	(791)	(339)	(1,130)
Total comprehensive loss for the year	–	(791)	(46,301)	(47,092)	(10,732)	(57,824)
At 30 June 2021 and 1 July 2021	–	(10,905)*	(428,896)*	(439,801)	(82,718)	(522,519)

I. HISTORICAL FINANCIAL INFORMATION (continued)

COMBINED STATEMENTS OF CHANGES IN EQUITY (continued)

	Attributable to owners of the parent					
	Issued capital	Exchange fluctuation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30 June 2021 and 1 July 2021	–	(10,905)	(428,896)	(439,801)	(82,718)	(522,519)
Loss for the period	–	–	(6,823)	(6,823)	(2,738)	(9,561)
Other comprehensive loss for the period:						
Exchange differences related to foreign operations	–	(16)	–	(16)	(8)	(24)
Total comprehensive loss for the period	–	(16)	(6,823)	(6,839)	(2,746)	(9,585)
At 30 September 2021	–	(10,921)*	(435,719)*	(446,640)	(85,464)	(532,104)
(Unaudited)						
At 1 July 2020	–	(10,114)	(382,595)	(392,709)	(71,986)	(464,695)
Loss for the period	–	–	(6,851)	(6,851)	(2,730)	(9,581)
Other comprehensive loss for the period:						
Exchange differences related to foreign operations	–	(318)	–	(318)	(136)	(454)
Total comprehensive loss for the period	–	(318)	(6,851)	(7,169)	(2,866)	(10,035)
At 30 September 2020	–	(10,432)	(389,446)	(399,878)	(74,852)	(474,730)

* These reserve accounts comprise the combined debit reserves of HK$207,741,000, HK$392,709,000, HK$439,801,000 and HK$446,640,000 in the combined statements of financial position as at 30 June 2019, 2020 and 2021 and 30 September 2021, respectively.

No dividends have been paid or declared by the Target Company or the Target Group in respect of the Relevant Periods.

I. HISTORICAL FINANCIAL INFORMATION (continued)

COMBINED STATEMENTS OF CASH FLOWS

		Year ended 30 June			Three months ended 30 September	
		2019	2020	2021	2020	2021
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax		(101,375)	(228,090)	(56,694)	(9,581)	(9,561)
Adjustments for:						
Finance cost	*8*	–	17,626	16,819	4,264	3,986
Interest income	*6*	(192)	(631)	(545)	(134)	(136)
Covid-19-related rent concessions from lessors	*12*	–	–	(13,323)	(5,867)	(1,349)
Depreciation of property, plant and equipment	*7*	41,127	21,311	14,449	3,610	3,182
Depreciation of right-of-use assets	*7*	–	45,951	27,599	6,592	6,166
Loss on disposal/write-off of property, plant and equipment	*7*	–	5,561	–	–	–
Impairment of property, plant and equipment	*7*	74,992	25,615	2,537	–	–
Impairment of right-of-use assets	*7*	–	124,254	23,020	–	–
Impairment of amount due from an associate	*7*	1,917	672	–	–	–
Impairment/(reversal of impairment) of trade receivables, net	*7*	–	1,631	(188)	(27)	–
		16,469	13,900	13,674	(1,143)	2,288
Decrease/(increase) in inventories		252	(364)	579	143	(96)
Decrease/(increase) in trade receivables		(1,457)	7,280	(1,270)	(4,184)	(1,591)
Decrease/(increase) in prepayments, deposits and other receivables		10,940	374	(3,266)	(239)	1,703
Increase in amount due from an associate		(1,917)	(672)	–	–	–
Increase/(decrease) in trade payables, other payables and accruals		(3,623)	(22,915)	4,912	844	4,365
Increase/(decrease) in contract liabilities		1,029	2,400	(715)	(229)	178
Net cash flows from/(used in) operating activities		21,693	3	13,914	(4,808)	6,847

I. HISTORICAL FINANCIAL INFORMATION (continued)

COMBINED STATEMENTS OF CASH FLOWS (continued)

		Year ended 30 June			Three months ended 30 September	
		2019	2020	2021	2020	2021
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		192	209	79	24	14
Purchase of items of property, plant and equipment		(8,635)	(371)	(41)	–	(270)
Proceed from disposal of items of property, plant and equipment		487	–	–	–	–
Net cash flows from/(used in) investing activities		(7,956)	(162)	38	24	(256)
CASH FLOWS FROM FINANCING ACTIVITIES						
Advance from/(repayment to) non-controlling interests		18,750	(22,120)	–	–	–
Advance from a fellow subsidiary, net		17,662	5,532	3,500	–	–
Advance from/(repayment to) the immediate holding company		43,750	(51,611)	–	–	–
Principal portion of lease payments	*25(c)*	–	(4,744)	(17,796)	–	(2,237)
Interest portion of lease payments	*25(c)*	–	(17,626)	(16,819)	(1,563)	(3,986)
Net cash flows from/(used in) financing activities		80,162	(90,569)	(31,115)	(1,563)	(6,223)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		93,899	(90,728)	(17,163)	(6,347)	368
Cash and cash equivalents at the beginning of the year/period		36,968	130,129	39,099	39,099	22,335
Effect of foreign exchange rate changes, net		(738)	(302)	399	302	(30)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/ PERIOD		130,129	39,099	22,335	33,054	22,673
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS						
Cash and bank balances		130,129	39,099	22,335	33,054	22,673

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND TARGET GROUP INFORMATION

The Target Company is a limited liability company incorporated in the British Virgin Islands (the "**BVI**") on 2 July 2015. The registered office of the Target Company is located at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

The Target Company is an investment holding company. During the Relevant Periods, the companies now comprising the Target Group were principally involved in cinema operation.

In the opinion of the Target Company Directors, the immediate holding company and the ultimate holding company of the Target Company are Emperor Motion Picture Enterprise and Albert Yeung Entertainment Holdings Limited ("**AY Entertainment Holdings**"), respectively, both are incorporated in the BVI, and AY Entertainment Holdings is legally wholly-owned by Alto Trust Limited, being the trustee of Albert Yeung Entertainment Discretionary Trust, a private discretionary trust set up by Dr. Yeung Sau Shing, Albert ("**Dr. Albert Yeung**").

For the purposes of this report, all companies directly or indirectly controlled by respective private discretionary trusts set up by Dr. Albert Yeung other than the Target Group are collectively referred to as the "**Emperor Group**".

In preparing for the Share Acquisition, the companies now comprising the Target Group underwent a group reorganisation (the "**Reorganisation**") as described below:

(i) On 15 November 2021, a fellow subsidiary of Emperor Motion Picture Enterprise transferred one ordinary share of the Target Company, representing the entire issued share capital of the Target Company, to Emperor Motion Picture Enterprise at a consideration of US$1.

(ii) On 3 December 2021, the immediate holding company of Emperor Motion Picture Enterprise transferred one ordinary share of Emperor Cinemas Limited, representing the entire issued share capital of Emperor Cinemas Limited, to the Target Company at a consideration of HK$1.

(iii) On 17 December 2021, Emperor Motion Picture Enterprise transferred seven ordinary shares of Emperor UA Cinemas Limited ("**Emperor UA Cinemas**"), representing 70% of the issued share capital of Emperor UA Cinemas, to the Target Company in exchange for the Target Company issuing one ordinary share of the Target Company credited as fully paid to Emperor Motion Picture Enterprise. Emperor UA Cinemas directly holds 100% equity interest in 英皇娛藝影院(廣東)有限公司. Since then, Emperor UA Cinemas and 英皇娛藝影院(廣東)有限公司 have become 70%-owned subsidiaries of the Target Company.

As at the date of this report, the Target Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

1. CORPORATE AND TARGET GROUP INFORMATION (continued)

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Target Company		Principal activities
			Direct	Indirect	
Emperor Cinema Limited	Hong Kong 29 July 2016	HK$1	100	–	Cinema operation
Emperor UA Cinemas Limited	Hong Kong 19 March 1999	HK$10	70	–	Investment holding
英皇娛藝影院(廣東)有限公司	People's Republic of China ("**PRC**") 25 October 2013	RMB110,000,000	–	70	Cinema operation

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, the Target Company became the holding company of the companies now comprising the Target Group subsequent to the end of the Relevant Periods in December 2021. The companies now comprising the Target Group were under the common control of the controlling shareholder (the "**Controlling Shareholder**"), AY Entertainment Holdings, before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a combined basis by applying the pooling of interests method as if the Reorganisation had been completed at the beginning of the Relevant Periods.

Accordingly, the combined statements of profit or loss, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Group for the Relevant Periods and the three months ended 30 September 2020 include the results and cash flows of all companies now comprising the Target Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholder, where this is a shorter period. The combined statements of financial position of the Target Group as at 30 June 2019, 2020 and 2021 and 30 September 2021 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholder's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation. Equity interests in subsidiaries and/or businesses held by parties other than the Controlling Shareholder prior to the Reorganisation are presented as non-controlling interests in equity in applying the pooling of interests method.

All intra-group transactions and balances have been eliminated on combination.

2.2 BASIS OF PREPARATION

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

The Historical Financial Information has been prepared under the historical cost convention.

The outbreak of novel coronavirus ("**Covid-19**") since early 2020 has disrupted the business operations and development of the Target Group. The Target Group has closely monitored the development of Covid-19 outbreak and the extent of the impact depends on the duration of the pandemic and the implementation of relevant policies and protective measures by respective governments. The Target Group has paid close attention to any significant changes of situation and has evaluated their impact on the Target Group's combined financial position, financial performance and cash flows, as well as financial resources available to the Target Group in the short to medium term.

In preparing the Historical Financial Information, the Target Company Directors have given careful consideration to the current and anticipated future liquidity of the Target Group and the ability of the Target Group to attain growth and cash positive operations in the near future. Active cost-saving and financial resources improvement measurements to streamline/enhance the Target Group's existing operations and to focus on improving the financial resources of the Target Group have been implemented/contemplated by the Target Group to control its operating expenses and cash outflows in the current and coming years and to enable the Target Group to revitalise itself to take advantage of any growth opportunities in the near future (the "**Improvement Measures**").

In addition, the immediate holding company and a fellow subsidiary have agreed not to demand the repayment of the amounts the Target Group has owed to them until the Target Group has the financial ability to do so, and the ultimate holding company and a member of the Emperor Group have agreed to provide adequate funds and/or other financial support for the Target Group to meet its liabilities as and when they fall due, so as to maintain it as a going concern for the foreseeable future (collectively, the "**Financial Supports**").

