
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) CONTINUING CONNECTED TRANSACTIONS – MASTER FRAMEWORK AGREEMENT AND (II) NOTICE OF SPECIAL GENERAL MEETING

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



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 is set out from pages 17 to 33 of this circular.

A notice convening the SGM to be held at 2nd Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong on Monday, 5 September 2022 at 11:30 a.m. or any adjournment thereof is set out from pages SGM-1 to SGM-3 of this circular. Please complete and return the accompanying form of proxy to the Company's Branch Share Registrar, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible, and in any event not less than 48 hours before the time of the SGM (by Saturday, 3 September 2022, before 11:30 a.m.) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof (as the case may be) should you subsequently so wish and in such event the form of proxy previously submitted shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE SGM

To safeguard the health and safety of Shareholders and to prevent the spreading of COVID-19, the following precautionary measures will be implemented at the SGM:

- (1) Compulsory temperature check;
- (2) Compulsory scanning of the "LeaveHomeSafe" QR code displayed in the venue and presenting valid vaccination, exemption or recovery record;
- (3) Compulsory health declaration;
- (4) Compulsory wearing of surgical face mask – no mask will be provided at the SGM venue;
- (5) No refreshment or drinks will be served and no corporate gift will be distributed; and
- (6) A designated seat will be assigned at the SGM venue

Attendees who do not comply with the precautionary measures referred to in (1) to (4) above may be denied entry to the SGM venue, at the absolute discretion of the Company to the extent permitted by law.

For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the SGM by appointing the Chairperson of the SGM as their proxy and to return their forms of proxy by the time specified therein, instead of attending the SGM in person. Physical attendance at the SGM by a Shareholder is not necessary for the purpose of exercising voting rights.

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PRECAUTIONARY MEASURES FOR THE SGM

In light of the situation of COVID-19, the Company would like to advise the Shareholders on the following precautionary measures for the SGM:-

(A) BEFORE THE SGM

- (1) **Voting by proxy in advance of the SGM:** The Company does not in any way wish to diminish the opportunity available to Shareholders to exercise their rights and to vote, but is conscious of the pressing need to protect Shareholders from possible exposure to the COVID-19. For the health and safety of Shareholders, **the Company would like to encourage Shareholders to exercise their right to vote at the SGM by appointing the Chairperson of the SGM as their proxy instead of attending the SGM in person.**

The deadline to submit completed forms of proxy is Saturday, 3 September 2022 at 11:30 a.m.. Completed forms of proxy must be returned to the Hong Kong Branch Share Registrar of the Company, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong. The form of proxy can be downloaded from the websites of the Company (<https://www.EmpCulture.com>) or the Stock Exchange (<https://www.hkexnews.hk>).

- (2) **Appointment of proxy by non-registered Shareholders:** Non-registered Shareholders whose Shares are held through their intermediary (e.g. banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited, as the case may be) should consult directly with their intermediary regarding appointment of proxy or corporate representative before any relevant deadline as prescribed by their intermediary.
- (3) **Limiting attendance in person at the SGM venue:** The Company will limit attendance in person at the SGM venue depending on the public health situation at the time of the SGM and the guidance of the HKSAR Government.

Shareholders are reminded that physical attendance is not necessary for the purpose of exercising Shareholder's rights. The Company strongly encourages Shareholders to appoint the Chairperson of the SGM as their proxy by submitting their forms of proxy as stated above as soon as possible before the above deadline. In case Shareholders wish to attend the SGM in person or by a proxy of their choice, they or their proxies of their choice can still attend the SGM in person if such Shareholders are successful in registering to attend.

Any Shareholder (or his/her proxy or its corporate representative, as the case may be) who wishes to attend the SGM physically must pre-register his/her intention by completing and returning to the Company the pre-registration form. Such form can be obtained at the Company's principal place of business in Hong Kong at 28th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong during business hours or downloaded from the website of the Company (<https://www.EmpCulture.com>). Completed pre-registration form should be returned by hand or by post to the Company's principal place of business in Hong Kong as aforesaid at least 48 hours before the SGM time.

The right of the admission to the SGM venue will be allocated on first-come-first served basis. Duplicated registrations will be disregarded. Persons who have been allocated the right of admission to the SGM will be notified by email or by phone (if reachable). No notification will be sent to those who are not successful in obtaining the right of admission to the SGM venue in person.

PRECAUTIONARY MEASURES FOR THE SGM

- (4) **Questions at or prior to the SGM:** The SGM proceedings will be conducted with a view to focusing on the proposed resolution as set out in the notice of SGM. Shareholders are advised to contact the Company by email at 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.

(B) AT THE SGM

- (1) Compulsory temperature checks will be carried out on every attendee before entry to the SGM venue. Any person with a body temperature above the reference range quoted by the Department of Health from time to time, or is exhibiting flu-like symptoms or subject to any HKSAR Government prescribed quarantine may be denied entry into the SGM venue and be requested to leave the SGM venue, at the absolute discretion of the Company and to the extent permitted by law.
- (2) Every attendee must scan the “LeaveHomeSafe” QR code displayed in the venue prior to entry into the SGM venue and present his/her valid vaccination, exemption or recovery record as required under directions issued pursuant to the Prevention and Control of Disease (Vaccine Pass) Regulation (Chapter 599L of the Laws of Hong Kong).
- (3) Every attendee will be required to submit a completed and signed health declaration form (“**Form**”) prior to being admitted to the SGM venue. Please bring along the completed Form to the SGM venue to ensure smooth registration and certification processing. The Form can be downloaded from the website of the Company (<https://www.EmpCulture.com>).
- (4) Every attendee will be required to wear a surgical face mask throughout the SGM (including queuing for registration). Please note that no masks will be provided at the SGM venue and attendees should wear their own masks.
- (5) No refreshments, drinks or corporate gift will be served or distributed to attendees at the SGM venue.
- (6) Every attendee will be assigned a seat in order to ensure appropriate social distancing and facilitate close contact tracing. Staff at the SGM venue will also assist in crowd control and queue management to ensure appropriate social distancing.

In addition, attendees are requested to observe and practise good personal hygiene at all times at the SGM venue. To the extent permitted by law, the Company reserves the right to deny entry into the SGM venue or require any person to leave the SGM venue so as to ensure the health and safety of the attendees at the SGM.

Depending on the COVID-19 situation in Hong Kong, the Company may implement further procedures and precautionary measures and change the SGM arrangements at short notice. Shareholders should visit the websites of the Company (<https://www.EmpCulture.com>) and the Stock Exchange (<https://www.hkexnews.hk>) for future announcements and updates on the SGM arrangements.

DEFINITIONS

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

“Aggregate Annual Caps”	Aggregate Right-of-Use Annual Cap(s) and Aggregate Rental Expense Annual Cap(s)
“Aggregate Rental Expense Annual Cap(s)”	for the purpose of Chapter 14A of the Listing Rules and pursuant to HKFRS 16, the annual cap(s) for Variable Lease Payment and other short-term lease payment recognised as expenses incurred by the Group which are determined with the reference to the annual maximum amount of Variable Lease Payment and other short-term lease payment payable by the Group in respect of Tenancy and Licensing Transactions to be or expected to be entered into for each of the respective period(s) during the term under the Master Framework Agreement
“Aggregate Right-of-Use Annual Cap(s)”	for the purpose of Chapter 14A of the Listing Rules and pursuant to HKFRS 16, the annual cap(s) for Fixed Lease Payment which are determined with the reference to the annual maximum amount of the total value of right-of-use assets in respect of Tenancy and Licensing Transactions to be or expected to be entered into for each of the respective period(s) during the term under the Master Framework Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company” or “Lessee”	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
“connected person”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Definitive Agreement(s)”	definitive agreement(s) which may be entered into between any member(s) of the Group and any member(s) of the Lessor Group from time to time in relation to any of the Tenancy and Licensing Transactions at any time during the term of the Master Framework Agreement
“Directors”	the directors of the Company
“Fixed Lease Payment”	a fixed dollar amount of periodic rental/license fee payable by the Group under the Definitive Agreement(s)
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong” or “HKSAR”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board, comprising all of the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Aggregate Annual Caps and the transactions contemplated under Master Framework Agreement
“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 Master Framework Agreement and Aggregate Annual Caps
“Independent Shareholder(s)”	Shareholder(s) who do not have material interests in the transaction contemplated under Master Framework Agreement
“Latest Practicable Date”	12 August 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

