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If you are in 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 Universe International Financial Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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UNIVERSE

| 寰宇 |

UNIVERSE INTERNATIONAL FINANCIAL HOLDINGS LIMITED
寰宇國際金融控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1046)

**VERY SUBSTANTIAL DISPOSAL
IN RELATION TO THE FILM LIBRARY
AND
NOTICE OF SPECIAL GENERAL MEETING**

Financial adviser to the Company



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

A letter from the Board is set out on pages 8 to 22 of this circular. A notice convening the SGM to be held at 12:00 noon on Friday, 17 March 2017 at 18th Floor, Wyler Centre Phase II, 192-200 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong, or in the event that a black rainstorm warning or a tropical cyclone warning signal number 8 or above is hoisted or remains hoisted in Hong Kong at 9:00 a.m. on that day, at the same time and place on the second business day (i.e. any day (other than a Saturday or Sunday) on which no black rainstorm warning or a tropical cyclone warning signal number 8 or above is hoisted or remains hoisted in Hong Kong at 9:00 a.m. on that day and on which licensed banks in Hong Kong are generally open for business) after 17 March 2017 or any adjournment thereof, at which the ordinary resolutions as stated in the aforesaid notice will be considered, is set out on pages SGM-1 to SGM-3 of this circular.

A form of proxy for use at the SGM or any adjournment thereof is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event no later than 48 hours before the time fixed for the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

24 February 2017

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DEFINITIONS

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

“associates”	has the meaning given to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday or Sunday and any day on which a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is hoisted or remains hoisted between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal opening hours
“Certified RF Valuation”	the value of the Rejected Film(s) as assessed and certified in writing by an independent valuer jointly appointed by the Vendor and the Purchaser
“Chain of Title Documentation”	(i) all contracts and documents which establish the ownership of the Vendor in the Film; (ii) exploitation agreements entered into by the Vendor in relation to the Film Library; and (iii) the Video Exploitation Confirmations
“Company”	Universe International Financial Holdings Limited (寰宇國際金融控股有限公司), a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
“Completion”	the First Completion, the Second Completion and/or the Third Completion, as the case may be
“Conditions Precedent”	the conditions precedent set out under the paragraph headed “Conditions Precedent to the Sale and Purchase Agreement” in this circular
“Confirmation Letter”	the confirmation letter issued by MPIA confirming the registration of a Film has been completed
“Consideration”	RMB178,895,064, being the total consideration payable by the Purchaser to the Vendor in cash under the Sale and Purchase Agreement, subject to possible adjustment in the manner as set out under the paragraph headed “Inspection and adjustment to Consideration” in this circular

DEFINITIONS

“Crowe Horwath (HK)”	Crowe Horwath (HK) CPA Limited, Certified Public Accountants
“Deliverables”	(a) the Chain of Title Documentation; and (b) the Physical Properties
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Film Library by the Vendor to the Purchaser in accordance with the terms and conditions of the Sale and Purchase Agreement
“Film Library”	202 feature films as particularly set out in Appendix VI to this circular, each a “Film”, but excluding (i) all exploitation (license) agreements entered into by the Vendor before the date of the Sale and Purchase Agreement and the Video Exploitation Confirmations; (ii) all fees paid or payable to the Vendor under all exploitation (license) agreements entered into by the Vendor before the date of the Sale and Purchase Agreement and the Video Exploitation Confirmations; (iii) 15% of all fees paid and due and payable to the Vendor under all exploitation (license) agreements entered into by the Vendor on or after the date of the Sale and Purchase Agreement up to the Third Completion; and (iv) all prequel, sequel and remake rights in relation to the 26 Films; and (v) Video Exploitation Retention, and may subject to certain limitations in terms of territories and rights of distribution of, and percentage of ownership for, certain Films in the Film Library
“First Completion”	completion of the sale and purchase of the Film Library when, among other things: (i) the Vendor shall: (a) deliver to the Purchaser the Confirmation Letter in respect of each of the Films; and (b) make available the Chain of Title Documentation in the offices of the Vendor for the Inspection; and

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers
“MPIA”	the Motion Picture Industry Association Limited in Hong Kong
“Parties”	the Vendor and the Purchaser, and “Party” refers to either the Vendor or the Purchaser
“Physical Properties”	all tangible properties of every kind or nature of or relating to or embodying the Film Library in their current forms that are owned by the Vendor as set out in the Sale and Purchase Agreement
“PRC”	the People’s Republic of China, which excludes Hong Kong for the purpose of this circular
“Preliminary Asset Valuation”	the fair value of the Film Library of approximately HK\$160 million as at 12 October 2016 performed by the Valuer by adopting the income approach
“Purchaser”	北京愛奇藝科技有限公司 (Beijing iQIYI Science & Technology Co., Ltd*), a company incorporated under the laws of PRC with limited liability
“Purchaser’s Request”	a written request which may be issued by the Purchaser to the Vendor setting out details of any error or discrepancy in relation to the Film Library
“Rectification Period”	within 20 Business Days of the Purchaser’s Request
“Rejected Films”	any material error or discrepancy in the Film Library as specified in the Purchaser’s Request that is/are not capable to be rectified by the Vendor within the Rectification Period
“Remaining Group”	the Company and its subsidiaries after the Third Completion

DEFINITIONS

“RF Notice”	a written notice which may be issued by the Purchaser to the Vendor listing out all the Rejected Films and stating that the total number of Films to be bought by the Purchaser shall be reduced by the number of the Rejected Films
“RMB”	renminbi, the lawful currency of PRC
“Sale and Purchase Agreement”	a conditional sale and purchase agreement dated 9 January 2017 entered into between the Vendor and the Purchaser in relation to the Film Library
“Second Completion”	completion of the sale and purchase of the Film Library when, among other things: (i) the Vendor shall make available the Physical Properties at the offices of the Vendor for checking; and (ii) subject to the quantity checking of the Physical Properties by the Purchaser, the Purchaser shall pay the Second Balance Consideration to the Vendor
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the Transactions
“Share(s)”	ordinary share(s) of HK\$0.01 (each) in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tax”	the Withholding Income Tax (代扣代繳企業所得稅) and Surtax (代扣代繳附加稅) of the PRC at the current rate of 10.72% payable in connection with the sale of the Film Library assessed by any local, municipal, regional, urban, governmental, state, federal or other body or authority in the PRC which shall not exceed 10.72% of the Consideration

DEFINITIONS

“Third Completion”	<p>completion of the sale and purchase of the Film Library when, among other things:</p> <ul style="list-style-type: none">(i) the Vendor shall:<ul style="list-style-type: none">(a) deliver to the Purchaser a duly executed assignment in relation to the Film Library;(b) deliver to the Purchaser the Deliverables;(c) deliver either the Certificate of Royalty or the Certificate of Distribution in respect of each of the Film subject to the nature of copyright registration in MPIA;(d) pay 85% of all income and fees paid and due and payable, to the Vendor under all the exploitation agreements entered into by the Vendor between the date of the Sale and Purchase Agreement and the date of the Third Completion (if any) to the Purchaser; and(e) deliver to the Purchaser assignment(s) in respect of all the exploitation agreements entered into by the Vendor between the date of the Sale and Purchase Agreement and the date of the Third Completion (if any); and(ii) the Purchaser shall pay the Third Balance Consideration to the Vendor
“Transactions”	the Disposal and the transactions contemplated thereunder
“Valuation”	the fair value of the Film Library of HK\$160 million as at 12 October 2016 performed by the Valuer by adopting the income approach
“Valuation Report”	the valuation report in relation to the Valuation as at 12 October 2016 prepared by the Valuer, which is set out in Appendix IV to this circular
“Valuer” or “Access Partner”	Access Partner Consultancy & Appraisals Limited, an independent firm of professional valuer engaged by the Company

DEFINITIONS

“Vendor”	Universe Films Distribution Company Limited (寰宇影片發行有限公司), a company incorporated under the laws of Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Video Exploitation Confirmations”	the video exploitation confirmations dated the date of the Sale and Purchase Agreement entered into between the Vendor and Universe Digital Entertainment Limited (寰宇數碼娛樂有限公司), an indirect wholly-owned subsidiary of the Company, in respect of the distribution rights of the remaining stock of videogram products (which are video products in all forms of home video, including but not limited to, VCD, DVD, Blu-ray, videocassette, videodisc and any other formats) of the Films, granted by the Vendor to Universe Digital Entertainment Limited (寰宇數碼娛樂有限公司)
“Video Exploitation Retention”	the distribution rights of the remaining stock of videogram products of the Films held by Universe Digital Entertainment Limited (寰宇數碼娛樂有限公司) as extended by the Vendor for a period of three (3) years from the date of the Sale and Purchase Agreement as set out under the Video Exploitation Confirmations
“26 Films”	26 Films in the Film Library as more particularly set out in Appendix VI to this circular
“%”	per cent.

* For identification purpose only

For the purpose of this circular, the conversion of RMB into HK\$ is based on the exchange rate of RMB1 = HK\$1.119. Such conversion should not be construed as a representation that the amount in question has been or could have been or can be converted at the above rate or at any other rates or at all.

LETTER FROM THE BOARD

UNIVERSE

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UNIVERSE INTERNATIONAL FINANCIAL HOLDINGS LIMITED
寰宇國際金融控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1046)

Executive Directors:

Mr. Lam Shiu Ming, Daneil
Mr. Hung Cho Sing
Mr. Lam Kit Sun

Independent non-executive Directors:

Mr. Lam Chi Keung
Mr. Choi Wing Koon
Ms. Cheng Lo Yee

Registered office:

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2 Church Street
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Bermuda

*Head office and principal place of
business in Hong Kong:*

18th Floor
Wyler Centre Phase II
192-200 Tai Lin Pai Road
Kwai Chung
New Territories
Hong Kong

24 February 2017

To the Shareholders

Dear Sir/Madam,

**VERY SUBSTANTIAL DISPOSAL
IN RELATION TO THE FILM LIBRARY**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 9 January 2017 in respect of the Transactions.

LETTER FROM THE BOARD

On 9 January 2017 (after trading hours), the Vendor entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase, the Film Library at the Consideration of RMB178,895,064 subject to possible adjustment in the manner as set out under the paragraph headed “Inspection and adjustment to Consideration” in this circular.

The purpose of this circular is to provide you with information in respect of, among other things, (i) further details of the Disposal; (ii) financial information of the Group; (iii) financial information of the Film Library; (iv) unaudited pro forma financial information of the Remaining Group; (v) the Valuation Report; (vi) a notice convening the SGM; and (vii) other information as required under the Listing Rules.

2. THE SALE AND PURCHASE AGREEMENT

Date

9 January 2017 (after trading hours)

Parties

- (i) Vendor: Universe Films Distribution Company Limited (寰宇影片發行有限公司), a company incorporated under the laws of Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company.
- (ii) Purchaser: 北京愛奇藝科技有限公司 (Beijing iQIYI Science & Technology Co., Ltd*), a company incorporated under the laws of PRC with limited liability.

Save as disclosed under the paragraph headed “Information about the Group and the Parties” in this circular, to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are Independent Third Parties.

Sale and Purchase of the Film Library

Pursuant to the Sale and Purchase Agreement, the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, among other things, the Film Library owned by the Vendor subject to the terms and conditions contained therein.

LETTER FROM THE BOARD

Consideration

RMB178,895,064 subject to possible adjustment in the manner as set out under the paragraph headed “Inspection and adjustment to Consideration” in this circular.

The Consideration is payable in cash by the Purchaser to the Vendor in the following manner:

- (i) as to the initial consideration (the “**Initial Consideration**”) of RMB35,779,013 (subject to withholding of the relevant Tax by the Purchaser) will be payable within 60 days of the date of execution of the Sale and Purchase Agreement;
- (ii) as to the first balance consideration (the “**First Balance Consideration**”) of approximately RMB71,558,026 or, where applicable, the First Balance Consideration less the Certified RF Valuation (subject to withholding of the relevant Tax by the Purchaser), will be payable on the First Completion;
- (iii) as to the second balance consideration (the “**Second Balance Consideration**”) of approximately RMB53,668,519 (subject to withholding of the relevant Tax by the Purchaser) will be payable on the Second Completion; and
- (iv) as to the third balance consideration (the “**Third Balance Consideration**”) of approximately RMB17,889,506 (subject to withholding of the relevant Tax by the Purchaser) will be payable on the Third Completion.

The Vendor shall bear the Tax, such Tax shall be withheld by the Purchaser when the Purchaser pays the Initial Consideration, the First Balance Consideration, the Second Balance Consideration and the Third Balance Consideration, respectively to the Vendor.