The Target Company Directors have evaluated relevant conditions and events that are known or could be reasonably forecasted/estimated. Based on such evaluation, the Target Company Directors are of the opinion that, in light of the measures/arrangements contemplated/implemented to date, including, inter alia, the Improvement Measures and the availability of the Financial Supports, the Target Group will have sufficient financial resources to satisfy its working capital and other financing requirements for the foreseeable future and, accordingly, it is appropriate for the Target Group to adopt the going concern basis for the preparation of the Historical Financial Information for the Relevant Periods.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

For the purposes of preparing and presenting the Historical Financial Information, the Target Group has consistently adopted accounting policies which conform with HKFRSs, which are effective for the accounting period beginning on 1 July 2021 throughout the Relevant Periods except that the following new and revised HKFRSs have been adopted from their respective effective dates as follows:

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[2]
HKFRS 16	*Leases*[1]
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions*[3]
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after 1 June 2020

Except for HKFRS 16 and the above amendments to HKFRS 16, the above new and revised HKFRSs are not relevant to or do not have significant financial impact on the preparation of the Target Group's Historical Financial Information. The nature and the impact of HKFRS 16 and the above amendments to HKFRS 16 are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Target Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 July 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of accumulated losses (or other component of equity, as appropriate) as at 1 July 2019, and the information as at 30 June 2019 and for the year then ended was not restated and continued to be reported under HKAS 17 and related interpretations. Accordingly, certain comparative information is not comparable.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Target Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 July 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Target Group has lease contracts for various cinemas used in its operations. As a lessee, the Target Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Target Group. Under HKFRS 16, the Target Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term, commencing from 1 July 2019, the Target Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities as at 1 July 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 July 2019. The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the combined statement of financial position immediately before 1 July 2019. The Target Group elected to present the right-of-use assets separately in the combined statement of financial position.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impact on transition (continued)

The Target Group has used the following elective practical expedients when applying HKFRS 16 as at 1 July 2019:

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities as at 1 July 2019
- Relying on the Target Group's assessment of whether leases were onerous by applying HKAS 37 immediately before 1 July 2019 as an alternative to performing an impairment review
- Excluding initial direct costs from the measurement of the right-of-use assets at the date of initial application

Financial impact at 1 July 2019

The impact arising from the adoption of HKFRS 16 as at 1 July 2019 was as follows:

	Increase/ (decrease) *HK$'000*
Assets	
Increase in right-of-use assets	399,511
Decrease in property, plants and equipment	(9,569)
Decrease in prepayments, deposits and other receivables	(4,408)
Increase in total assets	385,534
Liabilities	
Increase in lease liabilities	385,534
Increase in total liabilities	385,534

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 July 2019 (continued)

The lease liabilities as at 1 July 2019 reconciled to the operating lease commitments as at 30 June 2019 are as follows:

	HK$'000
Operating lease commitments at 30 June 2019	391,313
Add: Lease payments for optional extension periods not recognised at 30 June 2019	98,323
	489,636
Weighted average incremental borrowing rate at 1 July 2019	4.8%
Lease liabilities at 1 July 2019	385,534

(b) Amendment to HKFRS 16 issued in June 2020 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. In April 2021, the HKICPA issued another amendment to HKFRS 16 *Covid-19-Related Rent Concessions beyond 30 June 2021* to extend the availability of the practical expedient for any reduction in lease payments that affects only payments originally due on or before 30 June 2022 (the "**2021 Amendment**"). The 2021 Amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits/accumulated losses at the beginning of the current accounting period. Earlier application is permitted.

During the year ended 30 June 2021 and the three months ended 30 September 2020 and 2021, certain monthly lease payments for the leases of the Target Group's cinemas have been reduced or waived by the lessors as a result of the Covid-19 pandemic and there are no other changes to the terms of the leases. The Target Group has early adopted the 2021 Amendment on 1 July 2020 and elected not to apply lease modification accounting during the year ended 30 June 2021 and the three months ended 30 September 2020 and 2021 for all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the Covid-19 pandemic. Accordingly, a reduction in the lease payments arising from the rent concessions of HK$13,323,000, HK$5,867,000 and HK$1,349,000 has been accounted for as variable lease payments by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 30 June 2021 and the three months ended 30 September 2020 and 2021, respectively. Comparative information is not restated. Accordingly, certain comparative information is not comparable.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information:

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 17	*Insurance Contracts*[2, 5]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2, 4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to HKAS 8	*Definition of Accounting Estimates*[2]
Amendments to HKFRS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[1]

1 Effective for annual periods beginning on or after 1 January 2022

2 Effective for annual periods beginning on or after 1 January 2023

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

The Target Group is in the process of making a detailed assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Target Group considers that these new and revised HKFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Target Group's financial performance and financial position in the period of initial application.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Group the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Target Group's voting rights and potential voting rights.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Target Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Investments in associates

An associate is an entity in which the Target Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Target Group's investments in associates are stated in the combined statement of financial position at the Target Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

The Target Group's share of the post-acquisition results and other comprehensive income of associates is included in the combined statement of profit or loss and combined other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Target Group recognises its share of any changes, when applicable, in the combined statement of changes in equity. Unrealised gains and losses resulting from transactions between the Target Group and its associates are eliminated to the extent of the Target Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Target Group's investments in associates.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit ("**CGU**") to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Target Group if:

(a) the party is a person or a close member of that person's family and that person

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

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

(iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write-off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	10% or over the lease terms, whichever is higher
Furniture, fixtures and equipment	20% to $33^1/_3$%
Plant and machinery	10% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Leases (applicable from 1 July 2019)

The Target Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Target Group as a lessee

The Target Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Target Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 July 2019) (continued)

Target Group as a lessee (continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease terms.

If ownership of the leased asset transfers to the Target Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Group and payments of penalties for termination of a lease, if the lease term reflects the Target Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Target Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Leases (applicable before 1 July 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Group is the lessor, assets leased by the Target Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the combined statement of profit or loss on the straight-line basis over the lease terms. Where the Target Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

Financial assets of the Target Group are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement of financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Group's combined statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Target Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Group could be required to repay.

Impairment of financial assets

The Target Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Target Group may consider a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Group may also consider a financial asset to be in default when internal or external information indicates that the Target Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Target Group applies the practical expedient of not adjusting the effect of a significant financing component, the Target Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Target Group recognises lifetime ECLs for trade receivables and measures the lifetime ECLs on a specific basis according to management's assessment of the recoverability of each individual receivable. Management considers the number of days that an individual receivable is outstanding, historical experience and forward-looking information to determine the recoverability of the trade receivable.

Financial liabilities

Initial recognition and measurement

Financial liabilities of the Target Group are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement of financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the combined statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the combined statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the combined statement of profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred in the process of disposal.

Cash and cash equivalents

For the purpose of the combined statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within 3 months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the combined statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is recognised in profit or loss.

A provision for reinstatement costs is recognised when a contractual obligation under the terms of a lease arrangement has arisen to reinstate a leased property at the end of the lease. Reinstatement costs are provided at the value of the expected costs to settle the obligation at the end of the reporting period using estimated cash flows and an equivalent asset is recognised and depreciated over the term of the lease arrangement. The estimated future costs of reinstatement are reviewed, and adjusted if appropriate, at least at each financial year end.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Target Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Target Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Group and the customer at contract inception. When the contract contains a financing component which provides the Target Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Revenue from box office takings is recognised when the relevant film is exhibited to the customer;

(b) Revenue from the sale of concession goods is recognised at the point in time when the customer takes possession of the food and beverage offerings;

(c) Revenue from the sale of other products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products; and

(d) Revenue from screen advertising is recognised when the performance obligation is satisfied, generally on a straight-line basis over the period of the relevant agreement.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Target Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Target Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension schemes

The Target Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the combined statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Target Group in an independently administered fund. The Target Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Target Group's employer voluntary contributions, which are refunded to the Target Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Target Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the combined statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

The Historical Financial Information is presented in Hong Kong dollars, which is the Target Company's functional currency. Each entity in the Target Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Target Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Target Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currency of an overseas subsidiary is currency other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of this entity are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and its statement of profit or loss is translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the combined statement of cash flows, the cash flows of an overseas subsidiary are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rate for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Target Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Significant judgement in determining the lease term of contracts with renewal options

The Target Group has several lease contracts that include extension options. The Target Group applies judgement in evaluating whether or not to exercise the option to renew the leases. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Target Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Significant judgement in determining the lease term of contracts with renewal options (continued)

The Target Group includes the renewal period as part of the lease term for leases of its cinemas due to the significance of these cinemas to its operations and the significant leasehold improvements undertaken (or expected to be undertaken) over the term of the relevant lease contracts that are expected to have significant economic benefit for the Target Group when the option to extend those leases becomes exercisable.

Estimation uncertainty

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

Impairment of non-financial assets

The Target Group assesses whether there are any indicators of impairment for all non-financial assets (including right-of-use assets) at the end of each reporting period. Non-financial assets with finite useful lives are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

The Target Group assesses whether there are any indicators of impairment for its property, plant and equipment and right-of-use assets at the end of each reporting period and at other times when such an indicator exists. Impairment is determined by assessing the recoverable amounts of the respective CGUs or group of CGUs to which the respective property, plant and equipment and right-of-use assets relate and whether the respective recoverable amounts of the CGUs or groups of CGUs are less than their respective carrying amounts. For the current year, the recoverable amounts of the respective CGUs or group of CGUs have been determined by management based on value in use calculations using cash flow projections specific to the respective CGUs and applying respective discount rates which reflect risks relating to the respective CGUs. Further details are given in notes 11 and 12 to the Historical Financial Information.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of trade receivables, other receivables and deposits

The impairment provisions for trade receivables, other receivables and deposits are based on assumptions about ECLs. The Target Group uses judgements in making these assumptions and selecting the inputs to the impairment calculation, based on information about past events, current conditions and forecasts of future economic conditions at the end of each reporting period. Changes in these assumptions and estimates could materially affect the results of the assessment and it may be necessary to make an additional impairment charge to profit or loss. Further details of (i) trade receivables and (ii) deposits and other receivables are given in notes 15 and 16 to the Historical Financial Information, respectively.

Leases – Estimating the incremental borrowing rate

The Target Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Target Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Target Group "would have to pay", which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Target Group may estimate the IBR using observable inputs when available and is required to make certain entity-specific estimates, as appropriate.

4. OPERATING SEGMENT INFORMATION

The Target Group principally focuses on cinema operation. Information reported to the Target Group's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Target Group as a whole as the Target Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

Geographical information

(a) Revenue from external customers

	Year ended 30 June			Three months ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Mainland China	164,999	81,084	90,380	11,645	18,887
Hong Kong	26,170	18,417	7,399	1,284	5,505
	191,169	99,501	97,779	12,929	24,392

The revenue information above is based on the locations of the customers.

4. **OPERATING SEGMENT INFORMATION (continued)**

Geographical information (continued)

(b) Non-current assets

	As at 30 June			As at 30 September
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mainland China	121,936	224,444	198,135	189,630
Hong Kong	8,607	38,351	17,750	17,358
	130,543	262,795	215,885	206,988

The non-current assets information above are based on the locations of the assets and excludes financial instruments.

Information about major customers

The Target Group did not have revenues from transactions with any single customer amounting to 10% or more of the total revenue of the Target Group for each of the Relevant Periods and the three months ended 30 September 2020.