DEFINITIONS

“Lessor” or “AY Entertainment Holdings”	Albert Yeung Entertainment Holdings Limited, an investment holding company incorporated in the British Virgin Islands and held by a private discretionary trust as set up by Dr. Yeung Sau Shing, Albert and being a substantial Shareholder
“Lessor Group”	the Lessor and its subsidiaries, excluding the Group
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Master Framework Agreement”	the master framework agreement dated 15 July 2022 entered into between the Company and the Lessor
“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 Monday, 5 September 2022 at 11:30 a.m. to consider and, if think fit, to approve the Master Framework Agreement and the transactions contemplated thereunder together with the Aggregate Annual Caps
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Shares
“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)
“Tenancy and Licensing Transaction(s)”	all future tenancy and/or licensing transaction(s) and any sub-let or sub-licensing transaction(s) between member(s) of the Lessor as landlord(s)/licensor(s) (as applicable) and member(s) of the Group as tenant(s)/licensee(s) (as applicable) for leasing or licensing the Lessor Group’s properties, assets and any right-of-use as contemplated under the Master Framework Agreement and/or the Definitive Agreement(s)
“Variable Lease Payment”	a variable amount of payment linked to revenue generated from the leased or licensed properties payable to the Lessor Group by the Group under the Definitive Agreement(s)
“%”	per cent

LETTER FROM THE BOARD



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

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent Non-executive Directors

Ms. Chan Sim Ling, Irene
Mr. Ho Tat Kuen
Ms. Tam Sau Ying

*Head Office and Principal Place of
Business in Hong Kong:*

28th Floor
Emperor Group Centre
288 Hennessey Road
Wanchai
Hong Kong

18 August 2022

To the Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS – MASTER FRAMEWORK AGREEMENT

INTRODUCTION

On 15 July 2022, the Company as lessee, entered into the Master Framework Agreement with the Lessor, whereby any member(s) of the Group may from time to time enter into Definitive Agreement(s) in relation to any Tenancy and Licensing Transactions with any member(s) of the Lessor Group for the business development and the expansion of the cinema network of the Group.

The purpose of this circular is to provide you with (i) further information on the Aggregate Annual Caps and the Master Framework Agreement; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of the SGM.

LETTER FROM THE BOARD

THE MASTER FRAMEWORK AGREEMENT

Date

15 July 2022

Parties

- (1) the Lessee; and
- (2) the Lessor

Term

15 July 2022 to 30 June 2025

General terms of the Master Framework Agreement

Relevant member(s) of the Group and the relevant member(s) of the Lessor Group may from time to time enter into the Definitive Agreement(s) in relation to any Tenancy and Licensing Transaction upon, and subject to, the terms and conditions in compliance with the Master Framework Agreement, provided that:

- (a) all the Tenancy and Licensing Transactions shall be conducted in the ordinary and usual course of business of the Group and are in the interest of the Company and the Shareholders as a whole;
- (b) the terms of each Definitive Agreement shall be on normal commercial terms, fair and reasonable or on terms which are no less favourable to the Group than terms offered by independent third parties;
- (c) the terms of the Tenancy and Licensing Transactions shall be arrived at after arm's length negotiation and the terms, rental and licence fees under the respective Definitive Agreements shall be determined based on the condition of the properties with reference to the then prevailing market rents or licence fees on properties comparable in location, area and permitted use;
- (d) all the Tenancy and Licensing Transactions shall be concluded in compliance with all applicable provisions of the Listing Rules, the applicable laws, the Master Framework Agreement and relevant Definitive Agreements; and
- (e) the members of the Group have full discretion to accept or decline the offer made by the Lessor Group and are free to consider other offers from third party landlords and premises.

LETTER FROM THE BOARD

The Master Framework Agreement sets out a framework for all Tenancy and Licensing Transactions (including leasing of premises for cinema operation and licensing of the signage and signboard spaces). The terms and conditions of each of the Definitive Agreement (including the basis of determination of rental and license fees) shall be negotiated individually and subject to the general terms as set out above. Hence, the payment terms of the rental and license fees shall be determined in line with the market practice.

Aggregate Annual Caps

In accordance with HKFRS 16 “Leases”, the Group is required to recognise a right-of-use asset and a lease liability, which are measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate in the year of entering into the lease where the Group acts as a lessee. Correspondingly, the Group is required to set annual caps on the total value of right-of-use assets relating to leases expected to be entered into by the Group as a lessee in each period/year under the Master Framework Agreement.

In addition, according to HKFRS 16 “Leases”, the Variable Lease Payment under Tenancy and Licensing Transactions will be recognized as expenses incurred by the Group. The annual caps for Variable Lease Payment and other short-term lease payment will be recognized as expenses which are determined with the reference to the annual maximum amount of Variable Lease Payment and other short-term lease payment payable by the Group in respect of Tenancy and Licensing Transactions in each period/year under the Master Framework Agreement.

Set out below are proposed Aggregate Annual Caps under the Master Framework Agreement for the period from the date of the Master Framework Agreement to 30 June 2023 and the years ending 30 June 2024 and 2025:

	For the period from the date of the Master Framework Agreement to 30 June 2023	For the years ending 30 June	
	<i>HK\$'000</i>	2024 <i>HK\$'000</i>	2025 <i>HK\$'000</i>
Aggregate Right-of-Use Annual Cap	400,000	420,000	440,000
Aggregate Rental Expense Annual Cap	5,000	16,000	29,000

Aggregate Annual Caps represent the estimated respective maximum values of (i) the right-of-use assets relating to leases to be or expected to be entered into by the Group in the respective period(s) of the term under the Master Framework Agreement; and (ii) the Variable Lease Payments and other short-term lease payments payable by the Group in respect of Tenancy and Licensing Transactions in the respective period(s) of the term under the Master Framework Agreement.

LETTER FROM THE BOARD

The Aggregate Annual Caps have been determined after taking into account:

- (i) the business development and expansion plan of the Group to expand its cinema network in Hong Kong and mainland China and the possibility of entering into new Tenancy and Licensing Transactions with the Lessor Group under the Master Framework Agreement in the forthcoming years;
- (ii) the historical right-of-use assets value recognised and variable lease payments paid to third party landlords in respect of the tenancy and licensing transactions of existing cinemas of the Group;
- (iii) the premises and any potential premises of the Lessor Group which could be available for leasing to the relevant members of Group in the future; and
- (iv) the expected market rental level of cinemas with reference to similar properties in Hong Kong and mainland China and the trend in market rent in general.

In particular, the following factors have been considered in determining the Aggregate Annual Caps:

- (i) the Group has always been exploring opportunities to expand its cinema network, especially within the mainland China. As disclosed in annual report of the Company for the year ended 30 June 2021 and the interim report of the Company for the six months ended 31 December 2021, three and two cinemas were newly opened during the respective period. The management of the Group remains positive towards the outlook of film exhibition market in the long-run and, subject to the then market condition, will continue to expand its cinema network with a similar pace in the forthcoming years;
- (ii) subject to the availability of the premises, having considered the attributes of the premises (such as location and gross floor area) and the terms of the offer from the Lessor Group and third party landlords, the Group may or may not enter into any Definitive Agreement with the Lessor or may solely expand its cinema network by leasing the Lessor's premises depending on the terms of offers if no other suitable premises is available or if other suitable premises is available but the terms of the Definitive Agreement are not less favourable. Should the premises and the leasing terms offered by the Lessor and a third party landlord are identical, the Group has no preference for/against one and other;
- (iii) as at the Latest Practicable Date, the Group has negotiated and entered into six leases with third party landlords for cinema operation in Hong Kong, all of which were entered between the financial year ended 30 June 2018 and the financial year ended 30 June 2021. The total right-of-use assets initially recognised for these six leases amounted to approximately HK\$735 million and, for each lease, ranged from approximately HK\$59 million to approximately HK\$253 million;