The Consideration was arrived at after arm’s length negotiations between the Parties by reference to the Preliminary Asset Valuation performed by the Valuer. The Consideration is approximately HK\$40,183,577 in excess of the Preliminary Asset Valuation/Valuation. As such, the Directors consider that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Valuation

The Valuer performed an independent valuation in respect of the Film Library by adopting the income approach as the valuation methodology for the Valuation Report. The Valuation has taken into account various factors, including but not limited to (i) the historical financial information relating to the Film Library; (ii) the details of the 202 movies in the Film Library including their names, production years, countries and directors of the movies; (iii) the financial projection of the Film Library prepared by the management

LETTER FROM THE BOARD

of the Company (the “**Management**”); (iv) the contracts of the right distributions relating to the Film Library; (v) the market information in relation to the Film Library’s industry; and (vi) the industry and economic outlook of Hong Kong.

According to the Valuation Report, the fair value of the Film Library as at 12 October 2016 was HK\$160 million. As the Valuer has adopted the income approach in performing the Valuation, which has taken into account the discounted cash flow forecast of the Film Library, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules (the “**Profit Forecast**”). As such, the requirements under Rule 14.62 of the Listing Rules are applicable. Set out below is the information in relation to the Profit Forecast and the Valuation Report:

Assumptions

The principal assumptions, including commercial assumptions, upon which the Profit Forecast was based include:

- (i) there will be no major changes in the political, legal, fiscal, technological, economic and market conditions in the localities in which the Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Film Library;
- (ii) there will be no major changes in the current taxation laws in the localities in which the Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- (iii) there will be no major changes in the current taxation laws in the localities in which the distributor(s) of the Films operate or intend to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- (iv) there will be no major changes in the political, legal, economic or financial conditions in the localities in which the distributor(s) of the Films operate or intend to operate, which would adversely affect the revenues attributable to and profitability of the Film Library;
- (v) there will be no material changes in the relevant market return, market risk, interest rates and exchange rates that would impact the Company’s business operation; and
- (vi) the market data, industrial information and statistical figures obtained from Bloomberg Terminal and other publicly available sources are true and accurate.

LETTER FROM THE BOARD

- (vii) the Company has obtained all necessary permits, business certificates, licenses and legal approvals to operate the Films and all relevant permits, business certificates, licenses and legal approvals to operate the business in the localities in which the Company operates or intends to operate would be officially obtained and renewable upon expiry;
- (viii) the information provided with regard to the Film Library's financial data is accurate and reliable;
- (ix) the financial projection in respect of the Film Library has been prepared on a reasonable basis after due and careful consideration by the Management and will be materialized as schedule;
- (x) the Management will implement only those prospective financial and operational strategies that will maximize the efficiency of the operation of the Film Library;
- (xi) the Management has sufficient knowledge and experience in respect of the operation of the Film Library, and the turnover of any director, management or key person will not affect the operation of the Film Library;
- (xii) the Management has adopted reasonable and appropriate contingency measures against any human disruption such as fraud, corruption and strike, and the occurrence of any human disruption will not affect the operation of the Film Library;
- (xiii) the Management has adopted reasonable and appropriate contingency measures against any natural disaster such as fire, flood and hurricane, and the occurrence of any natural disaster will not affect the operation of the Film Library;
- (xiv) there are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of the Film Library as of the date of the Valuation, being 12 October 2016;
- (xv) the expected lifespan of each of the Films is 50 years from the first launch date as advised by the Management;

LETTER FROM THE BOARD

- (xvi) there will be sufficient supply of technical staff in the industry in which the distributor(s) of the Films operate, and they will retain competent management, key personnel and technical staff to support their ongoing operations and developments;
- (xvii) the financial information in respect of the Film Library has been prepared on a reasonable basis, which reflects estimates that have been arrived at after due and careful consideration by the Management;
- (xviii) the policy on tax rate and interest rates and exchange rates in the localities for the operation of the distributor(s) of the Films applicable to the Film Library will not materially change; and
- (xix) the capital required on the maintenance of the Film Library is de minimis.

Inspection and adjustment to Consideration

The Inspection shall be subject to the following terms:

- (i) the Purchaser shall use its reasonable commercial efforts to complete a review of the title of the Vendor to the Film Library within 25 Business Days after the start date of the Inspection;
- (ii) in the event that any material error or discrepancy is found in the Film Library, the Purchaser shall issue the Purchaser's Request to the Vendor within 5 Business Days of completion of the Inspection and the Vendor shall use its reasonable commercial efforts to rectify the same within the Rectification Period, but in any event no later than the date of the First Completion. If no Purchaser's Request has been issued to the Vendor within the time stipulated, the Purchaser shall be deemed to be satisfied with the results of the Inspection and the Vendor's title to the Film Library; and
- (iii) in the event that any material error or discrepancy in the Film Library as specified in the Purchaser's Request is not capable to be rectified by the Vendor, the Purchaser shall within 10 Business Days after the expiry of the Rectification Period issue the RF Notice. The Vendor and the Purchaser shall within 10 Business Days after the date of the RF Notice jointly appoint an independent valuer to obtain the Certified RF Valuation which shall be final and binding on the Parties in the absence of manifest error. In such event, the Parties agree that the Consideration shall be reduced by the amount of the Certified RF Valuation.

The Inspection started on 4 January 2017 as agreed by the Parties. As at the Latest Practicable Date, the Inspection has completed and there was no adjustment to the Consideration.

LETTER FROM THE BOARD

Conditions Precedent to the Sale and Purchase Agreement

Completion is conditional upon, among other things:

- (i) the passing by the Shareholders in the SGM by way of poll of resolution(s) approving, amongst other things, all the transactions contemplated under the Sale and Purchase Agreement and authorising the execution, delivery and performance of all the transactions contemplated under the Sale and Purchase Agreement and any agreement ancillary thereto;
- (ii) all requirements imposed by the Stock Exchange under the Listing Rules or otherwise in connection with all the transactions contemplated by the Sale and Purchase Agreement having been fully complied with;
- (iii) all waivers, consents, approvals or confirmations of the Stock Exchange, and all relevant waivers, consents, approvals or confirmations required for the Parties to enter into and perform the obligations of the Sale and Purchase Agreement having been duly obtained and recorded (if required);
- (iv) the representations, warranties and undertakings of the Vendor in the Sale and Purchase Agreement remaining true and accurate and not misleading as given as of the date of execution of the Sale and Purchase Agreement and on Completion;
- (v) no written claims have been received by the Vendor;
- (vi) the Vendor having complied fully with the obligations and otherwise having performed all of the covenants and agreements required to be performed by it under the Sale and Purchase Agreement;
- (vii) the Vendor having taken all necessary corporate and other action to authorise the execution, delivery and performance of the Sale and Purchase Agreement and any agreement ancillary thereto;
- (viii) the Purchaser's representations, warranties and undertakings under the Sale and Purchase Agreement remaining true and accurate and not misleading as given as of the date of execution of the Sale and Purchase Agreement and on Completion;
- (ix) the Purchaser and the member thereof, having taken all necessary corporate and other action to authorise the execution, delivery and performance of the Sale and Purchase Agreement and any agreement ancillary thereto;

LETTER FROM THE BOARD

- (x) the Purchaser having complied fully with all its obligations and otherwise having performed all of the covenants and agreements required to be performed by it under the Sale and Purchase Agreement; and
- (xi) the Purchaser having completed the Inspection and satisfied with the results of the Inspection and written notice to that effect having been given to the Vendor.

None of the Conditions Precedent can be waived by the Vendor or the Purchaser except for the condition in (iv) above which can be waived by the Purchaser.

The First Completion will take place on a day which is no later than the 60th day (or such other day as the Parties may agree in writing prior to the First Completion) after all the Conditions Precedent have been satisfied.

The Second Completion will take place on a day which is no later than the 60th day (or such other day as the Parties may agree in writing prior to the Second Completion) after the completion of the quantity checking of the Physical Properties by the Purchaser in accordance with the Sale and Purchase Agreement.

The Third Completion will take place on a day which is no later than the 60th day (or such other day as the Parties may agree in writing prior to the Third Completion) after the delivery of the documents and items (including the Deliverables) by the Vendor to the Purchaser in accordance with the Sale and Purchase Agreement.

If any Conditions Precedent shall not have been fulfilled (or waived in accordance with the terms of the Sale and Purchase Agreement) by 30 April 2017 or such other date as the Parties may agree in writing, then the Purchaser shall not be bound to proceed with the purchase of the Film Library, and save in respect of any antecedent breach by any party under the Sale and Purchase Agreement, all payments made by the Purchaser to the Vendor shall be returned in full immediately (except for the non-fulfillment of the conditions in (iii) and (viii) to (xi) due to the default of the Purchaser), all rights and liabilities of the Parties shall cease and neither Party shall have any claim against the other Party.

LETTER FROM THE BOARD

Options under the Sale and Purchase Agreement

With effect from the First Completion, subject to the procedures as more particularly set out in the Sale and Purchase Agreement to be observed by the Parties, the Purchaser shall grant to the Vendor the following options:

- (i) an exclusive right to commence the production, development or exploitation of sequels and/or prequels of two Films in the Film Library (the “**Proposed Film Sequels/Prequels**”) for a period of 36 months from the date of the First Completion (the “**Option Period**”) (the “**Option 1**”). For so long the Vendor commences production, development and exploitation of the Proposed Film Sequels/Prequels within the Option Period, the Vendor shall grant an option to the Purchaser:
 - (a) as one of the investor in the Proposed Film Sequels/Prequels, to invest up to 30% of the total production fee of the Proposed Film Sequels/Prequels; and
 - (b) to acquire an internet distribution right of the Proposed Film Sequels/Prequels (collectively, the “**Option 2**”); and
- (ii) an option to produce any television dramas, internet dramas and internet film or any forms of audiovisual production in relation to each of the Films except for the 26 Films for an indefinite period of time (the “**Option 3**”).

The Company confirms that each of Option 1 and Option 3 does not constitute an “option” under Rule 14.72 of the Listing Rules as they are not “rights to buy or sell something”, but rather rights to commence production of films or dramas. There are no “exercise price” and “premium” involved in Option 1 and Option 3. Hence, each of the grant of Option 1 and Option 3 does not constitute “transaction” under Rule 14.73 of the Listing Rules.

In respect of Option 2 which will be granted by the Vendor to the Purchaser when the Vendor exercises Option 1, the Company confirms that Option 2 does not constitute an “option” under Rule 14.72 of the Listing Rules as it is not a “right to buy or sell something”, but rather a right to participate jointly in the production or distribution of films or film rights. There are no “exercise price” and “premium” involved in Option 2. Hence, the grant of Option 2 does not constitute “transaction” under Rule 14.73 of the Listing Rules. In any event, when Option 2 is exercised by the Purchaser in the future, the Company will assess as to whether there is any implications under Chapter 14 of the Listing Rules and the Company will comply with the relevant requirements under Chapter 14 of the Listing Rules as and when appropriate.

LETTER FROM THE BOARD

2. INFORMATION OF THE FILM LIBRARY

The Film Library consists of 202 feature films as particularly set out in Appendix VI to this circular, but excluding: (i) all exploitation (license) agreements entered into by the Vendor before the date of the Sale and Purchase Agreement and the Video Exploitation Confirmations; (ii) all fees paid or payable to the Vendor under all exploitation (license) agreements entered into by the Vendor before the date of the Sale and Purchase Agreement and the Video Exploitation Confirmations; (iii) 15% of all fees paid and due and payable to the Vendor under all exploitation (license) agreements entered into by the Vendor on or after the date of the Sale and Purchase Agreement up to the Third Completion; (iv) all prequel, sequel and remake rights in relation to the 26 Films; and (v) Video Exploitation Retention, and may subject to certain limitations in terms of territories and rights of distribution of, and percentage of ownership for, certain Films in the Film Library.

As at the Latest Practicable Date, the Vendor only has 75% interest in a Film namely, “Love Lifting (高舉愛)” and the remaining 25% interest of the Film is currently held by an Independent Third Party. The Vendor has received a confirmation from the Independent Third Party on 3 January 2017 that the Independent Third Party will assign the 25% interest of the Film to the Vendor by no later than 5 April 2017. Hence, it is expected that the Vendor will acquire the remaining 25% interest in the Film and 100% interest in the Film will be transferred to the Purchaser on Completion. The Purchaser is aware of the Vendor’s percentage of ownership in the Film. If in the unlikely event that the Vendor can only transfer 75% interest, but not 100% interest in the Film to the Purchaser upon Completion, the Purchaser may have a claim for damages against the Vendor under the Sale and Purchase Agreement. However, the Directors consider that such damages (if any) will not have any material adverse effect on Completion and/or the Group as a whole.

3. INFORMATION ABOUT THE GROUP AND THE PARTIES

The Group is principally engaged in securities brokerage and margin financing, money lending, properties and securities investment, film distribution and exhibition, licensing and sublicensing of film rights, trade, wholesale and retail of optical products, watch and jewellery products.