5. **REVENUE**

An analysis of revenue is as follows:

	Year ended 30 June			Three months ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue from contracts with customers					
Income from cinema operation	191,169	99,501	97,779	12,929	24,392

5. **REVENUE (continued)**

Revenue from contracts with customers

(a) Disaggregated revenue information

	Year ended 30 June			Three months ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Types of goods or services					
Box office takings	147,440	80,224	84,074	12,010	20,265
Sale of concession goods	21,249	11,923	6,424	458	1,902
Screen advertising services	18,130	4,307	3,486	25	1,050
Others	4,350	3,047	3,795	436	1,175
Total revenue from contracts with customers	191,169	99,501	97,779	12,929	24,392

The following table shows the amounts of revenue recognised in the Relevant Periods and the three months ended 30 September 2020 that were included in the contract liabilities at the beginning of each of the reporting periods:

	Year ended 30 June			Three months ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Short-term advances received from customers:					
Cinema operation	10,142	8,715	6,825	1,324	2,177

(b) Performance obligations

Information about the Target Group's performance obligations is summarised below:

Box office takings

The performance obligation is satisfied when the film is exhibited to the customer and payment in advance is normally required.

5. **REVENUE (continued)**

Revenue from contracts with customers (continued)

(b) Performance obligations (continued)

Sale of concession goods

The performance obligation is satisfied at a point in time when the customer takes possession of the goods and payment is received upon delivery.

Screen advertising services

The performance obligation is generally satisfied over time when the customer simultaneously receives and consumes the benefits as the Target Group makes the cinema available for screening of advertisements over the period of the agreement, while certain payments in advance are normally required.

Practical expedient

As a practical expedient, the transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are not disclosed because all the remaining performance obligations are part of respective contracts that have an original expected duration of 1 year or less.

6. **OTHER INCOME AND GAINS**

An analysis of other income and gains is as follows:

	Year ended 30 June			**Three months ended 30 September**	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest income from:					
– Bank balances	192	209	79	24	14
– Deposits paid	–	422	466	110	122
Government subsidies*	2,042	3,259	3,738	1,154	211
Others	36	87	101	1	9
	2,270	3,977	4,384	1,289	356

* The government subsidies mainly represented subsidies received by certain subsidiaries from PRC's local government authorities and subsidies received under Employment Support Scheme, Cinema Subsidy Scheme and Food License Holders Subsidy Scheme of the Government of the Hong Kong Special Administrative Region. There were no unfulfilled conditions or contingencies relating to these government subsidies.

7. LOSS BEFORE TAX

The Target Group's loss before tax is arrived at after charging/(crediting):

		Year ended 30 June			Three months ended 30 September	
		2019	**2020**	**2021**	**2020**	**2021**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Cost of inventories sold#		5,786	3,041	1,837	207	458
Depreciation of property, plant and equipment**	*11*	41,127	21,311	14,449	3,610	3,182
Depreciation of right-of-use assets**	*12*	–	45,951	27,599	6,592	6,166
Auditor's remuneration		147	162	122	25	25
Minimum lease payments under operating leases**		36,757	–	–	–	–
Contingent rents under operating leases**		3,889	–	–	–	–
Lease payments not included in the measurement of lease liabilities**	*12*	–	1,602	93	12	22
Employee benefit expenses**:						
Wages, salaries, bonuses and allowances		20,855	15,623	17,237	3,398	4,442
Pension scheme contributions (defined contribution schemes)		4,005	2,728	2,890	450	829
		24,860	18,351	20,127	3,848	5,271
Loss on disposal/write-off of property, plant and equipment*		–	5,561	–	–	–
Impairment/(reversal of impairment) of trade receivables, net*	*15*	–	1,631	(188)	(27)	–
Impairment of property, plant and equipment*	*11*	74,992	25,615	2,537	–	–
Impairment of right-of-use assets*	*12*	–	124,254	23,020	–	–
Impairment of amount due from an associate*		1,917	672	–	–	–
Foreign exchange differences, net		22	4,903	126	54	2

Included in "Cost of sales" in the combined statements of profit or loss.

* Included in "Other expenses, net" in the combined statements of profit or loss.

^ At the end of each of the reporting periods, the Target Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

7. LOSS BEFORE TAX (continued)

** Amounts included in "Selling, marketing and other cinema operating expenses" in the combined statements of profit or loss are as follows:

	Year ended 30 June			Three months ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Depreciation of property, plant and equipment	41,121	21,303	14,444	3,608	3,182
Depreciation of right-of-use assets	–	45,951	27,599	6,592	6,166
Minimum lease payments and contingent rents under operating leases	40,646	–	–	–	–
Lease payments not included in the measurement of lease liabilities	–	1,602	93	12	22
Employee benefit expenses	24,612	18,035	19,709	3,768	5,136

8. FINANCE COST

	Year ended 30 June			Three months ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest on lease liabilities *(note 12)*	–	17,626	16,819	4,264	3,986

9. TARGET COMPANY DIRECTORS' REMUNERATION

None of the Target Company Directors received any fees or emoluments in respect of their services rendered to the Target Group for each of the Relevant Periods and the three months ended 30 September 2020.

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Target Group did not generate any assessable profits arising in Hong Kong for each of the Relevant Periods and the three months ended 30 September 2020.

Pursuant to the rules and regulations of the BVI, the Target Group is not subject to any income tax in the BVI.

10. INCOME TAX (continued)

No provision for PRC Enterprise Income Tax has been made for each of the Relevant Periods and the three months ended 30 September 2020 as the Target Group's subsidiaries established in Mainland China either had no assessable profits arising in Mainland China during each of the Relevant Periods and the three months ended 30 September 2020.

A reconciliation of the tax credit applicable to loss before tax at the statutory rate for Hong Kong, in which the principal place of operation of the Target Company is located and some of the Target Company's subsidiaries are domiciled, to the tax amount at the Target Group's effective tax rate is as follows:

	Year ended 30 June			Three months ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Loss before tax	(101,375)	(228,090)	(56,694)	(9,581)	(9,561)
Tax credit at the Hong Kong statutory tax rate of 16.5%	(16,727)	(37,635)	(9,355)	(1,581)	(1,578)
Different tax rates enacted by overseas authority	(2,510)	(12,381)	(2,945)	(773)	(776)
Income not subject to tax	(511)	(813)	(928)	(273)	(81)
Expenses not deductible for tax	16,751	42,766	10,158	1,085	1,058
Tax losses not recognised	4,714	12,645	14,462	3,771	4,017
Others	(1,717)	(4,582)	(11,392)	(2,229)	(2,640)
Tax amount at the Target Group's effective tax rate	–	–	–	–	–

11. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Plant and machinery *HK$'000*	Total *HK$'000*
30 June 2019					
At 1 July 2018:					
Cost	6,454	180,441	28,245	98,113	313,253
Accumulated depreciation	–	(28,127)	(9,488)	(30,434)	(68,049)
Net carrying amount	6,454	152,314	18,757	67,679	245,204
At 1 July 2018, net of accumulated depreciation	6,454	152,314	18,757	67,679	245,204
Additions	–	7,489	848	298	8,635
Disposal/write-off	(487)	–	–	–	(487)
Depreciation provided during the year	–	(18,522)	(5,960)	(16,645)	(41,127)
Impairment during the year	–	(55,003)	(4,035)	(15,954)	(74,992)
Exchange realignment	(247)	(3,805)	(503)	(2,135)	(6,690)
At 30 June 2019, net of accumulated depreciation and impairment	5,720	82,473	9,107	33,243	130,543
At 30 June 2019:					
Cost	5,720	183,083	28,235	95,023	312,061
Accumulated depreciation and impairment	–	(100,610)	(19,128)	(61,780)	(181,518)
Net carrying amount	5,720	82,473	9,107	33,243	130,543

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Construction in progress *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Plant and machinery *HK$'000*	Total *HK$'000*
30 June 2020					
At 1 July 2019 (restated):					
Cost	5,720	169,471	28,235	95,023	298,449
Accumulated depreciation and impairment	–	(96,567)	(19,128)	(61,780)	(177,475)
Net carrying amount	5,720	72,904	9,107	33,243	120,974
At 30 June 2019, net of accumulated depreciation and impairment	5,720	82,473	9,107	33,243	130,543
Effect of adoption of HKFRS 16	–	(9,569)	–	–	(9,569)
At 1 July 2019 (restated)	5,720	72,904	9,107	33,243	120,974
Additions	–	–	371	–	371
Write-off	(5,561)	–	–	–	(5,561)
Depreciation provided during the year	–	(10,413)	(2,888)	(8,010)	(21,311)
Impairment during the year	–	(15,790)	(1,719)	(8,106)	(25,615)
Exchange realignment	(159)	(2,427)	(292)	(1,084)	(3,962)
At 30 June 2020, net of accumulated depreciation and impairment	–	44,274	4,579	16,043	64,896
At 30 June 2020:					
Cost	–	165,233	27,814	91,938	284,985
Accumulated depreciation and impairment	–	(120,959)	(23,235)	(75,895)	(220,089)
Net carrying amount	–	44,274	4,579	16,043	64,896

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Construction in progress *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Plant and machinery *HK$'000*	Total *HK$'000*
30 June 2021					
At 1 July 2020:					
Cost	–	165,233	27,814	91,938	284,985
Accumulated depreciation and impairment	–	(120,959)	(23,235)	(75,895)	(220,089)
Net carrying amount	–	44,274	4,579	16,043	64,896
At 1 July 2020, net of accumulated depreciation and impairment	–	44,274	4,579	16,043	64,896
Additions	–	1	40	–	41
Depreciation provided during the year	–	(8,486)	(1,651)	(4,312)	(14,449)
Impairment during the year	–	(2,016)	(125)	(396)	(2,537)
Exchange realignment	–	3,872	380	1,341	5,593
At 30 June 2021, net of accumulated depreciation and impairment	–	37,645	3,223	12,676	53,544
At 30 June 2021:					
Cost	–	175,928	29,876	99,723	305,527
Accumulated depreciation and impairment	–	(138,283)	(26,653)	(87,047)	(251,983)
Net carrying amount	–	37,645	3,223	12,676	53,544

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Construction in progress *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Plant and machinery *HK$'000*	Total *HK$'000*
30 September 2021					
At 1 July 2021:					
Cost	–	175,928	29,876	99,723	305,527
Accumulated depreciation and impairment	–	(138,283)	(26,653)	(87,047)	(251,983)
Net carrying amount	–	37,645	3,223	12,676	53,544
At 1 July 2021, net of accumulated depreciation and impairment	–	37,645	3,223	12,676	53,544
Additions	–	251	19	–	270
Depreciation provided during the period	–	(2,025)	(274)	(883)	(3,182)
Exchange realignment	–	34	5	13	52
At 30 September 2021, net of accumulated depreciation and impairment	–	35,905	2,973	11,806	50,684
At 30 September 2021:					
Cost	–	176,290	29,917	99,804	306,011
Accumulated depreciation and impairment	–	(140,385)	(26,944)	(87,998)	(255,327)
Net carrying amount	–	35,905	2,973	11,806	50,684

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment of property, plant and equipment and right-of-use assets

The market uncertainties in 2019, the outbreak of Covid-19 since early 2020, as further detailed in note 2.2 to the Historical Financial Information, coupled with certain challenging external environment, directly or indirectly, affecting the Target Group, have significantly affected the operating and financial performances of various cinemas of the Target Group, as well as their future outlook and development. The specific effect of these events, changes in circumstances and expected market development (collectively, the "**Changes in Circumstances**") on respective cinemas of the Target Group became more apparent, after certain planning and forecasting process that underpinned the period end impairment review of each of the reporting periods. Based on relevant impairment testing of the Target Group's property, plant and equipment ("**PP&E**") and right-of-use assets ("**ROU Assets**") as at 30 June 2019, 2020 and 2021 and 30 September 2021, the Target Group recognised impairment losses arising from the Changes in Circumstances for certain PP&E of approximately HK$74,992,000, HK$25,615,000, HK$2,537,000 and nil and certain ROU Assets of approximately nil, HK$124,254,000, HK$23,020,000 and nil for the years ended 30 June 2019, 2020 and 2021 and the three months ended 30 September 2021, respectively. The impairment losses for the years ended 30 June 2019, 2020 and 2021 and the three months ended 30 September 2021 were determined based on the recoverable amounts of the relevant CGUs to which those impaired PP&E and ROU Assets relate (the "**Relevant CGUs**"), which were their values in use, totalling HK$185,504,000, HK$283,155,000, HK$260,174,000 and HK$206,988,000 as at 30 June 2019, 2020 and 2021 and 30 September 2021, respectively, as further detailed below.