LETTER FROM THE BOARD

- (iv) as at the Latest Practicable Date, the Group has negotiated and entered into nine leases with third party landlords for cinema operation in mainland China, all of which were entered between the financial year ended 30 June 2015 and the financial year ended 30 June 2022. The total right-of-use assets initially recognised for these nine leases amounted to approximately HK\$400 million and, for each lease, ranged from approximately HK\$28 million to approximately HK\$102 million;
- (v) for the purpose of determining the Aggregate Right-of-Use Annual Caps, the management of the Group has estimated the right-of-use assets to be recognised with reference to the respective historical information for the Group's existing cinema network in Hong Kong and mainland China, including (i) the average annual rent payable to third party landlords of approximately HK\$17.6 million and HK\$4.4 million for the Group's existing cinema network in Hong Kong and mainland China respectively; (ii) the average number of seats of approximately 711 seats and 1,371 seats for the Group's existing cinema network in Hong Kong and mainland China respectively; (iii) the average term of the leases with third party landlords of approximately 10 years and 14 years for the Group's existing cinema network in Hong Kong and mainland China respectively; and (iv) the incremental borrowing rate of 3.0% of the Group;
- (vi) Variable Lease Payment, in general, shall only be payable when the gross proceeds of the box office and tickets sold exceed the base rent, the variable lease payment paid to third party landlords amounted to approximately HK\$1.1 million for the year ended 30 June 2021. In light of the outbreak of pandemic, the historical variable lease payments paid to third party landlords may not be an accurate indicator in determining the Aggregate Rental Expense Annual Cap. Alternatively, in determining the Aggregate Rental Expense Annual Caps, the management of the Group has made reference to the average turnover rent rates chargeable by third party landlords to the Group in relation to the cinemas in Hong Kong and mainland China; and
- (vii) the general assumption of an annual increase in market rental level of cinemas of approximately 5.0% for the three years ending 30 June 2025, which is generally in line with growth of the private retail price and retail indices in Hong Kong as published by Rating and Valuation Department and the growth of the gross domestic product of the PRC as published by the National Bureau of Statistic of the PRC.

Based on the above, the Board is of the view that the proposed Aggregate Annual Caps are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

CONTROL PROCEDURES TO ASSESS TENANCY AND LICENCING TRANSACTIONS

The Group will follow a series of procedures in selecting the premises and determining the rental/licence fee and terms of the tenancies/licencing. When the management of the Group is about to open a new cinema which requires new premises, the operation team of the Group will conduct site visits and source available properties in selected location. The Group will assess the potential of the selected location and consider the factors, like, competition, population growth, strategic consideration and estimated investment costs. The Group will assess the rental/licence fee and obtain comparable information for the determination of terms of tenancy/licencing. Given the nature of cinema operation, it is rare that there is more than one premise in a close proximity available for the Group to lease at the same time. Therefore, in assessing the fairness of the rental and terms of the tenancies, the Group will (i) make reference to the existing tenancies that the Group had entered into with third party landlords; and (ii) obtain comparable information of the cinemas operated in the vicinity of the target premise such as the term of the tenancies and the unit rate per seat. The rental of cinema premises are variable to attributes such as geographical location, term of the tenancy, the time of entering into the tenancy, the number of houses and seats and the estimated attendance of the cinema. Should the attributes of the target premise are similar to that of the comparable information, the management of the Group will ensure that the rental and license fee will be not less favourable to the comparable information. The number of the comparable cinemas highly depends on the location of the target premise and the number of existing cinemas nearby. Should there be only a few cinemas, if not none, in the vicinity, the management of the Group will extend the range and obtain the comparable information of the existing cinemas further away from the premise and make reference to such information with necessary adjustment. Should there be no comparable information available, the Group may engage independent property appraiser to prepare valuation reports and conduct internal research to assess the valuation. After the operation team gathers and analyses the aforesaid information of the proposed tenancy/licencing, the management of the Group will review and approve the tenancy/licencing. With such internal approval, a tenancy/licence agreement (or the Definitive Agreement if the lessor or licensor is a member of the Lessor Group) will be entered into between relevant parties.

The Directors consider that adequate procedures have been in place to ensure the Definitive Agreements to be entered into are under normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

The Company will monitor the utilisation of the proposed Aggregate Annual Caps to ensure that such caps would not be exceeded. In particular, the Company has set up a compliance committee (comprising representatives from operations, finance and accounts department and legal and secretary department) and has implemented a set of internal control policies such as obtaining an internal approval for each Tenancy and Licencing Transaction by assessing, among others, the amount attributable to and the remaining balance of the Aggregate Annual Caps. Should the proposed Tenancy and Licencing Transaction would result in the utilisation of the Aggregate Annual Caps more than 90%, the head of the finance department will be responsible to alert the compliance committee. The Company's auditors and independent non-executive Directors will review the tenancy and licencing transactions annually in accordance with Rule 14A.55 and Rule 14A.56 of the Listing Rules respectively.

REASONS FOR AND BENEFITS OF THE MASTER FRAMEWORK AGREEMENT

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.

In recent years, the Group has been devoted in expanding its cinema network through its label "*Emperor Cinemas*". The Group's cinema network under "*Emperor Cinemas*" has grew from 5 cinemas offering over 6,200 seats as at 31 December 2018 to 16 cinemas offering approximately 17,400 seats as at 31 December 2021 globally, in particular Hong Kong and mainland China. Riding on the current development momentum, the management of Group targets to further enlarge the layout of the Group's cinema network, and it is expected to continue the expansion of the cinema network in 2023 to 2025. Looking ahead, despite the ongoing COVID-19 and the implementation of various social distancing measures hindered the development of the movie industry, the Group remains positive towards the outlook of film exhibition market in the long-run. With the good progress on the implementation of vaccination programme and effective precautionary measures in both Hong Kong and mainland China, along with a number of blockbusters by major studios potentially in the forthcoming years, the Group believes that movie industry will continue to recover in the near term. As such, amid the volatile economic environment, the Group will continue to expand its cinema network and seize the opportunities to enlarge its business network in order to expand the revenue base. The Group will continue to position its cinemas as high-end premium cinemas and explore the available premises located in either large-scale commercial and entertainment complex or upscale residential area. With its long-established "*Emperor*" brand label, the Group will strive to strengthen its core competency as well as its position in the industry.

The Master Framework Agreement sets out a framework of the terms governing the Tenancy and Licensing Transaction(s) to be entered into between the Group and the Lessor Group which shall be conducted in the ordinary and usual course of business on normal commercial terms, negotiated on arm's length basis, be fair and reasonable, and on terms no less favourable to the Group than those terms offered by independent third parties.

LETTER FROM THE BOARD

In addition, the Master Framework Agreement serves to streamline the relevant process of reporting, announcement and, if necessary, Independent Shareholders' approval process whenever there is a new Tenancy and Licensing Transaction between the Group and the Lessor Group. The obtaining of the Aggregate Annual Caps can help reducing the administrative burden and costs to be borne by the Company in complying with the requirements under the Listing Rules from time to time.

The Directors (excluding the independent non-executive Directors who will provide their views based the opinion of the Independent Financial Adviser as set out in this circular) consider that the Master Framework Agreement has 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, and that the Aggregate Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Lessor is the controlling Shareholder which owns approximately 73.80% equity interest in the Company. As such, the Lessor is a connected person of the Company and accordingly, the Master Framework Agreement constitutes a continuing connected transaction of the Company. As the applicable percentage ratios (as defined in the Listing Rules) calculated with reference to the Aggregate Annual Caps are more than 5% and exceed HK\$10,000,000, the Aggregate Annual Caps are subject to the announcement, reporting and annual review requirements and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

As the Definitive Agreement(s) may exceed three years, pursuant to Rule 14A.52 of the Listing Rules, the Company has appointed Pelican as the Independent Financial Adviser to explain why the Definitive Agreement(s) may require a longer period and to confirm that it is normal business practice for similar type of agreements, the details of which are set out in the "**Letter from Pelican**".

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of terms of the Master Framework Agreement and the transactions contemplated thereunder together with the Aggregate Annual Caps and the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

Mr. Yeung Ching Loong, Alexander, an executive Director, did abstain from voting on the relevant Board resolution of the Company in view of his deemed interest in the transactions by virtue of being one of the eligible beneficiaries of the private discretionary trusts that controls the Lessor.

Mr. Wong Chi Fai and Ms. Fan Man Seung, Vanessa, being the executive Directors, did abstain from voting on the relevant Board resolution of the Company in view of their management role in both the Company and the Lessor Group.