The Vendor, Universe Films Distribution Company Limited (寰宇影片發行有限公司), is a company incorporated under the laws of Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company.

The Purchaser, 北京愛奇藝科技有限公司 (Beijing iQIYI Science & Technology Co., Ltd*), is a company incorporated under the laws of PRC with limited liability. The Purchaser is principally engaged in the operation of a video-streaming online platform (www.iqiyi.com) in the PRC.

* For identification purpose only

LETTER FROM THE BOARD

The Purchaser is affiliated to an existing licensee (the “Licensee”) of the Group’s business concerning film rights licensing, and was introduced to the Company through the Licensee. Save as disclosed above, to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are Independent Third Parties.

4. REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Group is principally engaged in securities brokerage and margin financing, money lending, properties and securities investment, film distribution and exhibition, licensing and sublicensing of film rights, trade, wholesale and retail of optical products, watch and jewellery products.

The cost of the Film Library has been almost fully amortised in previous years. As at the Latest Practicable Date, the carrying value of the Film Library is HK\$3,535,078 and as at the date of the Third Completion, the carrying value of the Film Library will be HK\$3,682,532 including the cost of acquiring a Film from an Independent Third Party before the Completion. The Company considers that the Disposal, if materialised, is in the interests of the Group and the Shareholders as a whole, and in particular it would allow the Group to receive a net proceeds of approximately HK\$177.45 million from the Disposal and record a gain on disposal of approximately HK\$173.77 million after deducting the carrying value of the Film Library as at the date of Third Completion, respectively.

The Film Library, being the subject of the Disposal, accounts for only approximately 11.0% of the revenue generated from the video distribution, film distribution and exhibition, licensing and sub-licensing of film rights as one of the existing businesses of the Company. Apart from the Film Library, the Group still owns approximately 300 feature films, non-feature films, television series, documentaries and Chinese opera. As at the Latest Practicable Date, the Company has two films in post production and one of which is expected to be released in April 2017. Further, the Company has several film projects on hand including one film in shooting and two films under the preparation of shooting. The capital commitment of approximately HK\$52.5 million in respect of these film projects as at the Latest Practicable Date will be financed by internal resources of the Group.

As the film market in PRC shows a good progress in its development, the Group will continue to adopt a cautious approach towards investment in large-scale film productions that enables broader and deeper market penetration.

Upon the Third Completion, the Company intends to continue its existing businesses including film exhibition, licensing and sub-licensing of film rights. Further, the Remaining Group will continue the management of its operations in model and scale (such as number of staff) similar to that as before the Disposal. Hence, the Disposal will not result in significant scaling down nor cessation of the existing businesses of the Company. On the contrary, the Disposal will provide the Company with the opportunity to capture the residual value of the old Films.

LETTER FROM THE BOARD

The Group will apply a substantial part of the net proceeds from the Disposal to develop its securities trading and margin financing business. In addition, the Disposal will enable the Group to strengthen its financial position by applying part of the net proceeds to repay the Group's borrowing. The Group aims to improve its financial performance by focusing on sustainable and profitable businesses such as securities brokerage and margin financing businesses and reducing its finance cost.

Reference is also made to the announcement of the Company dated 18 January 2017 (the "**Placing Announcement**") in relation to the placing agreements dated 18 January 2017 entered into between the Company as the issuer and Gransing Securities Co., Limited ("**Gransing**") as the placing agent, pursuant to which the Company has conditionally agreed to place, through Gransing, on a best effort basis: (i) up to 106,660,000 new Shares at a placing price of HK\$0.519 per placing share under the general mandate; and (ii) up to 213,320,000 new Shares at a placing price of HK\$0.519 per placing share under the specific mandate ("**SM Placing**"). As disclosed in the Placing Announcement, the Group intends to apply part of the net proceeds from the SM Placing of approximately HK\$86.1 million for developing the margin financing business of the Group.

The Company has engaged in securities brokerage and margin financing since the acquisition of China Jianxin Financial Services Limited (formerly known as Win Fung Securities Limited) ("**China Jianxin**") completed in November 2015. China Jianxin is a company licensed under the SFO to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities, the principal activities of which are provision of brokerage services and securities margin financing to clients.

Under the margin financing business segment, credit facilities are offered by China Jianxin to its clients under careful due diligence, including but not limited to whether they will take a bullish or bearish view on the Hong Kong stock market or other securities market around the world. In addition, China Jianxin would review and assess the volatility risk of the underlying assets to which clients are interested to purchase on the market on a margin basis. Such credit facilities offer funding flexibility to clients side by side bolstering China Jianxin's commission income at the end.

For the year ended 30 June 2016 ("**FY2016**"), the Group recorded a revenue of approximately HK\$16.1 million and a profit of approximately HK\$4.0 million from the securities brokerage and margin financing segment as disclosed in the annual report of the Company for FY2016. The revenue from such segment accounted for approximately 10.7% of the Group's consolidated revenue for FY2016.

LETTER FROM THE BOARD

As disclosed in (i) the report named “Financial Review of the Securities Industry” for the half year ended 30 June 2016; and (ii) the report named “Half-Yearly Financial Review of the Securities Industry” for the half year ended 30 June 2006 published by the Securities and Futures Commission of Hong Kong, the total number of active margin clients in Hong Kong increased from approximately 78,000 as at 30 June 2006 to approximately 255,000 as at 30 June 2016, representing a compound annual growth rate (“CAGR”) of approximately 12.6%, and the amounts receivable from margin clients in Hong Kong increased from approximately HK\$17.6 billion as at 30 June 2006 to approximately HK\$153.3 billion as at 30 June 2016, representing a CAGR of approximately 24.2%. The upward trends of both total number of active margin clients in Hong Kong and amount receivable from margin clients in Hong Kong indicate a continuous growing market for margin financing in Hong Kong. Accordingly, the Company is of the view that the margin financing market in Hong Kong is expected to grow in the future.

The Group has been approached by existing clients of China Jianxin and other new clients asking for margin financing facilities from China Jianxin in aggregate for more than HK\$250 million. In view of the increasing trend of the business segment and the recent expected growth in demand from China Jianxin’s clients and other new clients, it is expected that part of the proceeds from the SM Placing of approximately HK\$86.1 million and the Disposal of approximately HK\$147.5 million will be fully utilised for further development of the margin financing business within six months upon completion of the SM Placing and the Disposal respectively. In view of the business model of China Jianxin as detailed above as well as existing facilities and human resources of the business segment, the Group intends to focus its resources of the margin financing segment mainly on providing margin financing facilities for existing and new clients asking for such facilities. Accordingly, the Group intends to continue to apply the existing resources of China Jianxin, proceeds from the Company’s previous fund raising activities applied to the margin financing business and the aforesaid proceeds of approximately HK\$233.6 million in aggregate from the SM Placing and the Disposal for this business segment for margin financing facilities on a revolving basis, considering that margin calls are made by China Jianxin when margin shortfalls occur.

The Directors (including the independent non-executive Directors) consider that the terms of the Sale and Purchase Agreement (including the Consideration) are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, other than the Disposal, the Company has not entered into any agreement, or reached any understanding, or is in any negotiation in relation to (i) any disposal of the Company’s remaining assets; and (ii) any disposal or termination of the Company’s existing businesses.

LETTER FROM THE BOARD

5. FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

The net profits (both before and after taxation and extraordinary items) attributable to the Film Library for each of the financial year ended 30 June 2015 and 30 June 2016 are HK\$6,485,533 and HK\$4,973,072, respectively.

Upon the Third Completion, the Group will cease to own the Film Library and the exploitation agreements relating to the Film Library entered into by the Vendor between the date of the Sale and Purchase Agreement and the date of the Third Completion in accordance with the Sale and Purchase Agreement.

Upon Completion, the Group will receive a net proceeds of the Disposal of approximately HK\$177.45 million. The net proceeds is estimated based on the difference between the Consideration of RMB178,895,064 for the Disposal and (i) the Tax; and (ii) the professional expenses arising from the Disposal. It is estimated that, the Group will record a gain on disposal and accordingly, an increase in the net assets of the Company of approximately HK\$173.77 million after deducting the carrying value of the Film Library as at the date of Third Completion. The Group intends to apply the net proceeds of the Disposal of approximately HK\$177.45 million as follows:

- (a) approximately HK\$30 million will be used to repay the Group's borrowings; and
- (b) the remaining of the net proceeds of the Disposal of approximately HK\$147.45 million will be used to develop the securities trading and margin financing business of the Group.

6. LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios as defined under the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Hence, the Disposal is subject to the requirements for reporting, announcement and approval by the Shareholders at the SGM by way of poll under the Listing Rules. As no Shareholder has any material interest in the Disposal, no Shareholder is required to abstain from voting in the resolution(s) to be proposed at the SGM to approve the Transactions.

Shareholders and potential investors of the Company should note that completion of the Sale and Purchase Agreement is subject to the satisfaction and/or waiver of the Conditions Precedent. Accordingly, the Transactions may or may not proceed. Shareholders and potential investors of the Company are therefore urged to exercise caution when dealing in the Shares and other securities of the Company.

LETTER FROM THE BOARD

7. SGM

The SGM will be convened by the Company at 12:00 noon on Friday, 17 March 2017 at 18th Floor, Wylar Centre Phase II, 192-200 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong, or in the event that a black rainstorm warning or a tropical cyclone warning signal number 8 or above is hoisted or remains hoisted in Hong Kong at 9:00 a.m. on that day, at the same time and place on the second Business Day after 17 March 2017 or any adjournment thereof, at which ordinary resolution(s) will be proposed to seek approval of, among other things, the Transactions.

There is a form of proxy for use at the SGM accompanying this circular. If you are not able to attend the SGM or any adjournment thereof, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event no later than 48 hours before the time fixed for the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof should you so wish.

The ordinary resolution(s) to approve the Transactions at the SGM will be taken by poll and an announcement on the results of the SGM will be made by the Company after the SGM.

8. RECOMMENDATION

The Directors consider that the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommended the Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Transactions.

9. ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Lam Shiu Ming, Daneil
Chairman and Executive Director

1. THREE-YEAR FINANCIAL INFORMATION

Financial information and management discussion and analysis of the Group for each of the three years ended 30 June 2016, 2015, 2014 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.uih.com.hk>).

The audited consolidated financial statements, including the notes thereto, and the management discussion and analysis of the Group for the year ended 30 June 2016 has been set out in pages 79 to 290 and pages 6 to 36 respectively of the annual report 2016 of the Company which are incorporated by reference into this circular and are available on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the annual report 2016:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/1030/LTN20161030015.pdf>

The audited consolidated financial statements, including the notes thereto, and the management discussion and analysis of the Group for the year ended 30 June 2015 has been set out in pages 72 to 246 and pages 6 to 24 respectively of the annual report 2015 of the Company which are incorporated by reference into this circular and are available on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the annual report 2015:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/1028/LTN20151028283.pdf>

The audited consolidated financial statements, including the notes thereto, and the management discussion and analysis of the Group for the year ended 30 June 2014 has been set out in pages 72 to 214 and pages 8 to 25 respectively of the annual report 2014 of the Company which are incorporated by reference into this circular and are available on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the annual report 2014:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/1016/LTN20141016216.pdf>

2. STATEMENT OF INDEBTEDNESS**Borrowings**

As at the close of business on 31 December 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had total borrowings of approximately HK\$55,155,000, comprising (i) the obligations under non-interest bearing finance leases of approximately HK\$82,000; (ii) an unsecured loan note of approximately HK\$15,900,000 which is interest bearing at 6.25% per annum; and (iii) margin loan of approximately HK\$39,173,000 which is interest bearing at 8% per annum.

Save for the margin loan which is secured by shares of the companies listed on the Stock Exchange which shares are among the portfolio of securities in the securities investments business of the Group, the Group's borrowings are not guaranteed or secured with any assets of the Group.

Litigations and Contingent Liabilities

As at the Latest Practicable Date, the Group has the following material litigations and contingent liabilities:

- (i) A court action was commenced in the Court of First Instance of the Hong Kong Special Administrative Region on 17 April 2002 by The Star Overseas Limited (“**Star**”), an independent third party, against Universe Entertainment Limited (“**UEL**”), an indirect wholly-owned subsidiary of the Company.

By the above action, Star alleges that a sum of US\$935,872 (equivalent to HK\$7,299,799) was payable by UEL to Star as its share of the revenue of the movie entitled “Shaolin Soccer” (the “**Movie**”).

Pursuant to an order (the “**Order**”) made by the High Court of Hong Kong on 21 February 2003, UEL was ordered and had paid to Star a sum of HK\$5,495,700, being part of the licence fee of the Movie received by UEL from Miramax Films (being the licensee of the Movie) and which was also part of the sum claimed by Star. Pursuant to the Order, UEL is also liable to pay Star interest in the sum of HK\$350,905 and some of the costs of the application leading to the making of the Order, all of which have been settled. As the Order has not disposed of all the claims of US\$935,872 (equivalent to HK\$7,299,799) by Star, UEL is entitled to continue to defend the claim by Star for recovering the remaining balance in the sum of approximately HK\$1,804,099 (HK\$7,299,799 less HK\$5,495,700).