Impairment testing of the Relevant CGUs

Impairment is determined by assessing the recoverable amount of each individual cinema, being the CGU to which the respective PP&E and ROU Assets relate. The recoverable amount of the CGU has been determined based on value in use calculation using cash flow projections based on financial budgets/forecasts covering the remaining lease term (including any expected renewal period, as appropriate) of the relevant leased cinema property approved by management. Management considers such projections for impairment testing covering a period in excess of five years is justified based on (i) the specific nature of the underlying business (including the growth potential of each cinema) and particular aspects of the film exhibition sector; and (ii) the industry knowledge and relevant experience of management in preparing such projections based on what management considers as reasonable and appropriate assumptions that represent management's best estimate of the range of economic conditions and expected market development that management expects would exist over the relevant remaining lease term. The pre-tax discount rates applied to the cash flow projections for the respective CGUs are in the range of 11.5% to 13.5%, 11.5% to 13.5%, 11.5% to 13.5% and 11.5% to 13.5% as at 30 June 2019, 2020 and 2021 and 30 September 2021, respectively, reflecting specific risks relating to the Relevant CGUs.

12. LEASES

The Target Group as a lessee

The Target Group has lease contracts for various cinemas used in its operations. Leases of properties are negotiated for terms ranging from 6 to 15 years. Generally, the Target Group is restricted from assigning and subleasing the leased assets outside the Target Group. There are several lease contracts that included extension options and variable lease payments.

(a) Right-of-use assets

The carrying amounts of the ROU Assets and the movements during the Relevant Periods are as follows:

	Leased properties
	HK$'000
At 1 July 2019	399,511
Depreciation charge	(45,951)
Lease modifications	(21,328)
Impairment *(note)*	(124,254)
Exchange realignment	(10,079)
At 30 June 2020 and 1 July 2020	197,899
Depreciation charge	(27,599)
Impairment *(note)*	(23,020)
Exchange realignment	15,061
At 30 June 2021 and 1 July 2021	162,341
Depreciation charge	(6,166)
Exchange realignment	129
At 30 September 2021	156,304

Note:

Further details regarding the impairment of the ROU Assets are set out in note 11 to the Historical Financial Information.

12. **LEASES (continued)**

The Target Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the Relevant Periods are as follows:

	As at 30 June			As at 30 September
	2019	2020	2021	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount at the beginning of the year/period	–	385,534	349,603	341,483
Accretion of interest recognised during the year/period *(note 8)*	–	17,626	16,819	3,986
Lease modifications	–	(21,328)	–	–
Covid-19-related rent concessions from lessors	–	–	(13,323)	(1,349)
Payments	–	(22,370)	(34,615)	(6,223)
Exchange realignment	–	(9,859)	22,999	227
Carrying amount at the end of the year/period	–	349,603	341,483	338,124
Analysed into:				
Current portion	–	34,531	46,446	53,555
Non-current portion	–	315,072	295,037	284,569

The maturity analysis of lease liabilities is disclosed in note 30 to the Historical Financial Information.

12. **LEASES (continued)**

The Target Group as a lessee (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 30 June			Three months ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest on lease liabilities	–	17,626	16,819	4,264	3,986
Depreciation charge of right-of-use assets*	–	45,951	27,599	6,592	6,166
Variable lease payments not included in the measurement of lease liabilities*	–	1,602	93	12	22
Covid-19 related rent concessions from lessors*	–	–	(13,323)	(5,867)	(1,349)
Impairment of right-of-use assets	–	124,254	23,020	–	–
Total amount recognised in profit or loss	–	189,433	54,208	5,001	8,825

* Included in "Selling, marketing and other cinema operating expenses".

(d) The total cash outflow for leases is disclosed in note 25(c) to the Historical Financial Information.

13. **INVESTMENT IN AN ASSOCIATE**

	As at 30 June			As at 30 September
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets	–	–	–	–

The amount due from an associate is unsecured, interest-free and repayable on demand.

The Target Group had gross amounts due from an associate (before loss allowance for impairment) of approximately HK$42,917,000, HK$43,589,000, HK$43,589,000 and HK$43,589,000 as at 30 June 2019, 2020 and 2021 and 30 September 2021, respectively. In the opinion of the Target Group Directors, these amounts are considered as short-term advances. As at 30 June 2019, 2020 and 2021 and 30 September 2021, the Target Group had loss allowances for impairment of amount due from an associate of approximately HK$42,917,000, HK$43,589,000, HK$43,589,000 and HK$43,589,000, respectively, as the balances were in default and considered by management as credit impaired.

13. INVESTMENT IN AN ASSOCIATE (continued)

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation and business	Percentage of ownership interest attributable to the Target Group	Principal activity
Sino Spirit International Limited ("**Sino Spirit**")	Ordinary shares	BVI	45%	Investment holding*

* Sino Spirit has 100% beneficial interest in 英皇電影院(安徽)有限公司, which is registered in the PRC and is principally involved in cinema operation in Mainland China

The Target Group has discontinued the recognition of its share of losses of the associate because the share of losses of the associate exceeded the Target Group's interest in the associate and the Target Group has no obligation to take up further losses. For the years ended 30 June 2019, 2020 and 2021 and the three months ended 30 September 2020 and 2021, the amounts of the Target Group's unrecognised share of losses of the associate were approximately HK$3,124,000, HK$10,373,000, HK$8,303,000, HK$2,732,000 and HK$2,467,000, respectively.

14. INVENTORIES

Inventories mainly represent food and beverage, consumables and other goods relating to the Target Group's cinema operation.

15. TRADE RECEIVABLES

	As at 30 June			As at 30 September
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	9,915	2,632	4,080	5,660
Impairment	–	(1,631)	(1,583)	(1,578)
	9,915	1,001	2,497	4,082

For the Target Group's box office takings and sale of concession goods and other products, payments on demand or in advance in cash or by major credit/debit cards or other electronic/mobile payment methods are normally required, with the settlements from corresponding banks or other financial institutions normally within 2 to 30 days. The Target Group's trading terms with its other customers are mainly on credit. The credit period is generally 1 month from the date of billing. The Target Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management. The Target Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

15. TRADE RECEIVABLES (continued)

An ageing analysis of the trade receivables at the end of each of the reporting periods, based on the invoice date and net of loss allowance, is as follows:

	As at 30 June			As at 30 September
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 month	8,430	599	2,012	3,610
1 to 3 months	1,370	14	288	157
Over 3 months	115	388	197	315
	9,915	1,001	2,497	4,082

The movements in the loss allowance for impairment of trade receivables during the Relevant Periods are as follows:

	As at 30 June			As at 30 September
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	–	–	1,631	1,583
Impairment losses/(reversal of impairment losses), net *(note 7)*	–	1,631	(188)	–
Exchange realignment	–	–	140	(5)
At the end of the year/period	–	1,631	1,583	1,578

An impairment analysis is performed at each reporting date using a probability of default approach to measure ECLs. The probability of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and certain relevant information that is reasonable and available without undue cost or effort at the reporting date about past events, current conditions and forward-looking credit risk information.

Loss allowance for impairment of trade receivables with total gross amount of HK$1,631,000 was recognised during the year ended 30 June 2020 as the trade receivables were in default and considered by management as credit impaired. Other than that, the ECLs at the end of each of the reporting periods was assessed by management to be minimal.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June			As at 30 September
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	5,459	5,384	7,650	5,933
Deposits and other receivables	16,630	12,218	14,028	14,138
	22,089	17,602	21,678	20,071
Less: non-current portion	(16,143)	(11,848)	(13,648)	(13,783)
Current portion	5,946	5,754	8,030	6,288

The financial assets included in the above balances relate to deposits and other receivables for which there was no recent history of significant default and there were no material amounts in default. Their recoverability was assessed with reference to the credit status of the debtors, and the ECLs as at 30 June 2019, 2020 and 2021 and 30 September 2021 were assessed by management to be minimal.

17. CASH AND CASH EQUIVALENTS

	As at 30 June			As at 30 September
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	130,129	39,099	22,335	22,673

The Target Group's cash and cash equivalents are denominated in the following currencies:

	As at 30 June			As at 30 September
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	56,468	7,309	4,409	6,582
Renminbi ("**RMB**")	73,661	31,790	17,926	16,091
Cash and cash equivalents	130,129	39,099	22,335	22,673

17. CASH AND CASH EQUIVALENTS (continued)

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Certain cash at banks earns interest at floating rates based on applicable bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

18. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

			As at 30 June		**September**
		2019	**2020**	**2021**	**2021**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	*(a)*	16,780	7,552	7,217	10,152
Accruals		3,171	139	2,049	2,181
Deferred income		3,674	4,745	3,741	3,561
Other payables	*(b)*	21,966	6,970	9,615	11,032
		45,591	19,406	22,622	26,926

Notes:

(a) An ageing analysis of the trade payables at the end of each of the reporting periods, based on the invoice date or equivalent, is as follows:

		As at 30 June		**As at 30 September**
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 3 months	16,346	6,652	6,879	9,822
Over 3 months	434	900	338	330
	16,780	7,552	7,217	10,152

The trade payables are non-interest bearing and are normally settled on 2-month terms.

(b) Other payables are non-interest-bearing and have an average term of 2 months.

Included in the Target Group's other payables is an amount due to a fellow subsidiary of approximately HK$343,000, nil, nil and HK$621,000 as at 30 June 2019, 2020 and 2021 and 30 September 2021, respectively, which is unsecured, non-interest bearing and repayable on demand.

19. CONTRACT LIABILITIES

	As at 1 July 2018	2019	As at 30 June 2020	2021	As at 30 September 2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Short-term advances received from customers:					
Cinema operation	12,746	13,628	15,847	15,526	15,670

Contract liabilities include short-term advances received for cinema operation from customers.

Contract liabilities include short-term advances received for cinema operation. The increase in contract liabilities as at 30 June 2019, 2020 and 30 September 2021 as compared to the end of the respective prior financial years was mainly due to the increase in short-term advances received from customers. The decrease in contract liabilities as at 30 June 2021 as compared to the end of the prior financial year was mainly due to the decrease in short-term advances received from customers.