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 regarding the transactions.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISOR

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 Master Framework Agreement and the Aggregate Annual Caps are fair and reasonable; (ii) whether the transactions contemplated under the Master Framework Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) how to vote on the proposed resolution. 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 at 2nd Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong on Monday, 5 September 2022 at 11:30 a.m. is set out from pages SGM-1 to SGM-3 of this circular. Ordinary resolution (the “**Resolution**”) will be proposed at the SGM for the Independent Shareholders to approve the Master Framework Agreement and the transactions contemplated thereunder together with the Aggregate Annual Caps.

As at the Latest Practicable Date, the Lessor is the controlling Shareholder which owns approximately 73.80% equity interest in the Company. Accordingly, the Lessor 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>). Whether or not you intend to attend and vote at the SGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company’s Branch Share Registrar, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible, but in any event not less than 48 hours before the time of the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting (as the case may be) should you subsequently so wish and in such event, the form of proxy previously submitted shall 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before 4:30 p.m. on Tuesday, 30 August 2022.

LETTER FROM THE BOARD

RECOMMENDATION

The Board is of the view that the terms of the Master Framework Agreement has 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 33 of this circular which contains its advice to the Independent Board Committee and Independent Shareholders in relation to the Master Framework Agreement and the transactions contemplated thereunder together with the Aggregate Annual Caps as well as the principal factors and reasons considered by it in arriving its opinions.

Pelican has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the Master Framework Agreement and the Aggregate Annual Caps. The text of the letter of the advice from Pelican containing its recommendation and the principal factors it has taken into account in arriving at its recommendation are set out on pages 17 to 33 of this circular.

The Independent Board Committee, having taken into account the advice of Pelican, considers that the terms of the Master Framework Agreement and the Aggregate Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. The full text of the letter from the Independent Board Committee is set out on page 16 of this circular.

ADDITIONAL INFORMATION

Your attention is drawn to the Letter from the Independent Board Committee, the Letter from Pelican and the information set out in the Appendix to this circular.

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation from Independent Board Committee to Independent Shareholders in relation to the Master Framework Agreement and the Aggregate Annual Caps 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)

18 August 2022

To the Independent Shareholders of Emperor Culture Group Limited

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS – MASTER FRAMEWORK AGREEMENT

We refer to the circular of the Company to the Shareholders dated 18 August 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 Master Framework Agreement and the Aggregate Annual Caps. 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 33 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 Appendix 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 Master Framework Agreement 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 Master Framework Agreement are on normal commercial terms whilst the Aggregate Annual Caps are fair and reasonable so far as the Company and 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 Master Framework Agreement and the transactions contemplated thereunder together with the Annual Caps.

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

Chan Sim Ling, Irene

Ho Tat Kuen
Independent Non-executive Directors

Tam Sau Ying

LETTER FROM PELICAN

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and Independent Shareholders in respect of the terms of the Master Framework Agreement, the transactions contemplated thereunder and the Aggregate Annual Caps, and has been prepared for the purpose of incorporation in this circular.



PELICAN FINANCIAL LIMITED

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

18 August 2022

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

Dear Sirs/Madams,

CONTINUING CONNECTED TRANSACTIONS – MASTER FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Aggregate Annual Caps and the transactions contemplated under the Master Framework Agreement, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 18 August 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 15 July 2022, the Company as lessee and the Lessor, entered into the Master Framework Agreement, pursuant to which, any member(s) of the Group may, from time to time, enter into Definitive Agreement(s) in relation to any Tenancy and Licensing Transactions with any member(s) of the Lessor Group for the business development and the expansion of the cinema network of the Group.

LETTER FROM PELICAN

As at the date of this letter, the Lessor is the controlling Shareholder which owns approximately 73.80% equity interest in the Company. As such, the Lessor is a connected person of the Company and accordingly, the Master Framework Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

In addition, pursuant to Rule 14A.52 of the Listing Rules, as the term of the Definitive Agreement(s) may exceed three years, the Company has engaged us to explain why the Definitive Agreement(s) may require a longer period and to confirm that it is a normal business practice for similar type of agreements.

Mr. Yeung Ching Loong, Alexander, an executive Director, had abstained from voting on the relevant Board resolution of the Company in view of his deemed interest in the transactions by virtue of being one of the eligible beneficiaries of the private discretionary trusts that controls the Lessor.

Ms. Fan Man Seung, Vanessa and Mr. Wong Chi Fai, being the executive Directors, had also abstained from voting on the relevant Board resolution of the Company in view of their management role in both the Company and the Lessor Group.

As the applicable percentage ratios (as defined in the Listing Rules) calculated with reference to the Aggregate Annual Caps are more than 5% and exceed HK\$10,000,000, the Aggregate Annual Caps are subject to the announcement, reporting and annual review requirements and Independent Shareholders' approval under Chapter 14A of 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 Aggregate Annual Caps and the transactions contemplated under Master Framework Agreement. 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 or substantial Shareholders of the Company 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, other than our engagement by the Company to act as its independent financial advisor in respect of its major and connected transaction as disclosed in its circular dated 25 March 2022, there was no other engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment of us as the Independent Financial Adviser, no arrangement exists whereby Pelican will receive any fees or benefits from the Company or the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates.

LETTER FROM PELICAN

Our role is to provide you with our independent opinion and recommendation as to (i) whether the Master Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better and were entered into in the ordinary and usual course of business of the Group; (ii) whether the Aggregate Annual Caps and the transactions contemplated under the Master Framework Agreement 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 Aggregate Annual Caps and the transactions contemplated under the Master Framework Agreement 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 opinion 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, 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. In forming our opinion, we have reviewed documents, including but are not limited to, (i) the annual report of the Company for the year ended 30 June 2021 (the “**2021 Annual Report**”); (ii) the interim report of the Company for the six months ended 31 December 2021 (the “**2021 Interim Report**”); (iii) the Master Framework Agreement; (iv) the schedule of the historical right-of-use assets recognised and its variable lease payments paid to third party landlords; (v) the preliminary business development and expansion plan of the Group; (vi) industry research regarding the film exhibition industry in Hong Kong and mainland China conducted by professional bodies including the China Film Administration, iiMedia Research, the Hong Kong Trade Development Council and PwC Hong Kong; (vii) economic data published by the National Bureau of Statistics of the PRC; (viii) the announcement of the Company dated 15 July 2022; and (ix) the Circular. We have assumed that all information and representations that have been provided to us 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.

LETTER FROM PELICAN

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 Aggregate Annual Caps and the transactions contemplated under the Master Framework Agreement, we have considered the following principal factors and reasons:

1. Background of the Master Framework Agreement

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.

Set out below is a breakdown of the Group's revenue and other financial information for the two years ended 30 June 2021 and the six months ended 31 December 2020 and 31 December 2021 as extracted from the 2021 Annual Report and the 2021 Interim Report, respectively:

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

	For the year ended 30 June		For the six months ended 31 December	
	2021 (Audited) HK\$'000	2020 (Audited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Cinema operation				
Box office takings	164,097	100,851	159,997	63,503
Sale of concession goods	11,684	11,859	7,752	4,611
Screen advertising services	7,116	7,348	4,554	1,913
Others*	10,011	6,187	8,681	2,072
Total revenue	192,908	126,245	180,984	72,099
Gross profit	111,172	75,903	107,804	39,642
Loss for the year/period	228,078	353,226	99,940	128,131

LETTER FROM PELICAN

- * *Others mainly include service fees received from third parties in relation to joint promotion campaigns, house-booking income and membership fee income. The increase is primarily due to the newly launched promotion campaign with a third party in March 2021, which contributed approximately HK\$2.5 million and approximately HK\$6.5 million for the year ended 30 June 2021 and the six months ended 31 December 2021 respectively.*

According to the 2021 Annual Report, 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 in 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 11 as at 30 June 2020 to 14 as at 30 June 2021. During the year ended 30 June 2021, the Group had continued to adopt various measures to alleviate the adverse impacts caused by the Covid-19 pandemic (the "**Pandemic**"). Such measures included negotiating with landlords for rent reductions, implementing staff cost-saving measures, improving customers' experience, and launching various promotional programs. With an increase in total revenue, 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 from approximately HK\$353.2 million for the previous year.