On 30 April 2002, UEL issued a Writ of Summons against Star for the latter’s wrongful exploitation of certain rights in the Movie co-owned by both parties. UEL claimed to recover all losses and damages suffered by UEL as a result of the wrongful exploitation.

On 9 September 2002, Universe Laser & Video Co. Limited (“**ULV**”), an indirect wholly owned subsidiary of the Company, issued a Writ of Summons against Star for the latter’s infringement of the licensed rights in the Movie held by ULV. ULV claimed to recover all loss and damages suffered by ULV as a result of the said infringement.

In the opinion of legal counsel, it is premature to predict the outcome of the claim against UEL. The Board is of the opinion that the outcome of the said claim against UEL will have no material financial impact on the Group as at 31 December 2016.

- (ii) On 1 September 2008, Koninklijke Philips Electronics N.V. (“**KPE**”) issued a Writ of Summons against among other persons, the Company, ULV and Mr. Lam Shiu Ming, Daneil (one of the Directors), being three of the defendants named therein, in respect of damages arising from alleged infringement of the patents regarding Video Compact Disc owned by KPE.

In the opinion of legal counsel, it is premature to predict the outcome of the said claim made against the Company, ULV and Mr. Lam Shiu Ming, Daneil. The Board is of the opinion that the outflow of economic benefits cannot be reliably estimated and accordingly no provision for any liability that may result has been made as at 31 December 2016.

- (iii) On 8 January 2010, KPE issued a Writ of Summons against among other persons, the Company, ULV and Mr. Lam Shiu Ming, Daneil (one of the Directors), being three of the defendants named therein, in respect of damages arising from alleged infringement of the patents regarding Digital Video Disc owned by KPE.

In June 2012, the action was discontinued against the Company and Mr. Lam Shiu Ming, Daneil. The claim made against ULV has been agreed with KPE and settled by ULV and appropriate legal costs provision was recognised accordingly in the consolidated financial statements for the year ended 30 June 2012.

No additional provision has been made as at 31 December 2016. Based on the consultation with legal counsel, no further material outflow of economic benefits will be incurred for ULV.

- (iv) Universe Artiste Management Limited (“**UAM**”) commenced Court of First Instance Action against Kwong Ling and Oriental Prosperous Int’l Entertainments Limited (collectively the “**Defendants**”) on 30 June 2014 claiming *inter alia* for a declaration that UAM is entitled to extend/renew the term of the Artist Management Contract of the Defendants with UAM (the “**Artist Management Contract**”) for 5 years as from 3 May 2014 to 2 May 2019.

The Defendants filed their defence and counterclaim on 29 September 2014. By such counterclaim, the Defendants claiming against UAM *inter alia* for a declaration that the Artist Management Contract was void and unenforceable, the Artist Management Contract to be rescinded, damages for breach of the Artist Management Contract and for breach of fiduciary duties, a declaration that UAM is liable to account to the Defendants and an order for payment of all sums found to be due by UAM to the Defendants.

In the opinion of legal counsel, it is premature to predict the outcome of the said claim against UAM. The Board considers that the amounts of counterclaim by the Defendants against UAM is insignificant to the Group as a whole.

- (v) On 13 June 2016, Fragrant River Entertainment Culture (Holdings) Limited (“**FREC**”) (a company incorporated in the British Virgin Islands and a whollyowned subsidiary of the Company) and Lucky Famous Limited (“**Lucky Famous**”) entered into the disposal agreement (“**Disposal Agreement**”) pursuant to which FREC had conditionally agreed to sell, and Lucky Famous had conditionally agreed to acquire, 51.0% (“**Relevant Interest**”) of the share capital of AP Group Investment Holdings Limited (“**AP Group**”) at the consideration of HK\$20,400,000 subject to downward adjustment.

In the event that the audited consolidated profit after tax of AP Group and its subsidiaries attributable to owners of AP Group for the period from 1 January 2016 to 31 December 2017 (“**FY 2016 & 2017**”) as shown in the audited consolidated financial statements of AP Group and its subsidiaries for the period of FY 2016 & 2017 (“**FY 2016 & 2017 Audited Accounts**”) (which will only include income or gain generated by activities in the ordinary and usual course of business of AP Group) (the “**FY 2016 & 2017 Net Profit**”) is less than HK\$16,000,000, FREC shall, and the Company shall procure FREC to, pay to Lucky Famous (or to its order) the Adjustment Amount (as defined below) within fourteen (14) Business Days after the FY 2016 & 2017 Audited Accounts are available.

The adjustment amount (“**Adjustment Amount**”) shall be determined in accordance with the following formula:

$$A = \text{HK\$}20,400,000.00 - (\text{NP}/2) \times 5 \times 51\%$$

Where:

“A” means the amount of Adjustment Amount in HK\$; and

“NP” means the FY 2016 & 2017 Net Profit. Where the FY 2016 & 2017 Net Profit is a negative figure, “NP” shall be deemed to be zero.

Based on the above formula, the maximum Adjustment Amount payable by the Group to Lucky Famous is in the amount of HK\$20,400,000.

Completion of the Disposal Agreement took place on 1 July 2016.

Pursuant to the terms of the acquisition of the Relevant Interest between the Group and the original vendors, the original vendors had also agreed to make compensation to the Group for the Adjustment Amount on the same terms. Accordingly, the Group has a back-to-back cover for the Adjustment Amount if it is required to pay such amount.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal accruals and other payables in the ordinary course of the business, as at the close of business on 31 December 2016, the Group did not have other outstanding mortgages, charges, or other loan capital, bank overdrafts, loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

The Directors confirmed that there has been no material changes in the indebtedness and contingent liabilities of the Group since 31 December 2016 and up to and including the Latest Practicable Date.

3. WORKING CAPITAL

After due and careful enquiry, the Directors are of the opinion that, having taking into account the existing internal resources available to the Group, the presently confirmed available banking facilities and the estimated net proceeds from the Disposal, the Group has sufficient working capital for its present requirements for at least next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were aware of the following material adverse change in the financial position or trading position of the Group since 30 June 2016, being the date to which the latest published audited financial statements of the Group was made up.

As stated in the announcement of the Company dated 15 February 2017, the Company has been informed by a fund manager of one of its unlisted available-for-sale financial assets that such investment has incurred losses and the estimated impairment loss of available-for-sale financial assets amounted to a significant amount (currently estimated to be approximately HK\$44.3 million) as at 30 December 2016. Such amount of estimated loss, which is subject to further review, will have an impact on the profit and loss position of the Group for the six months ended 31 December 2016.

Such impairment losses was non-cash in nature and would not have material impact on the cash flow and business operations of the Group.

As the Company is still in the process of finalising the interim results for the six months ended 31 December 2016, the information in the above paragraph is based only on the preliminary assessment by the management according to the information currently available to it and is not based on any figures or information that has been audited or reviewed by the auditors or the audit committee of the Company and may be subject to change.

5. BUSINESSES ACQUIRED AFTER 30 JUNE 2016

On 24 June 2016, Honest Novel Holdings Limited, a wholly-owned subsidiary of the Company, as purchaser and two Independent Third Parties as vendors entered into a sale and purchase agreement in relation to the acquisition of the entire issued share capital of Ample Capital Limited (“**Ample Capital**”), a company incorporated in Hong Kong with limited liability, at a consideration of HK\$30,000,000. Ample Capital is licensed under the SFO to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities. As at the Latest Practicable Date, completion of such acquisition has not yet taken place. Details of such acquisition are disclosed in the announcement of the Company dated 24 June 2016. The aggregate of the remuneration payable to and benefits in kind receivable by the directors of Ample Capital are not expected to be varied in consequence of such acquisition.

In addition, the Company is currently in negotiation with a potential vendor for the acquisition of the membership (“**Membership**”) of The Chinese Gold & Silver Exchange Society (“**CGSE**”). Subject to the completion of the acquisition of the Membership, the Group intends to provide brokerage services for trading in CGSE and such services will generate commission income for the Group.

Save as disclosed above, no business (which would be consolidated into the financial statements of the Group) was acquired, agreed to be acquired or proposed to be acquired by the Group after 30 June 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. FINANCIAL AND TRADING PROSPECT OF THE GROUP AND MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

The Group is principally engaged in securities brokerage and margin financing, money lending, properties and securities investment, film distribution and exhibition, licensing and sub-licensing of film rights, provision of training and coaching service, trading, wholesaling and retailing of optical, watches and jewellery products in Hong Kong and PRC.

The Group recorded a net loss of approximately HK\$141.9 million for the year ended 30 June 2016 (the “**Year**”), as compared with a net profit of approximately HK\$160.9 million for the year ended 30 June 2015. The Board attributes such loss mainly to (i) the fair value loss arising from the investment securities of approximately HK\$143.6 million during the Year. For the year ended 30 June 2015, the Group recorded a fair value gain arising from the investment securities of approximately HK\$229.9 million; (ii) the impairment loss of goodwill of approximately HK\$29.9 million (2015: Nil); and (iii) the impairment loss of investment in associate of approximately HK\$18.4 million (2015: Nil).

The Group's revenue for the Year from continuing operating was approximately HK\$151.0 million, representing an increase of approximately 114.8% as compared to the revenue of approximately HK\$70.3 million for the same period last year. The increase in revenue was mainly due to the completion of the acquisition of 79.99% equity interest of Winston Asia Limited ("Winston"), which are principally engaged in trading, wholesaling and retailing of watches and jewellery products, in July 2015 and the completion of the acquisition of 100% equity interest of China Jianxin Financial Services Limited ("China Jianxin" and formerly known as "Win Fung Securities Limited"), which are principally engaged in securities brokerage and margin financing, in Nov 2015. The Group recorded revenue from Winston and China Jianxin of approximately HK\$54.3 million and approximately HK\$16.1 million respectively during the Year.

Films distribution and exhibition, licensing and sub-licensing of film rights

Revenue from this business segment during the Year was approximately HK\$56.2 million, representing an increase of approximately 36.7% as compared to approximately HK\$41.1 million in the same period last year. It accounted for approximately 37.2% (2015: approximately 58.5%) of the Group's revenue from continuing operation during the Year.

The growth of revenue from this business segment was mainly due to the increase in the number of new titles of films/television series distributed in various videogram formats during the Year.

The performance of this segment improved. Segmental profit of approximately of HK\$8.6 million was recorded during the Year against a segmental loss of approximately HK\$9.6 million for the same period last year, which is mainly due to (i) the increase in the number of new titles of films/television series distributed in various videogram formats during the Year and (ii) higher gross contribution from film exhibition, licensing and sub-licensing of film rights business as a result of the stringent production cost control during the Year.

Due to high production, advertising and distribution cost and keen competition, the business environment of this segment is more challenging than before and the Group will continue to adopt a cautious and prudent approach to identify new opportunities and streamline the cost structure of this business segment.

Although, the Group is disposing the Film Library as announced on 9 January 2017, the Film Library, being the subject of the Disposal, accounts for only approximately 11.0% of the revenue generated from the video distribution, film distribution and exhibition, licensing and sub-licensing of film rights as one of the existing businesses of the Company. Apart from the Film Library, the Group still owns approximately 300 feature films, non-feature films, television series, documentaries and Chinese opera. As at the Latest Practicable Date, the Company has two films in post production and one of which is expected to be released in April 2017. Further, the Company has several film projects on hand including one film in shooting and two films under the preparation of shooting. The capital commitment of approximately HK\$52.5 million in respect of these film projects as at the Latest Practicable Date will be financed by internal resources of the Group.

The Company intends to continue its existing businesses including film exhibition, licensing and sub-licensing of film rights. Further, the remaining Group will continue the management of its operations in model and scale (such as number of staff) similar to that as before the Disposal. Hence, the Disposal will not result in significant scaling down nor cessation of the existing businesses of the Company.

Trade, wholesale and retail of optical, watches and jewellery products

Revenue from this business segment during the Year was approximately HK\$61.7 million (2015: approximately HK\$0.6 million), which included the revenue of approximately HK\$7.4 million (2015: approximately HK\$0.6 million) from trading, wholesaling and retailing of optical products from 2 optical retail shops under the name of “茂昌眼鏡 Hong Kong Optical” in Hong Kong and the revenue of approximately HK\$54.3 million (2015: Nil) from Winston, which are principally engaged in trading, wholesaling and retailing of watches and jewellery products in Hong Kong and PRC. It accounted for approximately 40.9% (2015: approximately 0.9%) of the Group’s revenue from continuing operation during the Year.