20. PROVISIONS

	Provisions for reinstatement costs
	HK$'000
At 1 July 2018	14,000
Exchange realignment	(387)
At 30 June 2019 and 1 July 2019	13,613
Exchange realignment	(352)
At 30 June 2020 and 1 July 2020	13,261
Exchange realignment	888
At 30 June 2021 and 1 July 2021	14,149
Exchange realignment	9
At 30 September 2021	14,158

20. PROVISIONS (continued)

Pursuant to the terms of relevant tenancy agreements, the Target Group, as the lessee of certain leases of properties, has the obligations to reinstate its relevant leased properties to their original state or to a condition as specified in the respective tenancy agreements at the cost of the Target Group at the end/upon the termination of the relevant lease terms.

The provisions for reinstatement costs are determined based on certain assumptions and estimates made by management with reference to past experience and currently available information. The assumptions and estimates are reviewed and revised, where appropriate, at least at each financial period end.

21. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Relevant Periods are as follow:

Deferred tax assets

	Lease liabilities *HK$'000*
At 1 July 2018 and 30 June 2019	–
Effect of adoption of HKFRS 16	68,137
Gross deferred tax assets at 30 June 2019 and 1 July 2019	68,137
Deferred tax debited to profit or loss during the year	(25,557)
Exchange realignment	(2,275)
Gross deferred tax assets at 30 June 2020 and 1 July 2020	40,305
Deferred tax debited to profit or loss during the year	(7,732)
Exchange realignment	3,759
Gross deferred tax assets at 30 June 2021 and 1 July 2021	36,332
Deferred tax debited to profit or loss during the period	(1,392)
Exchange realignment	33
Gross deferred tax assets at 30 September 2021	34,973

21. DEFERRED TAX (continued)

Deferred tax liabilities

	Right-of-use assets
	HK$'000
At 1 July 2018 and 30 June 2019	–
Effect of adoption of HKFRS 16	68,137
Gross deferred tax liabilities at 30 June 2019 and 1 July 2019	68,137
Deferred tax credited to profit or loss during the year	(25,557)
Exchange realignment	(2,275)
Gross deferred tax liabilities at 30 June 2020 and 1 July 2020	40,305
Deferred tax credited to profit or loss during the year	(7,732)
Exchange realignment	3,759
Gross deferred tax liabilities at 30 June 2021 and 1 July 2021	36,332
Deferred tax credited to profit or loss during the period	(1,392)
Exchange realignment	33
Gross deferred tax liabilities at 30 September 2021	34,973

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

		As at 30 June		**As at 30 September**
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Gross deferred tax assets	–	40,305	36,332	34,973
Gross deferred tax liabilities	–	(40,305)	(36,332)	(34,973)
Net deferred tax liabilities recognised in the combined statement of financial position	–	–	–	–

21. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

The Target Group had unrecognised tax losses of HK$81,541,000, HK$133,130,000, HK$193,340,000 and HK$213,054,000 as at 30 June 2019, 2020 and 2021 and 30 September 2021, respectively, subject to the agreement by the relevant tax authorities, that are available for offsetting against future taxable profits of the companies in which the losses arose, of which aggregate amounts of HK$58,992,000, HK$84,425,000, HK$108,308,000 and HK$113,238,000 as at 30 June 2019, 2020 and 2021 and 30 September 2021, respectively, are available indefinitely and the remaining unrecognised tax losses will expire in around one year to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as at 30 June 2019, 2020 and 2021 and 30 September 2021 as they have mainly arisen in entities that have been loss-making or due to the unpredictable future taxable profit streams of these entities, and in the opinion of the Target Company Directors, it is currently not considered probable that taxable profits will be available against which the tax losses can be utilised.

22. ISSUED CAPITAL

On 2 July 2015, the Target Company was incorporated as an exempted company with limited liability in the BVI with authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. Upon incorporation, 1 ordinary share of US$1 was issued at par as the subscriber's share. As at 30 June 2019, 2020 and 2021 and 30 September 2021, the authorised capital of the Target Company amounted to US$50,000, US$50,000, US$50,000 and US$50,000, respectively, and the issued and fully paid capital of the Target Company amounted to US$1, US$1, US$1 and US$1, respectively.

23. RESERVES

The amounts of the Target Group's reserves and the movements therein for each of the Relevant Periods are presented in the combined statements of changes in equity on pages II – 9 to II – 10 of the Circular.

24. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Target Group's subsidiaries that have material non-controlling interests are set out below:

		As at 30 June		As at 30 September
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Percentage of equity interest held by non-controlling interests:				
Emperor UA Cinema Group*	30%	30%	30%	30%

24. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

	Year ended 30 June			Three months ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Loss for the year/period allocated to non-controlling interests:					
Emperor UA Cinema Group*	(8,859)	(43,699)	(10,393)	(2,730)	(2,738)

	As at 30 June			As at 30 September
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated balance of non-controlling interests at the reporting date:				
Emperor UA Cinema Group*	(28,040)	(71,986)	(82,718)	(85,464)

* Representing Emperor UA Cinema and its subsidiary.

The following tables illustrate the summarised financial information of Emperor UA Cinema Group. The amounts disclosed are before any inter-company eliminations:

	Year ended 30 June			Three months ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue	164,999	81,084	90,380	11,645	18,888
Total expenses, net	(194,529)	(226,748)	(125,024)	(20,744)	(28,016)
Loss for the year/period	(29,530)	(145,664)	(34,644)	(9,099)	(9,128)
Total comprehensive loss for the year/period	(37,112)	(146,488)	(35,774)	(9,553)	(9,152)

24. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

	As at 30 June			As at 30 September
	2019	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current assets	135,384	40,539	29,471	26,589
Non-current assets	134,579	233,906	209,285	200,888
Current liabilities	(353,859)	(286,290)	(296,469)	(302,466)
Non-current liabilities	(9,570)	(228,109)	(218,015)	(209,890)

	Year ended 30 June			Three months ended 30 September	
	2019	**2020**	**2021**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Net cash flows from/(used in) operating activities	73,079	(48,787)	13,694	(4,683)	3,699
Net cash flows used in investing activities	(6,563)	(307)	(38)	–	(11)
Net cash flows from/(used in) financing activities	18,750	(37,088)	(28,378)	828	(6,224)
Net increase/(decrease) in cash and cash equivalents	85,266	(86,182)	(14,722)	(3,855)	(2,536)

25. NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

(i) During the year ended 30 June 2020, the Target Group had non-cash additions to ROU Assets and lease liabilities of HK$385,534,000 and HK$385,534,000, respectively, and non-cash transfers to ROU Assets from property, plants and equipment and prepayments, deposits and other receivables of HK$9,569,000 and HK$4,408,000, respectively, in respect of lease arrangements for cinemas.

(ii) During the year ended 30 June 2020, the Target Group had non-cash lease modifications to ROU Assets and lease liabilities of HK$21,328,000 and HK$21,328,000, respectively, in respect of lease arrangements for certain cinemas.

25. NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities

	Lease liabilities	**Amount due to the immediate holding company**	**Amount due to a fellow subsidiary**	**Amount due to non-controlling interests**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2018	–	171,716	131,486	73,595
Changes from financing cash flows	–	43,750	17,662	18,750
At 30 June 2019 and 1 July 2019	–	215,466	149,148	92,345
Effect of adoption of HKFRS 16	385,534	–	–	–
Changes from financing cash flows	(22,370)	(51,611)	5,532	(22,120)
Lease modifications	(21,328)	–	–	–
Interest expense	17,626	–	–	–
Exchange realignment	(9,859)	–	–	–
At 30 June 2020 and 1 July 2020	349,603	163,855	154,680	70,225
Changes from financing cash flows	(34,615)	–	3,500	–
Covid-19 related rent concessions from lessors	(13,323)	–	–	–
Interest expense	16,819	–	–	–
Exchange realignment	22,999	–	–	–
At 30 June 2021 and 1 July 2021	341,483	163,855	158,180	70,225
Changes from financing cash flows	(6,223)	–	–	–
Covid-19 related rent concessions from lessors	(1,349)	–	–	–
Interest expense	3,986	–	–	–
Exchange realignment	227	–	–	–
At 30 September 2021	338,124	163,855	158,180	70,225

25. NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS (continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the combined statements of cash flows is as follows:

	Year ended 30 June			Three months ended 30 September	
	2019	2020	2021	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within operating activities	40,646	1,602	93	12	22
Within financing activities	–	22,370	34,615	1,563	6,223
	40,646	23,972	34,708	1,575	6,245

26. COMMITMENTS

(a) Operating lease commitments as at 30 June 2019

The Target Group leased certain cinemas under operating lease arrangements. Leases for properties were negotiated for terms ranging from 6 to 15 years.

As at 30 June 2019, the Target Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	HK$'000
Within one year	44,333
In the second-to-fifth year, inclusive	191,786
After five years	155,194
	391,313

The operating leases of cinemas also called for contingent rentals, which would be based on a certain percentage of revenue of the operations being undertaken therein pursuant to the terms and conditions as stipulated in the respective tenancy agreements. As the future revenue of these cinemas could not be reliably determined as at 30 June 2019, the relevant contingent rentals have not been included in the operating lease commitment disclosure above. Certain of the lease arrangements contain renewal options.

27. TRANSACTIONS WITH RELATED PARTIES AND OTHER MEMBER OF THE EMPEROR GROUP

(a) In addition to the related party transactions, arrangements and balances detailed elsewhere in the Historical Financial Information, the Target Group had the following transactions during the Relevant Periods and the three months ended 30 September 2020:

		Year ended 30 June			Three months ended 30 September	
		2019	2020	2021	2020	2021
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Other member of the Emperor Group						
Reimbursements of administrative expenses	*(i)*	1,000	1,537	1,126	302	95

Note:

(i) The amounts charged were with reference to the costs incurred.

(b) As at 30 June 2019, 2020 and 2021 and 30 September 2021, the amounts due to the immediate holding company, a fellow subsidiary and non-controlling interests are unsecured, interest-free and repayable on demand.

(c) Compensation of key management personnel of the Target Group:

No compensation was paid to the key management personnel of the Target Group in respect of their services rendered to the Target Group during the Relevant Periods and the three months ended 30 September 2020.

28. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	As at 30 June			As at 30 September
	2019	2020	2021	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at amortised cost:				
Trade receivables	9,915	1,001	2,497	4,082
Financial assets included in prepayments, deposits and other receivables	16,630	12,218	14,028	14,138
Cash and cash equivalents	130,129	39,099	22,335	22,673
	156,674	52,318	38,860	40,893

28. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	As at 30 June			As at 30 September
	2019	2020	2021	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities at amortised cost:				
Trade payables	16,780	7,552	7,217	10,152
Financial liabilities included in other payables and accruals	24,370	7,081	10,013	11,274
Amount due to the immediate holding company	215,466	163,855	163,855	163,855
Amount due to a fellow subsidiary	149,148	154,680	158,180	158,180
Amount due to non-controlling interests	92,345	70,225	70,225	70,225
Lease liabilities	–	349,603	341,483	338,124
	498,109	752,996	750,973	751,810

29. FAIR VALUE AND FAIR VALUE HIERARCHY

At the end of each of the Relevant Periods, the carrying amounts of the Target Group's financial assets and financial liabilities reasonably approximated to their fair values.