On the other hand, according to the 2021 Interim Report, the Group's total revenue increased by approximately HK\$108.9 million or 151.0%, from approximately HK\$72.1 million for the six months ended 31 December 2020 to approximately HK\$181.0 million for the six months ended 31 December 2021. The increase was mainly attributable to the improved business performance due to the easing of social distancing measures, as well as the release of more blockbuster movies. During the period, the Group had also increased its selling, marketing, and other cinema operating expenses as well as general and administrative expense to launch various promotional programs with an aim to increase the number of patrons. As a result of the increase in its total revenue during the six months ended 31 December 2021, the Group's net loss for the period was reduced to approximately HK\$99.9 million from approximately HK\$128.1 million for the previous period.

LETTER FROM PELICAN

Meanwhile, set out below is a summary of the Group's financial position as at 30 June 2021 and 31 December 2021 as extracted from the 2021 Interim Report:

Table 2: Financial position of the Group

	As at 31 December 2021 (Unaudited) HK\$'000	As at 30 June 2021 (Audited) HK\$'000
Total assets		
– Non-current assets	1,586,289	1,615,191
– Current assets	205,563	110,556
Total liabilities		
– Non-current liabilities	1,573,516	1,473,595
– Current liabilities	260,517	199,127
Net current liabilities	54,954	88,571
Net assets/(liabilities)	(42,181)	53,025
Gearing ratio	26.8%	19.3%

As shown in the above table, the Group recorded net liabilities of approximately HK\$42.2 million as at 31 December 2021, as compared with net assets of approximately HK\$53.0 million as at 30 June 2021, which was mainly attributable to (i) the decrease in its non-current assets of approximately HK\$28.9 million or 1.8% as a result of the decrease in its right-of-use assets of approximately HK\$55.6 million; and (ii) the increase in its non-current liabilities of approximately HK\$99.9 million or 6.8% as a result of the increase in its interest-bearing bank and other borrowings of approximately HK\$135.1 million, and the increase in its provisions of approximately HK\$5.0 million.

Despite its turn from a net-assets to a net-liabilities position, the Group recorded a notable drop in its net current liabilities of approximately HK\$33.6 million or 38.0% between 30 June 2021 and 31 December 2021, mainly because of the increase in its current assets of approximately HK\$95.0 million or 85.9% between the two dates. In particular, the Group's cash and cash equivalents increased by approximately HK\$78.9 million or 138.8%, from approximately HK\$56.9 million as at 30 June 2021 to approximately HK\$135.8 million as at 31 December 2021. Because of the above, the Group's current ratio (calculated by dividing its current assets by its current liabilities) as at 31 December 2021 was about 78.9%, which was much higher than that of about 55.5% as at 30 June 2021, suggesting that the Group had more liquid resource to fulfil its financial obligations in the coming 12 months.

LETTER FROM PELICAN

1.2. Information of the Lessor

The Lessor is an investment holding company incorporated in the British Virgin Islands and held by a private discretionary trust as set up by Dr. Yeung Sau Shing, Albert. The Lessor is also a substantial Shareholder.

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 the mainland China and Hong Kong. With the hope of more relaxed anti-Pandemic measures and the recovery of the entertainment market, it is expected that the film exhibition industry will be revived in a short period of time.

According to the information released by the China Film Administration, the official film administration department of the PRC government, China's film exhibition industry was undergoing a rapid recovery in 2021 and had 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-Pandemic 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 approximately 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 total box office revenue in Hong Kong recorded approximately HK\$537 million in 2020, down by approximately 72.1% from approximately HK\$1,923 million in 2019 due to the Pandemic.³

¹ Please refer to the website of China Film Administration at <https://www.chinafilm.gov.cn/chinafilm/contents/142/4075.shtml>

² Please refer to the data from iiMedia Research, a third-party data mining and analysis organization for new economic industries, at <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 data published by Hong Kong Trade Development Council at <https://research.hktdc.com/en/article/MzExMjc4NDIz>

⁴ Please refer to "Global Entertainment & Media Outlook 2022-2026: Hong Kong summary" published by PwC in June 2022 at <https://www.pwchk.com/en/tmt/gemo-hk-media-2022-2026.pdf>

LETTER FROM PELICAN

However, a speedy revival in the movie industry was observed once the anti-Pandemic measures were released in 2021. Based on the research conducted by PwC Hong Kong in June 2022, the movie box revenue reached approximately US\$157 million (equivalent to approximately HK\$1,224.6 million) in 2021, which was about 128.0% of the previous year. Although cinemas were required to close for several months in the beginning of 2022, it is expected that the revenue will exceed pre-Pandemic levels by 2024. Furthermore, it is expected that the film exhibition industry's revenue in Hong Kong will recover to US\$269 million (equivalent to approximately HK\$2,098.2 million) in 2026, at a CAGR of 11.3% from 2021 to 2026.⁴

3. Reasons for and benefits of the Master Framework Agreement

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. In this regard, the Group believes the entering into of the Master Framework Agreement with the Lessor Group will help the Group strengthen its businesses by expanding its presence in the Greater China region more efficiently and ensuring that it will have accesses to a stable supply of cinema premises when needed.

Based on our abovementioned online industry research, we consider 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 that the Group will be able to seize opportunities for business development to be brought by such industry revival. We consider that the entering into of the Master Framework Agreement would provide the Group with flexibility to capture market opportunities, in that while it ensures the Group could gain accesses to additional cinema premises in a timely manner, it also allows the Group to have full discretion to accept or decline the offer made by the Lessor Group and be free to consider other offers from third party landlords and premises. We consider such arrangement as in the interests of the Company and the Shareholders as a whole in light of the current uncertain business environment because of the Pandemic, in that there is no obligation for the Group to lease such premises against its will, but only opportunities for it to take should it consider them beneficial for its growth.

As advised by the management of the Group, despite the drop in the Group's net current liabilities and the improvement in its current ratio (as discussed in the above sub-section headed "Information of the Group" under the section headed "Background of the Master Framework Agreement" in this letter), the management is aware that it should strive to restore the Group's net-assets position. In fact, this was one of the main reasons behind the Company's entering into the Master Framework Agreement, given that after all, one of the two principal businesses of the Group is cinema operation. Since the amount of revenue that a cinema can earn is limited by its capacity, cinema expansion is not only a reasonable strategy for the Group to drive business growth and improve its financial position, but also an exercise that is in the ordinary and usual course of business of the Group. In this regard, the management expects, and we agree that, once the public returns to its normal leisure life, the Group's existing and newly opened cinemas will begin to bring in more revenue, thereby improving the Group's financial position.

LETTER FROM PELICAN

Nonetheless, in light of the current uncertain market environment, we understand that the Group's management would continue to act prudently and with caution when it comes to making business decisions, and it would assess the Group's financial position from time to time in order to decide if that is a suitable time for expansion. Given that the Group is not obliged to lease any premises under the Master Framework Agreement, the management considers, and we concur, the entering into of the Master Framework Agreement poses no financial pressure on the Group, but instead provides flexibility for the Group's business development.

Finally, given that the Master Framework Agreement sets out a framework of terms on which the Group may enter into certain lease agreements with the Lessor Group, we are of the view that the entering into of the Master Framework Agreement would, should appropriate opportunities arise, streamline the whole process of leasing, as well as reporting, announcement and Independent Shareholders' approval (if necessary) for the Group, and hence reduce its administrative costs.

Taking into account that (i) the entering into of the Master Framework Agreement will help the Group (a) expand its presence in the Greater China region more efficiently; (b) ensure its accesses to a stable supply of cinema premises when needed; and (c) capture market opportunities flexibly; (ii) the Master Framework Agreement will govern the Tenancy and Licensing Transactions between the Group and the Lessor Group and also serve to streamline the relevant process of reporting, announcement and Independent Shareholders' approval (if necessary); (iii) the various factors that were referenced in determining the Aggregate Annual Caps which are discussed in the below section headed "Evaluation of the Aggregate Annual Caps" in this letter are reasonable; (iv) the approval for the Aggregate Annual Caps will help to reduce the relevant administrative burden and costs borne by the Company when complying with the Listing Rules; (v) the Definitive Agreement will be agreed on an arm's length basis, on normal commercial terms or on terms no less favourable to the Group than those terms offered by independent third parties; and (vi) the Group is principally engaged in entertainment, media and cultural development businesses, and hence the entering into of the Master Framework Agreement is in the ordinary and usual course of business of the Group, we are of the view that the entering into of the Master Framework Agreement 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.