According to the latest statistics released by the National Bureau of Statistics of the PRC, (i) the accumulated gross domestic product of PRC has been growing in a slower pace, from a year-on-year growth of approximately 9.80% for the second quarter of 2013 to that of approximately 7.24% for the second quarter of 2016; and (ii) the accumulated total retail sales of consumer goods (retail trades) has also experienced deceleration, with a year-on-year growth of approximately 13.3% for July 2013 to approximately 10.2% for July 2016. This reflects the decreased growth in income of consumers in PRC and implies that the retail market in PRC is following a slowing growth trend.

With reference to the Reports on Monthly Survey of Retail Sales released by the Census and Statistics Department of Hong Kong in August 2016, the value of total retail sales in June 2016, provisionally estimated at HK\$33.7 billion, decreased by 8.9% compared with the same month in 2015. The revised estimate of the value of total retail sales in May 2016 decreased by 8.3% compared with a year earlier. For the first half of 2016, the value of total retail sales decreased by 10.5% compared with the same period in 2015. Analysed by broad type of retail outlet in descending order of value of sales and comparing June 2016 with June 2015, the value of sales of jewellery, watches and clocks, and valuable gifts decreased by 20.4% and optical shops decreased by 5.5%. This reflects a decreasing trend in the retail sales of those of jewellery, watches and optical products in Hong Kong.

Due to the weakening of the retails market in Hong Kong and PRC in first half of 2016, the business outlook of this segment is very challenging. In view of the downward trend of the retail market in Hong Kong and PRC in coming year, the Group will adopt a tight cost control. The Group will review the performance of each retail shops and close down those shops with lower profitability in order to maintain the competitiveness of this business segment. In particular, the number of retail shops for watches and jewellery products have been reduced from around 31 shops to around 16 shops in PRC, and from two shops to one shop in Hong Kong during the Year.

Consequently, segmental loss of approximately HK\$439,000 (2015: segmental loss of approximately HK\$32,000) was recorded during the Year.

The impairment loss on the goodwill of approximately HK\$25.8 million attributable to Winston was recorded during the Year as a result of the continuing weakening of the retailing market of watches and jewellery in Hong Kong and PRC in the first half of 2016.

Securities investments and leasing of investment properties

As at 30 June 2016, the carrying value of the securities investments (recorded as the financial assets at fair value through profit or loss in the consolidated balance sheet) was approximately HK\$247.4 million (30 June 2015: approximately HK\$315.1 million). It included the Group's investment portfolio and consists of twelve (30 June 2015: seven) investment items, all of which are shares of companies listed on the Stock Exchange. Five of the aforesaid investment items held by the Group, i.e., the shares of (i) Leap Holdings Group Ltd. ("**Leap**") valued at approximately HK\$80.3 million as at 30 June 2016; (ii) China Jicheng Holdings Limited ("**China Jicheng**") valued at approximately HK\$39.2 million as at 30 June 2016; (iii) First Credit Finance Group Ltd. ("**First Credit**") valued at approximately HK\$36.3 million as at 30 June 2016; (iv) Convoy Global Holdings Ltd. ("**Convoy**") valued at approximately HK\$33.1 million as at 30 June 2016; and (v) Jiu Rong Holdings Limited ("**Jiu Rong**") valued at approximately HK\$27.9 million as at 30 June 2016, which represented approximately 7.0%, approximately 3.4%, approximately 3.2%, approximately 2.9% and approximately 2.4% of the Group's total asset value as at 30 June 2016 respectively and approximately 32.5%, approximately 15.8%, approximately 14.7%, approximately 13.4% and approximately 11.3% of the value of the Group's financial assets at fair value through profit or loss as at 30 June 2016 respectively.

As at 30 June 2016, the total market value of the aforesaid five investment items was approximately HK\$216.8 million, representing (i) approximately 18.8% of the Group's total asset value and (ii) approximately 87.6% of the total financial assets at fair value through profit or loss of the Group respectively.

Leap and its subsidiaries are principally engaged in provision of foundation works and ancillary services; and construction wastes handling at the public fill reception facilities managed by the Government in Hong Kong. As at 30 June 2016, the Group held 110,000,000 shares of Leap, representing approximately 4.48% of the total issued shares of Leap of 2,456,000,000 shares.

China Jicheng and its subsidiaries are principally engaged in manufacturing and sale of POE umbrellas and nylon umbrellas and umbrella parts such as plastic cloth and shaft to its customers. As at 30 June 2016, the Group held 191,250,000 shares of China Jicheng, representing approximately 0.3% of the total issued shares of China Jicheng of 75,000,000,000 shares.

First Credit and its subsidiaries are principally engaged in money lending business. As at 30 June 2016, the Group held 150,000,000 shares of First Credit, representing approximately 4.1% of the total issued shares of First Credit of 3,628,800,000 shares. In connection with the re-focusing of the Group's business operations as announced on 25 May 2016, the Company decided to change the purpose of holding First Credit from short-term trading to long-term investments. In order to comply with the accounting standard, the securities investments of First Credit is included in financial assets at fair value through profit or loss as current assets in the consolidated balance sheet for the accounting purpose despite the purpose of holding is long-term investment.

Convoy and its subsidiaries are principally engaged in independent financial advisory business, money lending business, proprietary investment business, asset management business and corporate finance advisory services. As at 30 June 2016, the Group held 93,336,000 shares of Convoy, representing approximately 0.6% of the total issued shares of Convoy of 14,938,896,000 shares.

Jiu Rong and its subsidiaries are principally engaged in (i) design, assembly and installation of water meter; and (ii) TV business. As at 30 June 2016, the Group held 180,000,000 shares of Jiu Rong, representing approximately 4.7% of the total issued shares of Jiu Rong of 3,800,000,000 shares.

The Group's recorded fair value loss on changes on investment securities of approximately HK\$143.6 million (2015: fair value gain of approximately HK\$229.9 million) during the Year. Such loss was mainly attributable to the volatile and unfavourable market sentiment in the stock market in Hong Kong during the Year which lead to the substantial decrease in the market price of the investments of the Group.

The investments in the shares of Jiu Rong, China Jicheng and Convoy recorded fair value loss of approximately HK\$43.2 million, approximately HK\$40.4 million and approximately HK\$30.3 million respectively, and together contributed to approximately 79.3% of the total fair value loss on changes on investment securities of the Group for the Year.

As at 30 June 2016, the Group's securities investments portfolio included the shares of companies listed on the Stock Exchange and engaged in different industries such as entertainment, manufacturing, financial advisory business, asset management, solar energy, money lending, construction, interior design and improvement, financial printing services, natural resources trading and forestry and agricultural business etc. The Group will continue reviewing its investment portfolios, so as to achieve a better return to the Group.

The rental income from leasing of investment properties remained stable during the Year. The Group recorded rental income of approximately HK\$1.0 million (2015: approximately HK\$1.0 million) during the Year.

The overall segment loss of this business segment was approximately HK\$122.3 million (2015: segment profit of approximately HK\$225.0 million) during the Year.

Available-for-sale financial assets

As at 30 June 2016, the available-for-sale financial assets of the Group was approximately HK\$85.8 million (30 June 2015: approximately HK\$88.4 million) consisted of five (30 June 2015: four) investment items in non-listed funds or companies. One of the aforesaid investment items held by the Group, named “Hydra Capital SPC – Class A #1 Share” (“**Hydra Capital**”) valued at approximately HK\$60.7 million as at 30 June 2016 which represented (i) approximately 5.3% of the Group’s total asset value as at 30 June 2016 and (ii) approximately 70.7% of the value of the Group’s available-for-sale financial assets as at 30 June 2016.

Hydra Capital is an exempted company incorporated with limited liability and registered as a segregated portfolio company under the laws of the Cayman Islands established for the purpose of making investments on behalf of its portfolios where its principal investments are internet related and mobile application in Asia.

As at 30 June 2016, the Group held 5,500 shares in Hydra Capital, representing approximately 24.6% of the total issued shares of Hydra Capital of 22,400 shares.

The Group recorded a decrease in the carrying value of the available-for-sale financial assets of approximately HK\$12.3 million (2015: increase in value of approximately HK\$8.3 million) in the other comprehensive (loss)/income during the Year. In view of the negative trend of the financial market and business outlook for the available-for-sale financial assets, including factors such as industry and sector performance as well as operational and financing cash flow, it was determined that the carrying value of the available-for-sale financial assets was depreciated.

Money lending business

The Group engaged in money lending business in Hong Kong during the Year. As at 30 June 2016, the Group had (i) loans receivable of approximately HK\$43.2 million, and (ii) loan to an associate of HK\$5.0 million; totally HK\$48.2 million loans receivable under the money lending business (As at 30 June 2015: approximately HK\$37.0 million) and recognised interest income of approximately HK\$8.5 million (2015: approximately HK\$5.2 million). Loans receivable are interest-bearing at rates ranging from 7% to 12% per annum (2015: 8% to 15% per annum). It accounted for approximately 5.6% (2015: approximately 7.4%) of the Group’s revenue from continuing operation during the Year. There was no default event happened in respect of the Group’s loans receivable during the Year (2015: Nil). The segment profit of this business segment was approximately HK\$0.7 million (2015: approximately HK\$2.5 million) during the Year. The decrease in segment profit is mainly due to the increase in selling and administrative expenses to promote and develop the money lending business as compared to the same period last year.

It is expected that the money lending market in Hong Kong will continue to grow in the near future. As disclosed in the report named “Monthly Statistical Bulletin” published by the Hong Kong Monetary Authority in July 2016, the total loans and advances of all authorized money lending institutions in Hong Kong increased from approximately HK\$2,467.8 billion in 2006 to approximately HK\$7,534.5 billion in 2015, representing a CAGR of approximately 13.2%. The increasing trend of total loans and advances indicates a rising demand in the money lending market in Hong Kong. Accordingly, the Group intends to continue to expand the money lending business, including potential acquisition of listed and unlisted shares of money lending companies, to effectively utilise the Group’s cash resources and to increase the income sources of the Group.

Securities brokerage and margin financing

The Group completed the acquisition of 100% equity interest in China Jianxin in November 2015. China Jainxin is a licensed corporation under the SFO with the following regulated activities: (i) Type 1: Dealing in securities; and (ii) Type 4: Advising on securities. The principal activities of China Jainxin are provision of securities brokerage services and securities margin financing to clients.

Revenue from this business segment during the Year was approximately HK\$16.1 million (2015: Nil). It accounted for approximately 10.6% (2015: Nil) of the Group’s revenue from continuing operations during the Year. The segment profit of this business segment was approximately HK\$4.0 million (2015: Nil) during the Year.

The acquisition of China Jainxin during the Year enabled the Company to diversify its business into the financial services industry and broaden revenue sources of the Group in the coming financial periods.

As disclosed in the report named “Financial Review of the Securities Industry” for the year ended 31 December 2015 and the report named “Yearly Financial Review of the Securities Industry” in relation to the year of 2006 published by the Securities and Futures Commission of Hong Kong, the total number of active margin clients in Hong Kong increased from approximately 80,000 in 2006 to approximately 242,000 in 2015, representing a compound annual growth rate (“CAGR”) of approximately 13.1% and the amount receivable from margin clients in Hong Kong increased from approximately HK\$20.6 billion in 2006 to approximately HK\$145.3 billion in 2015, representing a CAGR of approximately 24.2%. The upward trend of both total number of active margin clients in Hong Kong and amount receivable from margin clients in Hong Kong indicate a continuous growing market for margin financing in Hong Kong.

Furthermore, Shenzhen-Hong Kong Stock Connect Program was launched and crossborder investment activities will be further encouraged. The Company is of the view that the securities brokerage services and margin financing business in Hong Kong is expected to have a strong growth in the future.

In addition, the Group will continue to identify different investment opportunities in other business sectors with enormous potentials. This allows the Group to further diversify its businesses and broaden the income sources and therefore maximising the return to the Shareholders.

On 24 June 2016, Honest Novel Holdings Limited, a wholly-owned subsidiary of the Company, as purchaser and two Independent Third Parties as vendors entered into a sale and purchase agreement in relation to the acquisition of the entire issued share capital of Ample Capital Limited (“**Ample Capital**”), a company incorporated in Hong Kong with limited liability, at a consideration of HK\$30,000,000. Ample Capital is licensed under the SFO to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities. As at the Latest Practicable Date, completion of such acquisition has not yet taken place. Details of such acquisition are disclosed in the announcement of the Company dated 24 June 2016. The aggregate of the remuneration payable to and benefits in kind receivable by the directors of Ample Capital are not expected to be varied in consequence of such acquisition.

In addition, the Group is considering to acquire the membership of the Chinese Gold & Silver Exchange Society and to develop the related business.

Save as disclosed above, as at the Latest Practicable Date, the Company has not entered, or proposed to enter, into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether expressed and implied, and negotiation and intention to dispose of the existing businesses of the Group.