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumption were used to estimate their fair values.

Management has assessed that the fair values of cash and cash equivalents, trade receivables, the current portion of financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, and amounts due to the immediate holding company, a fellow subsidiary and non-controlling interests reasonably approximate to their carrying amounts largely due to the short term maturities/repayable on demand of these instruments or the effect of discounting is not material. The fair values of the non-current portion of financial assets included in prepayments, deposits and other receivables, have been calculated and assessed mainly by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, as appropriate. The changes in fair values as a result of the Target Group's own non-performance risk at the end of each of the reporting periods were assessed by management to be insignificant.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments comprise lease liabilities, amounts due to the immediate holding company, a fellow subsidiary and non-controlling interests, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target Group's operations. The Target Group has various other financial assets and liabilities such as trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables and financial liabilities included in other payables and accruals, which mainly arise directly from its operations.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

Credit risk

The Target Group trades on credit mainly with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Target Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year/period-end staging classification as at 30 June 2019, 2020 and 2021 and 30 September 2021. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
30 June 2019					
Trade receivables*	–	–	–	9,915	9,915
Financial assets included in prepayments, deposits and other receivables					
– Normal**	16,630	–	–	–	16,630
Amount due from an associate					
– Doubtful	–	–	42,917	–	42,917
Cash and cash equivalents					
– Not yet past due	130,129	–	–	–	130,129
	146,759	–	42,917	9,915	199,591
30 June 2020					
Trade receivables*	–	–	–	2,632	2,632
Financial assets included in prepayments, deposits and other receivables					
– Normal**	12,218	–	–	–	12,218
Amount due from an associate					
– Doubtful	–	–	43,589	–	43,589
Cash and cash equivalents					
– Not yet past due	39,099	–	–	–	39,099
	51,317	–	43,589	2,632	97,538

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
30 June 2021					
Trade receivables*	–	–	–	4,080	4,080
Financial assets included in prepayments, deposits and other receivables					
– Normal**	14,028	–	–	–	14,028
Amount due from an associate					
– Doubtful	–	–	43,589	–	43,589
Cash and cash equivalents					
– Not yet past due	22,335	–	–	–	22,335
	36,363	–	43,589	4,080	84,032
30 September 2021					
Trade receivables*	–	–	–	5,660	5,660
Financial assets included in prepayments, deposits and other receivables					
– Normal**	14,138	–	–	–	14,138
Amount due from an associate					
– Doubtful	–	–	43,589	–	43,589
Cash and cash equivalents					
– Not yet past due	22,673	–	–	–	22,673
	36,811	–	43,589	5,660	86,060

* For trade receivables to which the Target Group applies the simplified approach for impairment, relevant information is disclosed in note 15 to the Historical Financial Information.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Target Group's exposure to credit risk arising from trade receivables are disclosed in note 15 to the Historical Financial Information.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Target Group's objective is to maintain adequate funds to meet commitments associated with its financial liabilities. Cash flows of the Target Group are closely monitored by management on an on-going basis, considering the maturity of the Target Group's financial liabilities and financial assets, and projected cash flows from operations.

The maturity profile of the Target Group's financial liabilities at the end of each of the Relevant Periods , based on the contractual undiscounted payments, is as follows:

	Less than 1 year or on demand	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
30 June 2019				
Trade payables	16,780	–	–	16,780
Financial liabilities included in other payables and accruals	24,370	–	–	24,370
Amount due to the immediate holding company	215,466	–	–	215,466
Amount due to a fellow subsidiary	149,148	–	–	149,148
Amount due to non-controlling interests	92,345	–	–	92,345
	498,109	–	–	498,109

	Less than 1 year or on demand	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
30 June 2020				
Trade payables	7,552	–	–	7,552
Financial liabilities included in other payables and accruals	7,081	–	–	7,081
Amount due to the immediate holding company	163,855	–	–	163,855
Amount due to a fellow subsidiary	154,680	–	–	154,680
Amount due to non-controlling interests	70,225	–	–	70,225
Lease liabilities	50,770	220,775	153,871	425,416
	454,163	220,775	153,871	828,809

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	Less than 1 year or on demand	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
30 June 2021				
Trade payables	7,217	–	–	7,217
Financial liabilities included in other payables and accruals	10,013	–	–	10,013
Amount due to the immediate holding company	163,855	–	–	163,855
Amount due to a fellow subsidiary	158,180	–	–	158,180
Amount due to non-controlling interests	70,225	–	–	70,225
Lease liabilities	56,309	232,440	110,863	399,612
	465,799	232,440	110,863	809,102

	Less than 1 year or on demand	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
30 September 2021				
Trade payables	10,152	–	–	10,152
Financial liabilities included in other payables and accruals	11,274	–	–	11,274
Amount due to the immediate holding company	163,855	–	–	163,855
Amount due to a fellow subsidiary	158,180	–	–	158,180
Amount due to non-controlling interests	70,225	–	–	70,225
Lease liabilities	56,534	229,826	99,549	385,909
	470,220	229,826	99,549	799,595

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Group may return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Group monitors its capital using a gearing ratio, which is calculated by dividing the total borrowings (including the amounts due to the immediate holding company, a fellow subsidiary and non-controlling interests) by total assets. As at 30 June 2019, 2020 and 2021 and 30 September 2021, the Target Group's gearing ratios were 155.4%, 120.7%, 148.9% and 153.8%, respectively.

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company, the Target Group or any of its subsidiaries in respect of any period subsequent to 30 September 2021.

A. INTRODUCTION

The following is an illustrative and unaudited pro forma statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**"), which has been prepared by the Directors in accordance with the paragraph 4.29 of the Listing Rules. The Unaudited Pro Forma Financial Information has been prepared based on the basis set out in the accompanying notes, which is consistent with the accounting policies of the Group, solely for the purpose to illustrate the effect of the Acquisition on the Enlarged Group's financial position as if the Acquisition had been completed on 31 December 2021.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information and is prepared for illustrative purposes only. As a result, and because of the hypothetical nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 31 December 2021 or any future date. Furthermore, the Unaudited Pro forma Financial Information does not purport to predict the Enlarged Group's future financial position after the Completion.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular, the accountants' report on the historical financial information of the Target Group as set out in Appendix II to this circular, and other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 31 DECEMBER 2021

	The Group as at 31 December 2021	The Target Group as at 30 September 2021	Pro forma adjustments				Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Noe 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
NON-CURRENT ASSETS							
Property, plant and equipment	579,930	50,684	–	–	–	–	630,614
Right-of-use assets	960,493	156,304	–	–	–	–	1,116,797
Investment in an associate	–	–	–	–	–	–	–
Investment in a joint venture	250	–	–	–	–	–	250
Prepayments, deposits and other receivables	45,616	13,783	–	–	–	–	59,399
Total non-current assets	1,586,289	220,771	–	–	–	–	1,807,060
CURRENT ASSETS							
Inventories	2,136	1,220	–	–	–	–	3,356
Trade receivables	16,750	4,082	–	–	–	–	20,832
Prepayments, deposits and other receivables	43,105	6,288	–	–	–	–	49,393
Financial assets at fair value through profit or loss	5,114	–	–	–	–	–	5,114
Amount due from a fellow subsidiary	2,664	–	–	–	–	–	2,664
Cash and cash equivalents	135,794	22,673	–	–	–	(2,065)	156,402
Total current assets	205,563	34,263	–	–	–	(2,065)	237,761

	The Group as at 31 December 2021	The Target Group as at 30 September 2021	Pro forma adjustments				Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Noe 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
CURRENT LIABILITIES							
Trade payables, other payables and accruals	97,885	26,926	–	–	–	–	124,811
Contract liabilities	22,880	15,670	–	–	–	–	38,550
Interest-bearing bank and other borrowings	20,022	–	–	–	–	–	20,022
Lease liabilities	114,980	53,555	–	–	–	–	168,535
Amount due to the immediate holding company	–	163,855	–	(163,855)	–	–	–
Amount due to a fellow subsidiary	–	158,180	–	(158,180)	–	–	–
Amount due to related companies	4,500	–	–	–	–	–	4,500
Amount due to a joint venture	250	–	–	–	–	–	250
Amount due to non-controlling interests	–	70,225	–	–	–	–	70,225
Total current liabilities	260,517	488,411	–	(322,035)	–	–	426,893
NET CURRENT LIABILITIES	(54,954)	(454,148)	–	322,035	–	(2,065)	(189,132)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,531,335	(233,377)	–	322,035	–	(2,065)	1,617,928
NON-CURRENT LIABILITIES							
Provisions	51,207	14,158	–	–	–	–	65,365
Interest-bearing bank and other borrowings	417,486	–	–	–	–	–	417,486
Lease liabilities	1,061,234	284,569	–	–	–	–	1,345,803
Amount due to non-controlling interests	43,589	–	–	–	(43,589)	–	–
Total non-current liabilities	1,573,516	298,727	–	–	(43,589)	–	1,828,654
Net liabilities	(42,181)	(532,104)	–	322,035	43,589	(2,065)	(210,726)

Notes:

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2021 as set out in the published interim results report of the Group for the six months ended 31 December 2021.

2. The amounts are extracted from the combined statement of financial position of the Target Group as at 30 September 2021 as set out in Appendix II to this circular.

3. The adjustment represents the cash payment of HK$3.0 for the consideration of the Sale Shares.

   Due to the fact that the Group and the Target Group are ultimately controlled by the Controlling Shareholder before and after the Acquisition, the Group elects to account for this common control combination using the pooling-of-interests method.

   Under the pooling-of-interests method, the assets and liabilities of the Target Group are stated at their existing carrying amounts from the Controlling Shareholder's perspective. Accordingly, there is no goodwill or gain on bargain purchase as a result of the common control combination. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the common control combination. Any difference between the consideration transferred and the acquired net assets or liabilities attributable to the Group is reflected within equity.

4. Pursuant to the Sale Loan SPA, the Vendor has agreed to sell the Sale Loan (being all the loans and sums owing by the Target Company to the Vendor as at the Completion Date) to the Purchaser for a consideration of HK$1.0. For the purpose of the preparation of the Unaudited Pro Forma Financial Information, the amount of the Sale Loan is assumed to be equal to HK$322,035,000, being the aggregate of the carrying amounts of the Target Group's amount due to the immediate holding company and amount due to a fellow subsidiary as at 30 September 2021 of HK$163,855,000 and HK$158,180,000, respectively, as extracted from the combined statement of financial position of the Target Group as at 30 September 2021 as set out in Appendix II to this circular.

   The actual amount of the Sale Loan as at the Completion Date might be different from the amount used above in the preparation of the Unaudited Pro Forma Financial Information.

   The adjustment represents the cash payment of HK$1.0 for the consideration of the Sale Loan and the intercompany elimination of the balances comprising the Sale Loan by the Enlarged Group as if the Acquisition had been completed.