4. Principal terms of the Master Framework Agreement

Below summarises the principal terms of the Master Framework Agreement:

Date:	15 July 2022
Parties:	(1) the Lessee; and (2) the Lessor
Term:	15 July 2022 to 30 June 2025

LETTER FROM PELICAN

General terms of the Master Framework Agreement

Relevant member(s) of the Group and the relevant member(s) of the Lessor Group may from time to time enter into Definitive Agreement(s) in relation to any Tenancy and Licensing Transactions upon, and subject to, the terms and conditions of the Master Framework Agreement, provided that:

- (a) all the Tenancy and Licensing Transactions shall be conducted in the ordinary and usual course of business of the Group and are in the interest of the Company and the Shareholders as a whole;
- (b) the terms of each Definitive Agreement shall be on normal commercial terms, fair and reasonable or on terms which are no less favourable to the Group than terms offered by independent third parties;
- (c) the terms of the Tenancy and Licensing Transactions shall be arrived at after arm's length negotiation and the terms, rental and licence fees under the respective Definitive Agreements shall be determined based on the condition of the properties with reference to the then prevailing market rents or licence fee on properties comparable in location, area and permitted use;
- (d) all the Tenancy and Licensing Transactions shall be concluded in compliance with all applicable provisions of the Listing Rules, the applicable laws, the Master Framework Agreement and relevant Definitive Agreements; and
- (e) the members of the Group have full discretion to accept or decline the offer made by the Lessor Group and are free to consider other offers from third party landlords and premises.

The Master Framework Agreement sets out a framework for all Tenancy and Licensing Transactions (including leasing of premises for cinema operation and licensing of the signage and signboard spaces). The terms and conditions of each of the Definitive Agreements (including the basis of determination of rental and license fees) shall be negotiated individually and subject to the general terms as set out above. Hence, the payment terms for the rental and license fees shall be determined in line with the market practice.

5. Evaluation of the principal terms of the Master Framework Agreement

In assessing the fairness and reasonableness of the principal terms of the Master Framework Agreement, we have reviewed the Master Framework Agreement and noted that it is stipulated that the Group and the relevant members of the Lessor Group shall enter into Definitive Agreement(s) in relation to any Tenancy and Licensing Transactions between them.

LETTER FROM PELICAN

Terms under each Definitive Agreement shall be determined after arm's length negotiations and on normal commercial terms or terms no less favourable to the Group than those terms offered by independent third parties. In addition, the terms, rental and licence fees shall be determined based on the condition of the properties and with reference to the then prevailing market rents or licence fees on properties comparable in location, area and permitted use.

In formulating our opinion on the Definitive Agreements pursuant to Rule 14A.52 of the Listing Rules, we have considered the following principal factors and reasons:

- (i) Referenced to the existing tenancies that the Group had entered into with third-party landlords, the duration of the tenancies ranged between 8 and 15 years, hence the duration of more than three years is common in the cinema-leasing market;
- (ii) We have also researched and identified two comparable companies listed on the Stock Exchange, namely eSun Holdings Limited (stock code: 571) and Orange Sky Golden Harvest Entertainment (Holdings) Limited (stock code: 1132),⁵ which operated an aggregate of 57 cinemas in Hong Kong and the PRC as at the Latest Practicable Date. We noted from similar transactions of these two comparable companies in the past three years that, the duration for premises leased for cinema operation, in general, was longer than three years and ranged from 10 to 15 years;
- (iii) The long-term lease tenure is commercially desirable to the Group as it would allow the Group to achieve breakeven in its investment in premium facilities, such as sound systems and interior decoration, in the premises to be leased; and
- (iv) It is in line with the Group's long-term strategy and would enable the Group to benefit from the positive outlook of the film exhibition industry.

In light of the above, we are of the opinion that (i) a duration of more than three years is required for the Definitive Agreements; and (ii) it is a normal business practice for agreements with natures similar to the Definitive Agreements to have a duration of more than three years.

Having considered the above, as well as the control procedures to assess the Tenancy and Licensing Transactions and our evaluation of the Aggregate Annual Caps as discussed below, we are of the view that the Master Framework Agreement is on normal commercial terms and that the principal terms thereof 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.

⁵ Please refer to the respective announcement and circular: <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0731/2020073101784.pdf>; and <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0820/ltn20190820165.pdf>

LETTER FROM PELICAN

6. Control procedures to assess Tenancy and Licensing Transactions

To safeguard the interests of the Company and the Shareholders as a whole, including the Independent Shareholders, the Group will follow a series of procedures in selecting the premises and determining the rentals/licence fee and terms of the tenancies/licencing. When the management of the Group is about to open a new cinema that requires new premises, the operation team of the Group will conduct site visits and source available properties in the selected location. The Group will assess the potential of the selected location and consider factors including competition, population growth, and estimated investment costs. The Group will assess the rental/licence fee and obtain comparable information for the determination of terms of tenancy/licencing. Given the nature of cinema operation, it is rare that there is more than one premise in close proximity available for the Group to lease at the same time. Therefore, in assessing the fairness of the rental and terms of the tenancies, the Group will (i) make reference to the existing tenancies that the Group had entered into with third party landlords; and (ii) obtain comparable information of the cinemas operated in the vicinity of the target premise such as the term of the tenancies and the unit rate per seat. The rental fee of cinema premise is variable to attributes such as geographical location, term of the tenancy, the timing of entering into the tenancy, the number of screens and seats and the estimated attendance of the cinema. Should the attributes of the target premise be similar to that of the comparable information, the management of the Group will ensure that the rental and license fee will be not less favourable to the comparable information. The number of the comparable cinemas highly depends on the location of the target premise and the number of existing cinemas nearby. Should there be only a few cinemas, if not none, in the vicinity, the management of the Group will extend the range and obtain the comparable information of the existing cinemas further away from the premise and make reference to such information with necessary adjustment. Should there be no comparable information available, the Group may engage an independent property appraiser to prepare valuation reports and conduct internal research to assess the valuation. After the operation team gathers and analyses the aforesaid information of the proposed tenancy/licencing, the management of the Group will review and approve the tenancy/licencing if appropriate. With such internal approval, a tenancy/licence agreement (or the Definitive Agreement if the lessor or licensor is a member of the Lessor Group) will be entered into between relevant parties.

To ensure the continuing connected transactions do not exceed the annual caps, the Company will monitor the utilisation of the proposed Aggregate Annual Caps to ensure that such caps would not be exceeded. In particular, the Company has set up a compliance committee (comprising representatives from operations, finance and accounts department and legal and secretary department) and implemented a set of internal control policies such as obtaining an internal approval for each Tenancy and Licencing Transaction by assessing, among others, the amount attributable to and the remaining balance of the Aggregate Annual Caps. Should the proposed Tenancy and Licencing Transaction would result in the utilisation of more than 90% of the Aggregate Annual Caps, the head of the finance department will be responsible to alert the compliance committee.

In addition, the Company's auditors and independent non-executive Directors will review the tenancy transactions annually in accordance with Rule 14A.55 and Rule 14A.56 of the Listing Rules respectively.

LETTER FROM PELICAN

Having considered that there will be procedures for comparison with independent quotations prior to entering into Definitive Agreement(s) under the Master Framework Agreement, we are of the view that the effective implantation of the procedures would help to ensure fair pricing of the transactions contemplated under the Master Framework Agreement according to the pricing policies.

Given that (i) the terms of each Definitive Agreement shall not be less favourable to the Group than those offered by independent third parties, (ii) relevant internal control policies for any leasing transactions are in place as guidelines for the Group to follow; (iii) segregation of duties of different departments and management of the Company is in place prior the execution of Definitive Agreement(s), we are of the view that sufficient and effective internal approval and monitoring procedures are in place relating to the transactions under the Master Framework Agreement.