Financial Resources and Liquidity of the Group

The Group’s financial position remained healthy. According to the latest published audited financial statements of the Group, as at 30 June 2016, the Group had cash balances of approximately HK\$101.2 million. As at 30 June 2016, the Group had total assets of approximately HK\$1,150.7 million.

The Group’s gearing ratio as at 30 June 2016 was 1.77%, which was calculated on the basis of the total debt (including borrowings, obligations under finance lease and bank overdraft) divided by total equity of the Group. Finance cost for the year ended 30 June 2016 was approximately HK\$2.3 million. The significant increase of finance cost was mainly due to the increase of the Group’s borrowing outstanding during the year ended 30 June 2016 for the acquisition and development of new or current business of the Group.

In light of the fact that most of the Group’s transactions are denominated in HK\$, RMB and US\$, the Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB. The Group will continue to take proactive measures and monitor its exposure to the movements of these currencies closely.

Borrowings

Set out below maturity profile of the Group's borrowings as at 30 June 2016:

	As at 30 June 2016 <i>HK\$'000</i>
Amounts due within one year:	
– Coupon note	9,200
– Obligation under finance lease	35
– Bank overdrafts	<u>4,020</u>
	13,255
Amounts due over one year	
– Obligation under finance lease	<u>63</u>
	<u>63</u>
Total borrowings	<u><u>13,318</u></u>

The coupon note bears fixed interest rate at 6.5% per annum and is not secured.

All of the banking facilities are subject to the fulfillment of covenants. If the Group were in breach of the covenants, the drawn down facilities would become repayable on demand. In addition, all of the Group's banking facility letters contain clauses which give the lender the rights at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants and does not consider it probable that the bank will exercise its discretion to demand repayment so long as the Group continues to meet these requirements. As at 30 June 2016, none of the covenants relating to drawn down facilities had been breached.

All of the bank overdrafts, including amounts repayable on demand, are carried at amortised cost.

As at 30 June 2016, the bank overdrafts of the Group were secured by the trading securities held by the former shareholder of a subsidiary of the Company and corporate guarantee of the Company.

The carrying amounts of the Group's borrowings are denominated in Hong Kong dollars. The fair values of the borrowings approximate their carrying amounts as at 30 June 2016.

Capital Expenditure Commitment

As at 30 June 2016, the Group had capital expenditure commitments of approximately HK\$59.8 million in relation to purchase of film rights and production of films and licence agreement.

Charge on assets

As at 30 June 2016, bank balances – (general accounts) with an aggregate value of approximately HK\$3,000 were pledged as collaterals for bank overdrafts and bank borrowings of a subsidiary.

Employees and Remuneration Policies

As at the Latest Practicable Date, the Group employed 133 staff. Remuneration is reviewed annually and certain staffs are entitled to commission. In addition to basic salaries, staff benefits included discretionary bonus, medical insurance scheme and mandatory provident fund.

Share Option Scheme

Pursuant to an ordinary resolution passed in the annual general meeting of the Company held on 2 December 2013, the Company conditionally approved and adopted a share option scheme (the “**Share Option Scheme**”) in compliance with the Listing Rules. The particulars of the share options under the Share Option Scheme outstanding during the Year and as at 30 June 2016 were as follows:

Participants	Date of grant	Period during which share options are exercisable	Price per share on exercise of options HK\$	Number of share options outstanding as at 30th June 2016	Adjusted price per share on exercise of options HK\$	Adjusted number of share options outstanding as at 30 June 2016	Note
Executive directors							
Mr. Lam Shiu Ming, Daneil	21 July 2014	21 July 2014 to 20 July 2016	10.77	334,367	–	–	(1)
Mr. Hung Cho Sing	21 July 2014	21 July 2014 to 20 July 2016	10.77	334,367	–	–	(1)
	4 March 2016	4 March 2016 to 3 March 2018	0.92	1,481,400	0.811	1,680,503	(2)
Mr. Lam Kit Sun	21 July 2014	21 July 2014 to 20 July 2016	10.77	334,367	–	–	(1)
	4 March 2016	4 March 2016 to 3 March 2018	0.92	1,481,400	0.811	1,680,503	(2)
Ms. Cheng Hei Yu*	4 March 2016	4 March 2016 to 3 March 2018	0.92	1,481,400	0.811	1,680,503	(2)
Non-executive director							
Mr. Chan Shiu Kwong, Stephen#	4 March 2016	4 March 2016 to 3 March 2018	0.92	1,481,400	0.811	1,680,503	(2)
Other eligible participants							
	21 July 2014	21 July 2014 to 20 July 2016	10.77	1,097,408	–	–	(1)
	30 September 2015	30 September 2015 to 29 September 2017	1.69	2,072,088	1.489	2,351,799	(2)
	4 March 2016	4 March 2016 to 3 March 2018	0.92	<u>3,853,700</u>	0.811	4,371,645	(2)
				<u>13,951,897</u>			

* Resigned as executive Director on 7 October 2016

Retired as non-executive Director on 30 November 2016

Note:-

- (1) There is no adjustment to the exercise prices and number of the outstanding share options which had been lapsed before the rights issue completed in October 2016.
- (2) The adjusted exercise prices and the adjusted number of the outstanding share options which had taken effect upon the completion of the rights issue in October 2016.

UNAUDITED PROFIT AND LOSS STATEMENT OF THE FILM LIBRARY

In accordance with Rule 14.68(2)(b)(i) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the unaudited profit and loss statement of the Film Library for the years ended 30 June 2014, 2015, 2016 and for the three months ended 30 September 2016 are set out below. In the opinion of the directors of the Company, such information has been properly compiled and derived from the underlying books and records of the Group. The Company has engaged Crowe Horwath (HK) CPA Limited to conduct a review of such information in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants. Crowe Horwath (HK) CPA Limited has reviewed and found such information has been properly compiled and derived from the underlying books and records of the Group.

UNAUDITED PROFIT OR LOSS STATEMENT

	Note	Year ended 30 June			Three months ended 30 September
		2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2016 HK\$'000
Distribution commission income, licensing income and film exhibition income arising from the Film Library	(i)	129,826	16,486	6,202	1,187
Less:					
Amortisation of film rights	(ii)	(116,183)	(4,762)	(655)	(332)
Film exhibition expenses	(iii)	(8,409)	-	-	-
Impairment of film rights		(1,211)	(4,969)	(513)	-
Others		(1,332)	(269)	(61)	(14)
Profit for the year/period		<u>2,691</u>	<u>6,486</u>	<u>4,973</u>	<u>841</u>

Notes:

- (i) The income generated from the Film Library mainly arising from the commission received from distribution, licensing of film rights, and film exhibitions. During the year ended 30 June 2014, the Group had newly released two films which generated a significant amount of income. The two films newly released during the year ended 30 June 2014 were the latest films of the Film Library which does not contain any films that were released after 30 June 2014, hence, the income generated from the Film Library gradually decreased to HK\$16,486,000, HK\$6,202,000 and HK\$1,187,000 for the year ended 30 June 2015 and 2016 and the three months ended 30 September 2016 respectively.

- (ii) Film rights comprise fees paid and payable under agreements and direct expenses incurred during the production of films, for the reproduction and/or distribution of films in various videogram formats, film exhibition, licensing and sub-licensing of film titles. The cost of film rights is amortised over the shorter of the underlying license period and their useful lives. The substantial amount of amortisation expenses in the amount of HK\$116,183,000 during the year ended 30 June 2014 was mainly attributed to the production costs incurred by the newly released films in the Film Library during the year ended 30 June 2014 that were amortised over its normal life cycle when the film released. The significant decrease in amortisation of film rights for the year ended 30 June 2015 and 2016 and the three months ended 30 September 2016 is mainly due to the fact that the film rights of the most of the non-newly released films had been fully amortised in previous years.

- (iii) The film exhibition expenses refer to the cinema costs charged by the theatre operators and film promotional costs when the films exhibited in cinemas. For the year ended 30 June 2014, the film exhibition expenses incidental to the two newly released films recorded HK\$8,409,000. There were no film exhibition expense occurred subsequent to the year ended 30 June 2014 due to no more new films released after 30 June 2014 contained in the Film Library.

**A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING
GROUP****Introduction**

The unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") presented below is prepared to illustrate (a) the financial position of the Remaining Group as if the Disposal had been completed on 30 June 2016; and (b) the results and cash flows of the Remaining Group for the year ended 30 June 2016 as if the Disposal had been completed on 1 July 2015. This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not purport to represent the true picture of the financial position of the Remaining Group as at 30 June 2016 or at any future date had the Disposal been completed on 30 June 2016 or the results and cash flows of the Remaining Group for the year ended 30 June 2016 or for any future period had the Disposal been completed on 1 July 2015.

The Unaudited Pro Forma Financial Information is prepared based on the audited consolidated balance sheet of the Group as at 30 June 2016, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 30 June 2016 extracted from the audited consolidated financial statements of the Group for the year ended 30 June 2016 as set out in the 2016 published annual report of the Company, and the financial information of the Film Library after giving effect to the pro forma adjustments described in the notes to the Unaudited Pro Forma Financial Information and is prepared in accordance with Rules 4.29 and 14.68(2)(b)(ii) of the Listing Rules.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

1. Unaudited Pro Forma Consolidated Balance Sheet of the Remaining Group

	The Group as at 30 June 2016	Pro forma adjustments				The Remaining Group as at 30 June 2016
	HK\$'000 (Note 1)	HK\$'000 (Notes 3(a)&4)	HK\$'000 (Note 5)	HK\$'000 (Note 6)	HK\$'000 (Note 8)	HK\$'000
NON-CURRENT ASSETS						
Property, plant and equipment	6,224	-	-	-	-	6,224
Investment properties	25,560	-	-	-	-	25,560
Goodwill	59,447	-	-	-	-	59,447
Other intangible assets	14,231	-	-	-	-	14,231
Film rights and films in progress	54,278	(3,682)	2,507	-	-	53,103
Investments in associates	25,730	-	-	-	-	25,730
Investments in joint ventures	482	-	-	-	-	482
Loans receivable	20,000	-	-	-	-	20,000
Loan receivable from a joint venture	8,364	-	-	-	-	8,364
Film related deposits	31,592	-	-	-	-	31,592
Deposits paid	363	-	-	-	-	363
Deferred income tax assets	365	-	-	-	(165)	200
Contingent consideration receivable	10,930	-	-	-	-	10,930
Available-for-sale financial assets	85,802	-	-	-	-	85,802
	343,368	(3,682)	2,507	-	(165)	342,028
CURRENT ASSETS						
Inventories	14,304	-	-	-	-	14,304
Accounts receivable	224,739	-	-	-	-	224,739
Loans receivable	23,163	-	-	-	-	23,163
Loan to an associate	5,000	-	-	-	-	5,000
Deposits paid, prepayments and other receivables	68,492	-	-	-	-	68,492
Financial assets at fair value through profit or loss	247,444	-	-	-	-	247,444
Bank balances and cash – trust accounts	116,667	-	-	-	-	116,667
Cash and cash equivalents	101,173	177,454	(2,507)	(6,141)	-	269,979
Assets associated with disposal group classified as held for sale	6,381	-	-	-	-	6,381
	807,363	177,454	(2,507)	(6,141)	-	976,169
NON-CURRENT LIABILITIES						
Obligations under finance lease	(63)	-	-	-	-	(63)
Deferred tax liabilities	(2,229)	-	-	-	-	(2,229)
	(2,292)	-	-	-	-	(2,292)
CURRENT LIABILITIES						
Accounts payable	(254,722)	-	-	-	-	(254,722)
Amount due to an associate	(1,941)	-	-	-	-	(1,941)
Other payables and accrued charges	(64,121)	-	-	-	-	(64,121)
Borrowings	(9,200)	-	-	-	-	(9,200)
Deposits received	(43,813)	-	-	-	-	(43,813)
Obligations under finance lease	(35)	-	-	-	(35)	(35)
Taxation payable	(9,068)	-	-	(1,360)	-	(10,428)
Bank overdrafts	(4,020)	-	-	-	-	(4,020)
Liabilities associated with disposal group classified as held for sale	(9,598)	-	-	-	-	(9,598)
	(396,518)	-	-	(1,360)	-	(397,878)
NET ASSETS	751,921	173,772	-	(7,501)	(165)	918,027
EQUITY						
Equity attributable to the owners of the Company						
Share capital	1,778	-	-	-	-	1,778
Share premium	532,910	-	-	-	-	532,910
Other reserves	67,301	-	-	-	-	67,301
Retained earnings	151,162	173,772	-	(7,501)	(165)	317,268
	753,151	173,772	-	(7,501)	(165)	919,257
Non-controlling interests	(1,230)	-	-	-	-	(1,230)
TOTAL EQUITY	751,921	173,772	-	(7,501)	(165)	918,027