5. As at 31 December 2021, the Group had 55% equity interest in Sino Spirit International Limited ("**Sino Spirit**"), a subsidiary of the Group, and an amount due to the Target Group, being a 45% non-controlling shareholder of that subsidiary, of HK$43,589,000. The Target Group reflects its interest in Sino Spirit as an investment in an associate in its combined statement of financial position with a carrying amount of nil as at 30 September 2021. Sino Sprit would become a wholly-owned subsidiary of the Enlarged Group upon the Completion.

   The adjustment represents the intercompany eliminations of the investment in an associate and the amount due to the non-controlling interests by the Enlarged Group as if the Acquisition had been completed.

6. The adjustment represents the estimated transaction costs, such as professional fees and other expenses, of approximately HK$2,065,000 that are directly attributable to the Acquisition.

7. No other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 31 December 2021 and 30 September 2021, respectively.

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

The following is the text of a report, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, on the unaudited pro forma financial information of the Enlarged Group as set out in this appendix prepared for the purpose of incorporation in this circular:

EY 安永

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Quarry Bay, Hong Kong

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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Emperor Culture Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Emperor Culture Group Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2021 and related notes set out in pages III-1 to III-5 of the circular dated 25 March 2022 (the "**Circular**") issued by the Company (the "**Unaudited Pro Forma Financial Information**") in connection with the proposed acquisition from Emperor Motion Picture Enterprise Limited (the "**Vendor**") the entire equity interest in Tale Success Limited (the "**Target Company**") and all the loans and sums owing by the Target Company to the Vendor as at the completion date (the "**Acquisition**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Part A of Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's financial position as at 31 December 2021 as if the Acquisition had taken place on 31 December 2021. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited condensed consolidated interim financial information for the six months ended 31 December 2021, on which no audit or review report has been published.

Directors' responsibility for the Unaudited Pro Forma Financial Information

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

Our independence and quality control

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

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

Reporting accountants' responsibilities

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Acquisition, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Acquisition in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

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

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Ernst & Young
Certified Public Accountants
Hong Kong
25 March 2022

The following management discussion and analysis should be read in conjunction with the accountants' report of the Target Group for the years ended 30 June 2019, 2020 and 2021 and the 3 months ended 30 September 2021 as set out in Appendix II to this circular.

BUSINESS REVIEW

The Target Company is an investment holding company incorporated in the BVI and a direct wholly-owned subsidiary of the Vendor. The Target Group is principally engaged in cinema operation, which covers one cinema in Hong Kong and eight cinemas in mainland China spanning six cities including Shanghai, Shenzhen, Chengdu, Foshan, Zhuhai and Hefei.

Set out below is the management discussion and analysis of the Target Group for the three years ended 30 June 2021 and the three months ended 30 September 2021 (collectively, the "**Reporting Periods**"). All references to "**FY2019**", "**FY2020**" and "**FY2021**" mean the financial years ended 30 June 2019, 30 June 2020 and 30 June 2021, respectively. The following financial information is based on the Accountants' Report of the Target Group as set out in Appendix II to this circular.

FINANCIAL REVIEW

Revenue

The revenue generated in FY2019, FY2020, FY2021 and the three months ended 30 September 2020 and 2021 were approximately HK$191.2 million, HK$99.5 million, HK$97.8 million, HK$12.9 million and HK$24.4 million, respectively. The revenue decreased significantly from approximately HK$191.2 million in FY2019 to approximately HK$99.5 million in FY2020, which was mainly due to the outbreak of the Pandemic in the first quarter of 2020 resulting the temporary suspension of cinema operation as the result of lockdown measures imposed in Hong Kong and mainland China and the quarantine measures imposed in Hong Kong after resume of business. Although the Pandemic remained volatile, the revenue generated in FY 2020 and FY 2021 were stable. The revenue almost doubled from approximately HK$12.9 million for three months ended 30 September 2020 to approximately HK$24.4 million for the three months ended 30 September 2021 which was mainly attributable to Pandemic's intensity waned and the ease of quarantine measures during the three months ended 30 September 2021.

Cost of sales

The cost of sales incurred by the Target Group mainly represented film rental expenses and the cost of concession goods sold. The Target Group recorded cost of sales of approximately HK$77.3 million, HK$41.3 million, HK$41.3 million, HK$5.9 million and HK$10.0 million, respectively in FY2019, FY2020, FY2021 and the three months ended 30 September 2020 and 2021. The cost of sales decreased significantly from approximately HK$77.3 million in FY2019 to approximately HK$41.3 million in FY2020 because of the temporary suspension of cinema operation as the result of lockdown measure imposed in Hong Kong and mainland China as mentioned above. The cost of sales remained stable at approximately HK$41.3 million in FY2020 and FY2021. During three months ended 30 September 2020 and 2021, the cost of sales increased from approximately HK$5.9 million to approximately HK$10.0 million which was in line with the increment of revenue during the same period.

Other income and gains

The other income and gains of the Target Group mainly represented government subsidies and interest income. The Target Group recorded other income and gains of approximately HK$2.3 million, HK$4.0 million, HK$4.4 million, HK$1.3 million and HK$0.4 million, respectively in FY2019, FY2020, FY2021 and the three months ended 30 September 2020 and 2021.

Selling, marketing and other cinema operating expenses

Selling, marketing and other cinema operating expenses were approximately HK$139.3 million, HK$108.5 million, HK$73.9 million, HK$13.2 million and HK$20.1 million, respectively in FY2019, FY2020, FY2021 and the three months ended 30 September 2020 and 2021. The selling, marketing and other cinema operating expenses mainly included building management fee, Covid-19-related rent concessions from lessors, depreciation of property, plant and equipment, depreciation of right-of-use assets, royalty fee, utilities charges and staff costs. The notable decrease in the selling, marketing and other cinema operating expenses in FY2019 to FY2020 and FY2021 was mainly due to the decrease in depreciation of property, plant and equipment and right-of-use assets in FY2020 and FY2021.

General and administrative expenses

The Target Group recorded general and administrative expenses of approximately HK$1.3 million, HK$6.4 million, HK$1.5 million, HK$0.5 million and HK$0.3 million, respectively in FY2019, FY2020, FY2021 and the three months ended 30 September 2020 and 2021. The fluctuation of the general and administrative expenses, in particular the significant increase in FY2020, of the Target Group during the Reporting Periods was primarily due to the exchange losses of approximately HK$4.9 million recognised as a result of the exchange of Renminbi to Hong Kong dollars for repayment of the amounts due to the immediate holding company and non-controlling interests in FY2020.

Other expenses, net

Other expenses, net were approximately HK$76.9 million, HK$157.7 million, HK$25.4 million, other income, net of HK$27,000 and HK$Nil, respectively in FY2019, FY2020 and FY2021 and the three months ended 30 September 2020 and 2021. The significant expenses recognised in FY2019, FY2020 and FY2021 were mainly attributable to the following material losses recorded by the Target Group during the respective Reporting Periods:

1. impairment losses recognised in respect of property, plant and equipment and the amount due from an associate of approximately HK$75.0 million and HK$1.9 million, respectively in FY2019;

2. impairment losses recognised in respect of property, plant and equipment and right-of-use assets in aggregate amount of approximately HK$149.9 million, the loss on disposal/write-off of property, plant and equipment of approximately HK$5.6 million as well as impairment losses recognised in respect of trade receivables of approximately HK$1.6 million in FY2020; and

3. impairment losses recognised in respect of property, plant and equipment and right-of-use assets in aggregate amount of approximately HK$25.6 million in FY2021.

Finance cost

The finance cost incurred by the Target Group mainly represented interest on lease liabilities recognised as a result of adoption of HKFRS 16 *Leases* at the beginning of FY2020. The Target Group recorded finance cost of approximately HK$Nil, HK$17.6 million, HK$16.8 million, HK$4.3 million and HK$4.0 million, respectively in FY2019, FY2020, FY2021 and the three months ended 30 September 2020 and 2021.

Loss for the year/period

As the result of the forgoing factors, the Target Group recorded loss for the year/period of approximately HK$101.4 million HK$228.1 million, HK$56.7 million, HK$9.6 million and HK$9.6 million respectively in FY2019, FY2020, FY2021 and the three months ended 30 September 2020 and 2021.

Liquidity, financial resources and capital structure

During the Reporting Periods, the Target Group mainly financed its operation by (i) the cash flow generated from operating activities of approximately HK$21.7 million, HK$3,000, HK$13.9 million and HK$6.8 million, respectively in FY2019, FY2020, FY2021 and the three months ended 30 September 2021; (ii) amount due to the immediate holding company of approximately HK$215.5 million, HK$163.9 million, HK$163.9 million and HK$163.9 million as at 30 June 2019, 2020, 2021 and 30 September 2021 respectively; (iii) amount due to a fellow subsidiary of approximately HK$149.1 million, HK$154.7 million, HK$158.2 million and HK$158.2 million as at 30 June 2019, 2020 and 2021 and 30 September 2021 respectively and; (iv) amount due to non-controlling interests of approximately HK$92.3 million, HK$70.2 million, HK$70.2 million and HK$70.2 million as at 30 June 2019, 2020 and 2021 and 30 September 2021 respectively. The amounts due to the immediate holding company, a fellow subsidiary and non-controlling interests were unsecured, interest-free and repayable on demand.

During the Reporting Periods, the Target Group did not have any formal hedging policies and no financial instrument was used for hedging purpose.

As at 30 June 2019, 2020 and 2021 and 30 September 2021, the Target Group recorded net current liabilities of approximately HK$368.9 million, HK$411.0 million, HK$442.9 million and HK$454.1 million, respectively. As at 30 June 2019, 2020 and 2021 and 30 September 2021, the Target Group's gearing ratios (expressed as a percentage of total borrowings over total asset value) were approximately 155.4%, 120.7%, 148.9% and 153.8%, respectively.

Employees and remuneration policy

As at 30 June 2019, 2020 and 2021 and 30 September 2021, the Target Group had, in aggregate, 261, 238, 199 and 196 employees respectively in Hong Kong and mainland China. The Target Group recruited, employed, promoted and remunerated its employees based on their qualifications, experience, skills, performances and contributions. Remuneration was also determined with reference to, among others, the market trend. The Target Group had implemented various programs for staff training and development as well.

During FY2019, FY2020, FY2021 and the three months ended 30 September 2020 and 2021, the total staff costs including directors' remuneration of the Target Group amounted to approximately HK$24.9 million, HK$18.4 million, HK$20.1 million, HK$3.8 million and HK$5.3 million, respectively.

Future plans for material investments or capital assets

As at 30 September 2021, the Target Group did not have any future plans for material investments or capital assets.

Significant investments held

The Target Group did not hold any investments during the Reporting Periods.

Capital commitments

The Target Group had no capital commitments as at 30 June 2019, 2020 and 2021 and 30 September 2021.

Charges on assets

No asset of the Target Group was charged to any parties as at 30 June 2019, 2020 and 2021 and 30 September 2021.

Contingent liabilities

The Target Group had no material contingent liabilities as at 30 June 2019, 2020 and 2021 and 30 September 2021.