7. Aggregate Annual Caps

Set out below are proposed Aggregate Annual Caps under the Master Framework Agreement for the years ending 30 June 2023, 2024 and 2025:

	For the period from the date of the Master Framework Agreement to 30 June 2023 2023 HK\$'000	For the years ending 30 June 2024 2025 HK\$'000	
Aggregate Right-of-Use Annual Cap	400,000	420,000	440,000
Aggregate Rental Expense Annual Cap	5,000	16,000	29,000

8. Evaluation of the Aggregate Annual Caps

According to the Board Letter and in accordance with HKFRS 16 “Leases”, the Aggregate Annual Caps represent the estimated respective maximum value of (i) the right-of-use assets relating to leases to be or expected to be entered into by the Group in the respective period(s) of the term under the Master Framework Agreement (i.e., Aggregate Right-of-Use Annual Cap); and (ii) the Variable Lease Payments and other short term lease payments payable by the Group in respect of Tenancy and Licensing Transactions (i.e., Aggregate Rental Expense Annual Cap) in the respective period(s) of the term under the Master Framework Agreement.

LETTER FROM PELICAN

We have discussed with the Company the determination of the Aggregate Annual Caps and we understand that the respective Aggregate Annual Caps have been determined after taking into account:

- (i) the business development and expansion plan of the Group to expand its cinema network in Hong Kong and mainland China and the possibility of entering into new Tenancy and Licensing Transactions with the Lessor Group under the Master Framework Agreement in the forthcoming years;
- (ii) the historical right-of-use value recognised and variable lease paid to third party landlords in respect of the tenancy and licensing transactions of existing cinemas of the Group;
- (iii) the premises and any potential premises of the Lessor Group which could be available for leasing to the relevant members of the Group in the future; and
- (iv) the expected market rental level of cinemas with reference to similar properties in Hong Kong and mainland China and the trend in market rent in general.

In assessing the fairness and reasonableness of the Aggregate Annual Caps, we have obtained and reviewed the schedule of the historical right-of-use assets recognised and variable lease payments paid to third party landlords. Our analysis and views are illustrated below.

Aggregate Right-of-Use Annual Caps

The Aggregate Right-of-Use Annual Caps are determined with reference to the annual maximum amount of right-of-use assets in respect of the Tenancy and Licensing Transactions that may be recognized by the Group under HKFRS 16 “Leases” for the years ending 30 June 2023, 2024 and 2025. In accordance with HKFRS 16 “Leases”, the Group is required to recognize a right-of-use asset and a lease liability, which are measured at the present value of the remaining lease payments, discounted using the Group/lessee’s incremental borrowing rate in the year of the Group’s entering into the lease.

We were advised by the Company that the Aggregate Right-of-Use Annual Cap for each of the three financial years ending 30 June 2025 will be used for any Definitive Agreement to be entered by the Group during the respective financial years and the Group’s compliance with the HKFRS 16 standard as required.

LETTER FROM PELICAN

According to the Company, it has always been exploring opportunities to expand its cinema network and, subject to the then market conditions, may enter into various Definitive Agreements during the three financial years ending 30 June 2025. As disclosed in the 2021 Annual Report and the 2021 Interim Report, three and two cinemas were newly opened during the respective period, which aligns with our understanding of the Group's plan for development. Although the film exhibition industry is still under the impact of the Pandemic, the Group remains positive towards the outlook of the film exhibition market in the long-run and believes that it would be beneficial for the Group to expand its cinema network if and when appropriate opportunities arise, so that the Group can enjoy the rewards to be brought by the industry revival when public leisure life resumes. We agree with the Group in this regard and our view is elaborated in the above section headed "Reasons for and benefits of the Master Framework Agreement" in this letter.

Since the Group has to recognise a right-of-use asset and a lease liability, we have made reference to the (i) average annual rents payable by the Group for its existing cinemas to third party landlords of approximately HK\$17.6 million and HK\$4.4 million for the Group's existing cinema network in Hong Kong and mainland China respectively; (ii) the average number of approximately 711 seats and 1,371 seats for the Group's existing cinema network in Hong Kong and mainland China respectively; and (iii) the average term of leases with third party landlords of approximately 10 years and 14 years for the Group's existing cinema network in Hong Kong and mainland China respectively, and calculate the present values, as required under HKFRS 16, to be incurred by the Group as if the Group were to open a cinema in Hong Kong and mainland China using an incremental borrowing rate of 3.0% for the three financial years ending 30 June 2025. We have reviewed the schedule of the Group's historical right-of-use assets recognised from its leases with third party landlords. From our review, we noted that as at the Latest Practicable Date, the Group has negotiated and entered into six leases with third party landlords for its cinema operation in Hong Kong between the financial year ended 30 June 2018 and the financial year ended 30 June 2021. The total right-of-use assets initially recognised for these six leases amounted to approximately HK\$735 million and, with each lease ranged from approximately HK\$59 million to approximately HK\$253 million. On the other hand, the Group has negotiated and entered into nine leases with third party landlords for its cinema operation in mainland China between the financial year ended 30 June 2015 and the financial year ended 30 June 2022. The total right-of-use assets initially recognised for these nine leases amounted to approximately HK\$400 million and, each lease ranged from approximately HK\$28 million to approximately HK\$102 million. Given such historical figures, we consider that the Aggregate Right-of-Use Annual Caps are not unreasonable and that they shall provide sufficient buffers for the Group's cinema expansion should it desire to open its cinemas in premium locations.

Further, the incremental borrowing rate of the Group of 3.0% was adopted with reference to the existing borrowing rate of the Group, which we consider as appropriate as it reflects the interest rate the Group operates with in its daily business.

LETTER FROM PELICAN

We understood that, with the expectation that the PRC economy will recover from the Pandemic and grow steadily in the next three years, the Group estimates that the market rent for comparable premises will increase gradually by approximately 5.0% per year over the next three years, and the rental fees payable by the Group under the Definitive Agreement(s) are expected to follow the same trend. In determining whether such assumption is fair and reasonable, we have referenced to the year-on-year growth rates of the gross domestic product of the PRC for each of the last five years as published by the National Bureau of Statistics of the PRC and noted that the annual growth rates have been consistently above 6.0% (except the outlier in 2020 of approximately 2.2% due to the impact of the Pandemic)⁵. The estimated growth of 5.0% is also in line with the growth of the private retail price and retail indices in Hong Kong of 4.6% in the last quarter of 2021 as published in Hong Kong Property Review by the Rating and Valuation Department of the government of HKSAR. Accordingly, we consider the Group's assumption to be fair and reasonable.

In light of the above reasons, we are of the view that the Aggregate Right-of-Use Annual Cap for the financial years ending 30 June 2023, 2024 and 2025 are fair and reasonable so far as the Independent Shareholders are concerned.

Aggregate Rental Expense Annual Caps

The Aggregate Rental Expense Annual Caps are determined with reference to the annual maximum amount of (i) Variable Lease Payments, which are variable amounts linked to the revenue generated from the leased or licensed properties; and (ii) other short-term lease payments, under any of the Tenancy and Licensing Transactions that may be payable by the Group for the years ending 30 June 2023, 2024 and 2025. Pursuant to HKFRS 16 "Leases", both the Variable Lease Payments and other short-term lease payments under the Tenancy and Licensing Transactions will be recognized as expenses incurred by the Group in the respective period(s) of the term under the Master Framework Agreement. We understood that the other short-term lease payments include fees for signage and lightbox advertisements, which were minimal compared with the relevant historical variable lease payment, hence the Aggregate Rental Expense Annual Caps are estimated to be sufficient for the short-term lease payments.

As mentioned above, the Company has been exploring opportunities to expand its cinema network and, subject to the then market conditions, may enter into various Definitive Agreements during the three financial years ending 30 June 2025. Since it will take approximately half a year to complete the renovation and fitting after entering into a Definitive Agreement, the Group will start leasing the new cinema and record the right-of-use asset therefrom once it enters into a Definitive Agreement, but it will only be required to pay the Variable Lease Payment and other short-term lease payments in respect of Tenancy and Licensing Transaction(s) after the cinema starts its operation, which is expected to be around half a year later.