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**
**2. Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the
Remaining Group**

	The Group					The
	for the year					Remaining
	ended	Pro forma adjustments				Group for
30 June 2016						the year
	HK\$\$'000	HK\$\$'000	HK\$\$'000	HK\$\$'000	HK\$\$'000	ended
	(Note 2)	(Note 3(b))	(Note 6)	(Note 7)	(Note 8)	30 June 2016
						HK\$\$'000
CONTINUING OPERATIONS						
Revenue						
Sales of goods – video distribution, optical, watches and jewellery products	72,320	-	-	-	-	72,320
Income on film exhibition, licensing and sub-licensing of film rights	45,563	-	(6,202)	-	-	39,361
Income from other business	33,150	-	-	-	-	33,150
Total revenue	151,033	-	(6,202)	-	-	144,831
Income						
Fair value change of financial assets at fair value through profit or loss	(143,564)	-	-	-	-	(143,564)
Total revenue and income	7,469	-	(6,202)	-	-	1,267
Cost of revenue and income						
Cost of inventories sold	(38,000)	-	-	-	-	(38,000)
Related cost on film exhibition, licensing and sub-licensing of film rights	(13,129)	-	61	655	-	(12,413)
Cost from other businesses	(3,775)	-	-	-	-	(3,775)
Total cost of revenue and other income	(54,904)	-	61	655	-	(54,188)
Selling expenses	(18,275)	-	-	-	-	(18,275)
Administrative expenses	(72,240)	-	-	-	-	(72,240)
Other income	22,872	-	-	-	-	22,872
Other gains – net	151	-	-	-	-	151
Other operating expenses	(4,429)	-	-	-	-	(4,429)
Gain on step acquisition of a subsidiary	1,571	-	-	-	-	1,571
Impairment loss of film rights and firms in progress	(4,226)	-	-	513	-	(3,713)
Fair value change and loss on redemption of convertible bonds	(1,813)	-	-	-	-	(1,813)
Fair value change on contingent consideration receivable	4,080	-	-	-	-	4,080
Fair value change of contingent consideration payable	60	-	-	-	-	60
Impairment loss of goodwill	(29,923)	-	-	-	-	(29,923)
Impairment loss on interest in an associate	(18,421)	-	-	-	-	(18,421)
Amortisation of other intangible assets	(135)	-	-	-	-	(135)
Finance income	298	-	-	-	-	298
Finance costs	(2,263)	-	-	-	-	(2,263)
Share of profit of associates	3,899	-	-	-	-	3,899
Share of loss of a joint venture	(224)	-	-	-	-	(224)
Gain on disposal of the Film Library	-	172,604	-	-	-	172,604
(Loss)/Profit before tax	(166,453)	172,604	(6,141)	1,168	-	1,178
Income tax credit	26,179	-	(1,360)	-	(165)	24,654
(Loss)/Profit for the year from continuing operations	(140,274)	172,604	(7,501)	1,168	(165)	25,832
DISCONTINUED OPERATION						
Loss for the year from discontinued operation	(1,602)	-	-	-	-	(1,602)
(Loss)/Profit for the year	(141,876)	172,604	(7,501)	1,168	(165)	24,230

3. Unaudited Pro Forma Consolidated Statement of Cash Flows of the Remaining Group

	The Group					The
	for the year					Remaining
	ended					Group for
30 June 2016	Pro forma adjustments				30 June 2016	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(Note 2)	(Notes 3(b) &4)	(Note 5)	(Note 6)	(Note 7)		
(Loss)/profit before tax for the year						
From continuing operations	(166,453)	172,604	–	(6,141)	1,168	1,178
From discontinued operation	(1,180)	–	–	–	–	(1,180)
Adjustments for:						
– Dividend income from available-for-sale financial assets	(20,473)	–	–	–	–	(20,473)
– Depreciation of property, plant and equipment	3,976	–	–	–	–	3,976
– Amortisation of film rights	8,891	–	–	–	(655)	8,236
– Amortisation of other intangible assets	135	–	–	–	–	135
– Fair value change on contingent consideration receivable	(4,080)	–	–	–	–	(4,080)
– Fair value change on contingent consideration payable	(60)	–	–	–	–	(60)
– Impairment losses of interests in an associate	18,421	–	–	–	–	18,421
– Impairment losses of film rights and films in progress	4,226	–	–	–	(513)	3,713
– Impairment losses of goodwill	29,923	–	–	–	–	29,923
– Write-off of inventories	1,709	–	–	–	–	1,709
– Write-off of film related deposit	417	–	–	–	–	417
– Reversal of write-down of inventories	(317)	–	–	–	–	(317)
– Share based payment	3,576	–	–	–	–	3,576
– Net loss on disposal of property, plant and equipment	95	–	–	–	–	95
– Gain on step acquisition of a subsidiary	(1,571)	–	–	–	–	(1,571)
– Finance income	(298)	–	–	–	–	(298)
– Finance costs	2,263	–	–	–	–	2,263
– Gain on disposal of Film Library	–	(172,604)	–	–	–	(172,604)
– Waiver of accounts payable	(622)	–	–	–	–	(622)
– Share of profits of associates	(3,899)	–	–	–	–	(3,899)
– Share of loss of a joint venture	224	–	–	–	–	224
– Fair value change and loss on redemption of convertible bonds	1,813	–	–	–	–	1,813

APPENDIX III

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

	The Group					The
	for the year					Remaining
	ended					Group for
30 June 2016	Pro forma adjustments				30 June 2016	the year
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	ended
<i>(Note 2)</i>	<i>(Notes 3(b) &4)</i>	<i>(Note 5)</i>	<i>(Note 6)</i>	<i>(Note 7)</i>		30 June 2016
						<i>HK\$'000</i>
Changes in working capital:						
- Inventories	11,240	-	-	-	-	11,240
- Accounts receivable	26,684	-	-	-	-	26,684
- Amount due from a joint venture	10	-	-	-	-	10
- Loans receivable	(6,163)	-	-	-	-	(6,163)
- Loan to an associate	(5,000)	-	-	-	-	(5,000)
- Deposits paid, prepayments and other receivables	6,991	-	-	-	-	6,991
- Accounts payable	(107,118)	-	-	-	-	(107,118)
- Amount due to an associate	1,941	-	-	-	-	1,941
- Other payable and accrued charges	(8,363)	-	-	-	-	(8,363)
- Deposits received	(5,347)	-	-	-	-	(5,347)
- Financial assets at fair value through profit or loss	67,665	-	-	-	-	67,665
- Bank balances and cash - trust accounts	51,724	-	-	-	-	51,724
Cash used in operations	(89,020)	-	-	(6,141)	-	(95,161)
Tax paid	(11,884)	-	-	-	-	(11,884)
Net cash used in operating activities	(100,904)	-	-	(6,141)	-	(107,045)
Cash flows from investing activities						
Acquisition of a subsidiary, net of cash acquired	(81,497)	-	-	-	-	(81,497)
Investments in associates	(38,792)	-	-	-	-	(38,792)
Purchase of property, plant and equipment	(1,632)	-	-	-	-	(1,632)
Decrease in film related deposits	6,186	-	-	-	-	6,186
Payment for film rights and films in progress	(49,489)	-	(2,507)	-	-	(51,996)
Investment in available-for-sale financial assets	(11,330)	-	-	-	-	(11,330)
Interest received	74	-	-	-	-	74
Net proceeds from disposal of the Film Library	-	177,454	-	-	-	177,454
Dividends received from available-for-sale financial assets	20,473	-	-	-	-	20,473

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

	The Group					The
	for the year					Remaining
	ended	Pro forma adjustments			ended	Group for
30 June 2016	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	30 June 2016
	(Note 2)	(Notes 3(b) &4)	(Note 5)	(Note 6)	(Note 7)	HK\$'000
Net cash (used in)/generated from investing activities	(156,007)	177,454	(2,507)	-	-	18,940
Cash flows from financing activities						
Proceeds from placing of new ordinary shares	223,082	-	-	-	-	223,082
Payments for transaction costs attributable to issue of new ordinary shares from placing	(8,026)	-	-	-	-	(8,026)
Proceeds from rights issue of shares	120,546	-	-	-	-	120,546
Payments for transaction costs attributable to issue of new ordinary shares from rights issue	(4,195)	-	-	-	-	(4,195)
Proceeds from borrowings	50,000	-	-	-	-	50,000
Repayment of borrowings	(62,000)	-	-	-	-	(62,000)
Payment for redemption of convertible note	(64,000)	-	-	-	-	(64,000)
Capital element of finance leases payments	(34)	-	-	-	-	(34)
Interest paid	(2,263)	-	-	-	-	(2,263)
Net cash generated from financing activities	<u>253,110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>253,110</u>
Net (decrease)/increase in cash and cash equivalents	(3,801)	177,454	(2,507)	(6,141)	-	165,005
Cash and cash equivalents at the beginning of the year	102,834	-	-	-	-	102,834
Currency translation differences	(521)	-	-	-	-	(521)
Cash and cash equivalents at the end of the year	<u><u>98,512</u></u>	<u><u>177,454</u></u>	<u><u>(2,507)</u></u>	<u><u>(6,141)</u></u>	<u><u>-</u></u>	<u><u>267,318</u></u>

Notes:

1. The amounts are extracted from the audited consolidated balance sheet of the Group as at 30 June 2016 as set out in the published annual report of the Group for the year ended 30 June 2016.
2. The amounts are extracted from the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 30 June 2016 as set out in the published annual report of the Group for the year ended 30 June 2016.
3. (a) These adjustments represent the estimated gain on Disposal, assuming the Disposal had taken place on 30 June 2016:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Consideration upon Disposal		200,184
Less: Net carrying amount of the Film Library as at 30 June 2016		(3,682)
Less: Estimated expenses directly attributable to the Disposal	(2,712)	
PRC withholding income tax – 10%	<u>(20,018)</u>	<u>(22,730)</u>
Estimated gain on Disposal		<u><u>173,772</u></u>

Estimated gain on Disposal comprises the cash proceeds of RMB178,895,064 (equivalent to HK\$200,184,000) received at the completion of the Disposal, net of estimated direct expenses of HK\$2,712,000, PRC withholding income tax expense of HK\$20,018,000 and the net carrying amount of the Film Library as at 30 June 2016 in the amount of HK\$3,682,000. The exchange rate being used to convert the consideration upon Disposal from RMB to HK\$ is RMB1 equivalent to HK\$1.119.

- (b) These adjustments represent the estimated gain on the Disposal, assuming the Disposal had taken place on 1 July 2015:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Consideration upon Disposal		200,184
Less: Net carrying amount of the Film Library as at 1 July 2015		(4,850)
Less: Estimated expenses directly attributable to the Disposal	(2,712)	
PRC withholding income tax – 10%	<u>(20,018)</u>	<u>(22,730)</u>
Estimated gain on Disposal		<u><u>172,604</u></u>

Estimated gain on Disposal comprises the cash proceeds of RMB178,895,064 (equivalent to HK\$200,184,000) received at the completion of the Disposal, net of estimated direct expenses of HK\$2,712,000, PRC withholding income tax expense of HK\$20,018,000 and the net carrying amount of the Film Library as at 1 July 2015 in the amount of HK\$4,850,000. The exchange rate being used to convert the consideration upon Disposal from RMB to HK\$ is RMB1 equivalent to HK\$1.119.

APPENDIX III**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

4. These adjustments represent the net cash inflow from the Disposal, assuming the Disposal had taken place on 1 July 2015 or 30 June 2016:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Consideration upon Disposal		200,184
Less: Estimated expenses directly attributable to the Disposal	(2,712)	
PRC withholding income tax – 10%	<u>(20,018)</u>	<u>(22,730)</u>
Net cash inflow from the Disposal		<u><u>177,454</u></u>

Net cash inflow from the Disposal comprises the cash proceeds of RMB178,895,064 (equivalent to HK\$200,184,000) received at the completion of the Disposal, net of estimated direct expenses of HK\$2,712,000 and PRC withholding income tax expense of HK\$20,018,000, assuming the Disposal had taken place on 1 July 2015 or 30 June 2016. The exchange rate being used to convert the consideration upon Disposal from RMB into HK\$ is RMB1 equivalent to HK\$1.119.

5. These adjustments represent the settlement of the estimated total costs to purchase the portion of films owned by the joint operators that were held by the Film Library, assuming they were settled by the Remaining Group as at 30 June 2016 due to the Disposal being completed on 30 June 2016.
6. These adjustments represent the exclusion of the results and cash flows of the Film Library for the year ended 30 June 2016 as if the Disposal had been completed on 1 July 2015.
7. These adjustments represent the reversal of the amortisation and impairment loss on film rights for the year ended 30 June 2016 assuming the Disposal being completed on 1 July 2015.
8. These adjustments represent the tax losses being recognised as deferred tax assets in previous years that are available to be offset against the assessable profit generated from the Disposal for the year ended 30 June 2016 assuming the Disposal being completed on 1 July 2015.
9. The above adjustments are not expected to have a continuing effect on the unaudited pro forma consolidated statement of comprehensive income of the Remaining Group and the unaudited pro forma consolidated statement of cash flows of the Remaining Group.