Foreign exchange exposure

During the Reporting Periods, the Target Group's cash and bank balances, income and expenditure are primarily denominated in Hong Kong dollars and Renminbi. The Target Group was not exposed to any material foreign currency risk as most of its business transactions, assets and liabilities were denominated in functional currency of its foreign operations.

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 Group. 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 OF DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the following Directors and chief executives of the Company were interested, or were deemed or taken to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to (a) be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors adopted by the Company (the "**Model Code**") to be notified to the Company and the Stock Exchange:

(a) Long positions interests in the Company

(i) Ordinary Shares

Name of Director	Capacity/Nature of interests	Number of issued Shares interested	% of the issued voting Shares
Mr. Yeung Ching Loong, Alexander ("**Mr. Alex Yeung**")	Eligible beneficiary of a private discretionary trust	2,371,313,094 *(Note)*	73.80%

Note: These Shares were held by Emperor Culture Group Holdings Limited, a wholly-owned subsidiary of Albert Yeung Entertainment Holdings Limited ("**AY Entertainment Holdings**"). AY Entertainment Holdings is held by Alto Trust Limited in trust for a private discretionary trust (the "**Trust**") as founded by Dr. Albert Yeung.

(b) Long position interests in ordinary shares of associated corporations of the Company

(i) Ordinary shares

Name of Director	Name of associated corporation	Capacity/ Nature of interests	Number of issued shares interested	% of issued voting shares
Ms. Fan Man Seung, Vanessa ("**Ms. Vanessa Fan**")	Emperor International Holdings Limited ("**Emperor International**")	Beneficial owner	10,500,000	0.29%
Mr. Alex Yeung	Emperor International	Eligible beneficiary of a private discretionary trust	2,747,610,489	74.71%
	Emperor Entertainment Hotel Limited	Eligible beneficiary of a private discretionary trust	851,352,845	71.11%
	Emperor Watch & Jewellery Limited	Eligible beneficiary of a private discretionary trust	4,298,610,000	63.41%
	Ulferts International Limited ("**Ulferts International**")	Eligible beneficiary of a private discretionary trust	600,000,000	75.00%

(ii) Debentures

Name of Director	Name of associated corporation	Capacity/ Nature of interests	Amount of debentures held
Mr. Wong Chi Fai	Emperor International	Interest of controlled corporation	HK$2,000,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors was a director or an employee of a company which had an interest or short position in the Shares and underlying Shares would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

3. DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as is known to any Director or chief executives of the Company, the following persons or corporations (other than a Director or a chief executive of the Company) who had, or were deemed or taken to have an interest and short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group or had any option in respect of such securities:

Name	**Capacity/Nature of Interests**	**Number of Shares interested**	**% of issued voting Shares**
AY Entertainment Holdings	Interest in a controlled corporation	2,371,313,094 (L) *(Note)*	73.80%
Alto Trust Limited	Trustee of the Trust	2,371,313,094 (L) *(Note)*	73.80%
Dr. Albert Yeung	Founder of the Trust	2,371,313,094 (L) *(Note)*	73.80%
Ms. Luk Siu Man, Semon	Interest of spouse	2,371,313,094 (L) *(Note)*	73.80%

(L) = Long Position

Note: These Shares were the same shares as those set out under Section 2(a) of "DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES" above.

Save as disclosed above, as at the Latest Practicable Date, so far is known to the Directors or chief executives of the Company, no other person or corporation (other than the Directors and chief executives of the Company) who had, or were deemed or taken to have, any interests or short positions in any Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, who was, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group or had any option in respect of such securities.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which is not determinable within one year without payment of compensation other than statutory compensation.

5. COMPETING INTERESTS

As at the Latest Practicable Date, the interests of Directors or their respective close associates in the business which are considered to compete or are likely to compete, either directly or indirectly, with the business of the Group ("**Competing Business**") as required to be disclosed pursuant to the Listing Rules were as follows:

Nature of Competing Business:

(1) Cinema operation

(2) Investment in films and cultural events

Name of Directors	Name of competing company	Nature of interests	Nature of Competing Business
Mr. Alex Yeung	Certain companies controlled/owned by the Trust	An eligible beneficiary of the Trust	Cinema operation and investment in films and cultural events
Ms. Vanessa Fan	-ditto-	Director	-ditto-
Mr. Wong Chi Fai	-ditto-	Director	-ditto-
Ms. Shirley Percy Hughes	-ditto-	Director	Investment in films and cultural events

Save as disclosed above, so far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, none of the Directors or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with business of the Group.

6. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, save as the Sales and Purchase Agreements and the agreements listed below in which Mr. Alex Yeung has deemed interest, there was no other contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

(a) The master agreement dated 29 June 2020 entered into between the Company and Ulferts International in relation to its continuous purchase of furniture products and obtaining furniture procurement related consultancy services for its cinema operation thereunder.

(b) The master leasing agreement dated 3 December 2020 entered into between the Company and Emperor International in relation to the tenancy transactions thereunder.

7. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors has, directly or indirectly, any interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 30 June 2021 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

8. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance were pending or threatened against any member of the Group.

9. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular up to and including the Latest Practicable Date, no contract (not being contracts entered into in the ordinary course of business of the Group) has been entered into by the Group and is or may be material.

10. EXPERT AND CONSENT

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
Ernst & Young ("**EY**")	Certified Public Accountants, Registered Public Interest Entity Auditor
Pelican	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, EY and Pelican have given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report (as the case may be) and references to its names, in the form and context in which they respectively appear. As at the Latest Practicable Date, each of above experts:

(a) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group; or

(b) did not have any interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 30 June 2021), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (https://www.hkexnews.hk) and the Company (https://www.empculture.com) in accordance with the Listing Rules from the date of the circular and up to and including the date of the SGM:

(a) the Sale and Purchase Agreements;

(b) the letter from the Board as set out from pages 6 to 15 in this circular;

(c) the letter from the Independent Board Committee as set out on page 16 in this circular;

(d) the letter from Pelican, the Independent Financial Adviser, as set out from pages 17 to 32 in this circular;

(e) the accountants' report on the Target Group prepared by EY, the text of which is set out in Appendix II to this circular;

(f) the report on the unaudited pro forma financial information of the Enlarged Group illustrating the effect of the Acquisition, the text of which is set out in Appendix III to this circular; and

(g) the written consents referred to in the paragraph headed "Expert and Consent" in this appendix.

12. MISCELLANEOUS

(a) The company secretary of the Company is Ms. Liu Suet Ying, who is an associate member of both The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom and The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries).

(b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited.

(c) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese text.

英皇文化產業集團有限公司
Emperor Culture Group Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 491)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting ("**SGM**") of Emperor Culture Group Limited (the "**Company**") will be held via electronic facilities on Thursday, 14 April 2022 at 11:30 a.m. (with the minimum number of persons physically present as is legally required to form a quorate meeting by staff members who are Shareholders or proxies at 2nd Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong), for the purpose of considering and, if think fit, passing with or without modification the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"THAT

(a) the sale and purchase agreements dated 31 January 2022 between (1) Emperor Cinemas (China) Limited as purchaser and (2) Emperor Motion Picture Enterprise Limited as vendor, for the sale and purchase of (a) the entire equity interest of Tale Success Limited and (b) all loan, interest and all sums owing by Tale Success Limited to Emperor Motion Picture Enterprise Limited (the "**Sale and Purchase Agreements**") as at the completion of the aforesaid agreements (copies of which were tabled at the meeting marked "A" and signed by the Chairperson of the meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved; and

(b) any one or more directors of the Company be and is hereby authorised to do all such acts and things which he/she/they may consider necessary, desirable or expedient to implement the transactions contemplated under the Sale and Purchase Agreements (with any amendments to the terms of such agreements which are not inconsistent with the purpose thereof as may be approved by the directors of the Company).

By order of the board
Emperor Culture Group Limited
Liu Suet Ying
Company Secretary

Hong Kong, 25 March 2022

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
28th Floor
Emperor Group Centre
288 Hennessy Road
Wanchai
Hong Kong

Notes:

(i) In view of the outbreak of the novel coronavirus (Covid-19) pandemic and recent requirements for prevention and control of its spread, the SGM will be held via electronic facilities, details of which are set out in the section headed "GUIDANCE FOR THE SGM" of the circular of the Company dated 25 March 2022.

All Shareholders, proxies and corporate representatives will be able to login the SGM or any adjourned meeting thereof via the e-Meeting System provided by Branch Share Registrar which can be accessed from any location with access to the internet via smartphone, tablet device or computer 30 minutes before the commencement of the SGM. All non-registered Shareholders may consult directly with their banks, brokers, custodians, nominees or HKSCC Nominees Limited through which their shares are held (as the case may be) for necessary arrangement to attend and vote via the e-Meeting System at the SGM or any adjourned meeting thereof if they wish.

In the case of joint registered holders of any share(s), only **ONE PAIR** of login username and password will be provided to the joint registered holders. Any one of such joint registered holders may attend or vote in respect of such share(s) as if he/she/it was solely entitled thereto.

The Company will keep the evolving Covid-19 situation under review and may change measures, where appropriate with short notice. Shareholders should check the website of the Company (https://www.empculture.com) for future announcements and updates on the SGM arrangements.

(ii) Pursuant to Rule 13.39(4) of the Listing Rules, the resolution set out in this notice will be decided by poll at the SGM. Where the Chairperson/Chairman in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted, such resolution will be decided by show of hands.

(iii) A member of the Company entitled to attend and vote at the SGM convened by the above notice is entitled to appoint one or more proxies (if he/she is a holder of more than one share) to attend and vote in his/her stead. A proxy needs not be a member of the Company. The Company strongly encourages Shareholders to appoint the Chairperson of the SGM as their proxies to exercise their rights to vote at the SGM.

(iv) In order to be valid, the form of proxy must be in writing under the hand of the appointor or his/her attorney duly authorized in writing, or if the appointor is a corporation, either under its common seal, or under the hand of an officer or attorney duly authorized on that behalf, and must be deposited at the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong ("**Branch Share Registrar**") together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney, or via the designated URL (https://spot-emeeting.tricor.hk) by using the login username and password provided on the notification letter sent by the Branch Share Registrar not less than 48 hours before the time for holding the SGM or adjourned meeting.

(v) Completion and delivery of the form of proxy will not preclude a member from attending and voting at the SGM or adjourned meeting thereof and in such event, the form of proxy shall be deemed to be revoked.

(vi) In order to qualify for the right to attend and vote at the SGM, all relevant share certificates and properly completed transfer forms must be lodged for registration with the Branch Share Registrar, Tricor Tengis Limited at the above address before 4:30 p.m. on Friday, 8 April 2022.

(vii) The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

This Circular (in both English and Chinese versions) is available to any Shareholder either in printed form or on the websites of the Stock Exchange (https://www.hkexnews.hk) and the Company (https://www.empculture.com). In order to protect the environment, the Company highly recommends Shareholders to elect to receive electronic copy of this Circular. Shareholders may have the right to change their choice of receipt of all future Corporate Communications at any time by reasonable notice in writing to the Company or the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, by post at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or by email at is-enquiries@hk.tricorglobal.com.