⁵ Please refer to the data as published on the National Bureau of Statistics of the PRC at <https://data.stats.gov.cn/easyquery.htm?cn=C01>

LETTER FROM PELICAN

From our discussion with the Company, we noted that the Variable Lease Payments, in general, shall only be payable when the gross proceeds of the box office and tickets sold exceed the base rent. The Variable Lease Payments are determined based on (i) the Group's expansion plan to open new cinemas in Hong Kong and mainland China in during the three financial years ending 30 June 2025, in view that after leasing a cinema, it may take around half a year to renovate the premise before it can start operation; (ii) the average monthly rent payable for existing cinemas of the Group in Hong Kong and mainland China; (iii) the assumed turnover rent (or commission) rates of a cinema's turnover in Hong Kong and mainland China were estimated with reference to the existing turnover rent rates chargeable by other landlords of the Group in Hong Kong and mainland China; and (iv) the assumption that the turnover of these new cinemas will return to the pre-Pandemic level in 2023 and grow by 5.0% annually for the three years ending 30 June 2025. From our review of the schedules for the above, we noted that the Variable Lease Payments were arrived at based on historical figures with reasonable assumptions for the future, and hence in our view they are fair and reasonable so far as the Independent Shareholders are concerned.

Having considered (i) the rebound of customers to cinemas after the ease of social distancing measures, (ii) the positive outlook of the film exhibition industry in the Greater China region in the long-run, and (iii) the Aggregate Right-of-Use Annual Caps and the Aggregate Rental Expense Annual Caps will provide the Group with flexibility and efficiency to expand its cinema network if and when appropriate opportunities arise, we are of the view that the Aggregate Annual Caps for the financial years ending 30 June 2023, 2024 and 2025 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.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the Master Framework Agreement 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 Aggregate Annual Caps and the transactions contemplated under the Master Framework Agreement 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(s) to be proposed at the SGM to approve the Aggregate Annual Caps and the transactions contemplated under the Master Framework Agreement. We also recommend the Independent Shareholders to vote in favour of the Aggregate Annual Caps and the transactions contemplated under the Master Framework Agreement at the SGM.

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

* *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.*

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 (<i>Note</i>)	73.80%

Note: These Shares were held by Emperor Culture Group Holdings Limited, a wholly-owned subsidiary of 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. Yeung Sau Shing, Albert (“**Dr. Albert Yeung**”).

(b) Long positions interests in associated corporations

(i) Ordinary Shares

Name of Directors	Name of associated corporations	Capacity/Nature of interests	Number of issued shares interested	% of the 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 (Note)	74.71%
	Emperor Entertainment Hotel Limited ("Emperor E Hotel")	- ditto -	851,352,845 (Note)	71.11%
	Emperor Watch & Jewellery Limited ("Emperor W & J")	- ditto -	4,298,610,000 (Note)	63.41%
	Ulferts International Limited ("Ulferts")	- ditto -	600,000,000 (Note)	75.00%

Note: Emperor International, Emperor E Hotel, Emperor W & J and Ulferts are companies with their shares listed on the Stock Exchange. These shares were ultimately owned by the respective private discretionary trusts. Mr. Alex Yeung had deemed interests in the same shares by virtue of being one of the eligible beneficiaries of such private discretionary trusts.

(ii) Debentures

Name of Director	Name of associated corporation	Capacity/Nature of interests	Amount of debentures held
Mr. Wong Chi Fai ("Mr. Bryan Wong")	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 executives 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. 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.

4. 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:

Name of Directors	Name of competing companies	Nature of interests	Nature of Competing Business
Mr. Alex Yeung	Certain companies controlled/owned by the Trust	An eligible beneficiary of the Trust	Investments in films
Ms. Vanessa Fan	-ditto-	Director	- ditto -
Mr. Bryan Wong	-ditto-	Director	- ditto -

Save as disclosed above, so far as is known to the Directors or chief executives 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.

5. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, save as the Master Framework Agreement 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 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.

6. DIRECTORS' INTERESTS IN ASSETS

On 31 January 2022, Emperor Cinemas (China) Limited (“**Emperor Cinemas (China)**”), an indirectly wholly-owned subsidiary of the Company entered into a sale and purchase agreement with Emperor Motion Picture Enterprise Limited (“**Emperor Motion Picture Enterprise**”), a wholly-owned subsidiary of AY Entertainment Holdings, pursuant to which, Emperor Motion Picture Enterprise conditionally agreed to sell and Emperor Cinemas (China) conditionally agreed to purchase the entire equity interest in Tale Success Limited (“**Tale Success**”) and the loan due from Tale Success to Emperor Motion Picture Enterprise at an aggregate consideration of HK\$4.0, subject to the terms and conditions of the said sale and purchase agreement (the “**Acquisition**”). Details of the Acquisition are contained in the circular of the Company dated 25 March 2022 and the Acquisition was completed on 22 April 2022. Mr. Alex Yeung, an executive Director, was deemed to be interested in such acquired assets by virtue of being one of the eligible beneficiaries of the private discretionary trust which indirectly controls Emperor Motion Picture Enterprise.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which have been, since 30 June 2021 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Name	Qualification
Pelican	A corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity

As at the Latest Practicable Date, Pelican has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, Pelican:

- (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.

8. 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 financial statements of the Group were made up.

9. 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 Master Framework Agreement;
- (b) the written consent referred to in the paragraph headed “Expert and Consent” in this Appendix;
- (c) the letter from the Independent Board Committee as set out in page 16 in this circular;
- (d) the letter from Pelican, the Independent Financial Adviser, as set out from pages 17 to 33 in this circular; and
- (e) this circular.

10. MISCELLANEOUS

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

NOTICE OF SPECIAL GENERAL MEETING



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 IS HEREBY GIVEN that a special general meeting (the “SGM”) of Emperor Culture Group Limited (the “Company”) will be held at 2nd Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong on Monday, 5 September 2022 at 11:30 a.m., for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** (i) the Master Framework Agreement (as defined in the circular of the Company dated 18 August 2022 (the “Circular”) and a copy of which marked “A” was tabled before the meeting and initialled by the chairperson of the meeting for identification purpose) and the transactions contemplated thereunder together with the Aggregate Annual Caps (as defined in the Circular) be and are hereby ratified, confirmed and approved; and (ii) any one director of the Company be and is hereby authorised to do all such acts and things which he/she may consider necessary, desirable or expedient to implement the transactions contemplated under Master Framework Agreement (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, 18 August 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 Hennessey Road
Wanchai
Hong Kong

NOTICE OF SPECIAL GENERAL MEETING

Notes:

- (i) Considering the outbreak of COVID-19, certain measures will be implemented at the special general meeting (“SGM”) with a view to addressing the risk to attendees of infection, including, without limitation (i) all attendees being required to (a) undergo compulsory body temperature check; (b) scan the “LeaveHomeSafe” venue QR code and present valid vaccination, exemption or recovery record; (c) submit compulsorily health declaration form; and (c) wear surgical face masks prior to admission to the SGM venue and throughout the SGM (no mask will be provided at the SGM venue) and throughout the SGM; (ii) no corporate gifts being distributed; (iii) no refreshments or drinks being provided; and (iv) all attendees will be assigned designated seat at the SGM venue in order to ensure appropriate social distancing and facilitate contact tracing. The Company reminds attendees that they should carefully consider the risks of attending the SGM, taking into account their own personal circumstances.

The Company will keep the evolving COVID-19 situation under review and may change measures, where appropriate, with short notice. Shareholders should check the websites of the Company (<https://www.EmpCulture.com>) and the Stock Exchange (<https://www.hkexnews.hk>) for future announcement 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 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 a show of hands.
- (iii) A shareholder of the Company (“**Shareholder**”) entitled to attend and vote at the meeting 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 need not be a Shareholder. 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 authorised in writing, or if the appointor is a corporation, either under its common seal, or under the hand of an officer or attorney duly authorised on that behalf, and must be deposited at the Company’s Hong Kong branch share registrar, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, 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, not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (v) Where there are joint holders of any share, any one of such joint holder may vote, either in person or by proxy in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding of such share.
- (vi) Completion and delivery of the form of proxy will not preclude a Shareholder from attending and voting in person at the SGM or adjourned meeting thereof and in such event, the form of proxy previously submitted shall be deemed to be revoked.

NOTICE OF SPECIAL GENERAL MEETING

- (vii) 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 before 4:30 p.m. on Tuesday, 30 August 2022.
- (viii) 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 of Hong Kong Limited (<https://www.hkexnews.hk>) and the Company (<https://www.EmpCulture.com>). In order to protect the environment, the Company highly recommends the 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 Branch Share Registrar, Tricor Tengis Limited, by post at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong or by email at is-ecom@hk.tricorglobal.com.