**B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
REMAINING GROUP**

The following is the text of a report received from Crowe Horwath (HK) CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

國富浩華 (香港) 會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

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**TO THE DIRECTORS OF UNIVERSE INTERNATIONAL FINANCIAL HOLDINGS
LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Universe International Financial Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated balance sheet as at 30 June 2016, the unaudited pro forma consolidated statement of comprehensive income for the year ended 30 June 2016, the unaudited pro forma consolidated statement of cash flow for the year ended 30 June 2016 and related notes (the “Unaudited Pro Forma Financial Information”) as set out on pages III-1 to III-8 of the circular issued by the Company dated 24 February 2017 (the “Circular”), in connection with the proposed disposal of the film library comprising 202 feature films (the “Film Library”) (the “Proposed Disposal”) by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-8.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Proposed Disposal on the Group’s financial position as at 30 June 2016 and the Group’s financial performance and cash flows for the year ended 30 June 2016 as if the Proposed Disposal had taken place at 30 June 2016 and at 1 July 2015 respectively. As part of this process, information about the Group’s financial

position, financial performance and cash flows have been extracted by the directors from the Group's consolidated financial statements for the year ended 30 June 2016, on which an audit report has been issued.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

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

Our Independence and Quality Control

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

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

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

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

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

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Disposal at 30 June 2016 or 1 July 2015 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Crowe Horwath (HK) CPA Limited

Certified Public Accountants

Hong Kong, 24 February 2017

Kwok Cheuk Yuen

Practising Certificate Number P02412

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular, received from Access Partner Consultancy & Appraisals Limited, an independent valuer, in connection with their valuation as of 12 October 2016 of 100% equity interest of the Film Library.



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24 February 2017

The Board of Directors
Universe International Financial Holdings Limited
18/F., Wyler Centre Phase II,
192-200 Tai Lin Pai Road,
Kwai Chung,
New Territories, Hong Kong

Dear Sirs/Madams,

Valuation of 100% Equity Interest of the Film Library Comprising 202 Movie Titles as of 12 October 2016

INSTRUCTIONS

This report has been prepared solely for Universe International Financial Holdings Limited (the “Company”), which has engaged Access Partner Consultancy & Appraisals Limited (“Access Partner” or “we”) to perform a valuation of 100% equity interest of the film library (the “Film Library”) comprising 202 movie titles as of 12 October 2016 (the “Date of Valuation”).

This report states the purpose of valuation, basis of valuation, scope of work, limitations in scope of work, source of information, an overview of the Film Library, an overview of the industry, major assumptions, valuation methodology, limiting conditions, remarks and opinion of value.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. In addition, Access Partner acknowledges that this report may be made available to the Company for public documentation purpose and used as reference on the Company's circular dated 24 February 2017 (the "Circular").

We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

2. BASIS OF VALUATION

Our valuation has been based on fair value, which is defined by International Valuation Standards established by the International Valuation Standards Council in 2011 as "the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties".

3. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and the information provided by the management of the Company, and/or their representative(s) (collectively the "Management"). In the course of our valuation work, we have conducted the following processes to evaluate the reasonableness of the adopted basis and assumptions provided:

- Discussed with the Management in relation to the background, development, operations, financial performance, financial projection and other relevant information of the Film Library;
- Reviewed relevant contracts, financial information, financial projection and other relevant data concerning the Film Library;
- Performed market research in relation to the economic outlook in general and the specific economic environment and market elements affecting the Film Library, industry and market and obtained relevant statistical figures from public sources;
- Examined the relevant basis and assumptions of both the financial and operational information and projection of the Film Library, which were provided by the Management;

- Prepared a valuation model to derive the fair value of the Film Library; and
- Presented all relevant information on the scope of work, limitations in scope of work, source of information, an overview of the Film Library, an overview of the industry, major assumptions, valuation methodology, limiting conditions, remarks and opinion of value in this report.

We reviewed and examined the relevant information and financial projection of the Film Library provided to us by the Management without further verification. We assumed that the information and financial projection have been prepared on a reasonable basis that have been arrived at after due and careful consideration by the Management; and we have no reason to believe that any material fact has been withheld from us. Moreover, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

4. LIMITATIONS IN SCOPE OF WORK

In the course of our valuation work, our scope of work for the purpose of the valuation are subject to the following limitations:

- In performing our services, we have relied on the accuracy of the information provided by the Management with regards to the Film Library's financial projection and business affairs as well as the outlook for the business in connection to the Film Library. The procedures and enquiries undertaken by us in preparing this report do not include any verification work, nor do they constitute an examination made in accordance with generally accepted auditing standards. As such, we do not express an opinion or offer any forms of assurance regarding the accuracy, reasonableness, completeness or reliability of these information we are based;
- Information furnished by others, upon which all or portions of this report are based, is believed to be reliable. However, we did not independently verify these information and no warranty is given as to the accuracy of such information;
- The result of our work is dependent on the information of the Film Library. However, because events and circumstances frequently do not occur as expected, there will usually be differences between predicted and actual results, and those differences may be material. We take no responsibility for the achievement of predicted results;

- Our analysis is limited to a desktop assessment on the Film Library, which relied on information provided by Management. We are not required to perform physical inspection, and verify the legal titles of the assets comprised in the Film Library held by the Company; and
- We have considered published market data and other public information, where appropriate, for which we are not responsible for their content and accuracy. Such information was obtained from sources such as Bloomberg and publicly available industry reports.

5. SOURCE OF INFORMATION

For the purpose of our valuation, we have been provided with the information in respect of the Film Library prepared by the Management. The valuation required the consideration of all relevant factors including, but not limited to, the following:

- Historical financial information related to the Film Library;
- Details of the 202 movies consisted in the Film Library, including the name, production year, country, directors of the movies and so on;
- Financial projection of the Film Library prepared by the Management;
- Contracts of the right distributions related to the Film Library;
- Market information in relation to the Film Library's industry; and
- Industry and economic outlook of Hong Kong.

We have also conducted research from public sources to assess the reasonableness and fairness of the information provided. We have assumed the accuracy of the information provided and relied to a considerable extent on such information in arriving at our opinion.

6. OVERVIEW OF THE FILM LIBRARY

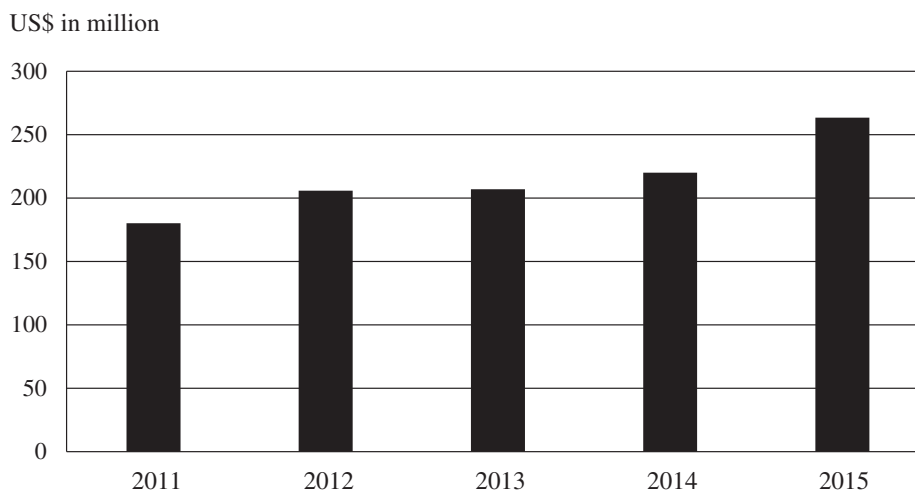
The Film Library (as defined in the Circular and set out in Appendix VI to the Circular) consists of 202 feature films. In the valuation of the Film Library, we merely considered the future cashflow generated by leasing the distribution rights of the 202 feature films, and excluding any income that may be generated or had been generated from: (i) all exploitation (license) agreements entered into by the Vendor (as defined in the Circular) before the date of the Sale and Purchase Agreement (as defined in the Circular) and the Video Exploitation Confirmations (as defined in the Circular); (ii) all fees paid or payable to the Vendor under all exploitation (license) agreements entered into by the Vendor before the date of the Sale and Purchase Agreement and the Video Exploitation Confirmations; (iii) 15% of all fees paid and due and payable to the Vendor under all exploitation (license) agreements entered into by the Vendor

on or after the date of the Sale and Purchase Agreement up to the Third Completion (as defined in the Circular); (iv) all prequel, sequel and remake rights in relation to the 26 Films (as defined in the Circular); and (v) Video Exploitation Retention (as defined in the Circular), and may subject to certain limitations in terms of territories and rights of distribution of, and percentage of ownership for, certain Films in the Film Library, as more particularly set out in the Sale and Purchase Agreement.

7. OVERVIEW OF THE MOVIES AND ENTERTAINMENT INDUSTRY IN HONG KONG

After the preferential access to the film market in the People’s Republic of China (the “PRC”) under the Closer Economic Partnership Arrangements (“CEPA”), the film industry in Hong Kong becomes more stabilized, as the PRC market is approximately 27 times of Hong Kong. According to The Hong Kong Management Association’s reports, the total box office receipts in Hong Kong had increased from HK\$1.6 billion in 2014 to about HK\$2.0 billion in 2015. In 2014, the amount of audio-visual exports in the form of videotapes, DVDs and other compact disc released were approximately HK\$551 million.

Figure 1 – Hong Kong Box Office from 2011 to 2015



Source: Box Office Mojo

Hong Kong box office grow from approximately US\$180 million in 2011 to over US\$260 million in 2015. The increase was mainly owing to the growing number of films released each year while the co-production with partners from the PRC continued to surge. Looking forward, the film market in the PRC will continue to be the main focus of Hong Kong film industry under a strong competition from foreign movies.

8. MAJOR ASSUMPTIONS

In conducting our valuation work, the following assumptions have been adopted in order to sufficiently support our conclusion of value, including, but not limited to:

General Market Assumptions

- There will be no major changes in the political, legal, fiscal, technological, economic and market conditions in the localities in which the Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Film Library;
- There will be no major changes in the current taxation laws in the localities in which the Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no major changes in the current taxation laws in the localities in which the distributor(s) of the films operate or intend to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no major changes in the political, legal, economic or financial conditions in the localities in which the distributor(s) of the films operate or intend to operate, which would adversely affect the revenues attributable to and profitability of the Film Library;
- There will be no material changes in the relevant market return, market risk, interest rates and exchange rates that would impact the Company's business operation; and
- The market data, industrial information and statistical figures obtained from Bloomberg Terminal and other publicly available sources are true and accurate.

Company-specific Assumptions

- The Company has obtained all necessary permits, business certificates, licenses and legal approvals to operate the Film Library and all relevant permits, business certificates, licenses and legal approvals to operate the business in the localities in which the Company operates or intends to operate would be officially obtained and renewable upon expiry;
- The information provided with regard to the Film Library's financial data is accurate and reliable;

- The financial projection in respect of the Film Library has been prepared on a reasonable basis after due and careful consideration by the Management and will be materialized as schedule;
- The senior management of the Company will implement only those prospective financial and operational strategies that will maximize the efficiency of the operation of the Film Library;
- The senior management of the Company has sufficient knowledge and experience in respect of the operation of the Film Library, and the turnover of any director, management or key person will not affect the operation of the Film Library;
- The senior management of the Company has adopted reasonable and appropriate contingency measures against any human disruption such as fraud, corruption and strike, and the occurrence of any human disruption will not affect the operation of the Film Library;
- The senior management of the Company has adopted reasonable and appropriate contingency measures against any natural disaster such as fire, flood and hurricane, and the occurrence of any natural disaster will not affect the operation of the Film Library;
- There are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of the Film Library as of the Date of Valuation;
- The expected lifespan of each film in the Film Library is 50 years from the first launch date as advised by the Management;
- There will be sufficient supply of technical staff in the industry in which the distributor(s) of the Film Library operate, and they will retain competent management, key personnel and technical staff to support their ongoing operations and developments;
- The financial information in respect of the Film Library has been prepared on a reasonable basis, which reflects estimates that have been arrived at after due and careful consideration by the Management;
- The policy on tax rate, interest rates and exchange rates in the localities for the operation of the distributor(s) of the films applicable to the Film Library will not materially change; and

- The capital required on the maintenance of the Film Library is de minimis.

In the event actual events do not accord with one or more of the above assumptions, the resulting value of the Film Library may vary substantially from the figure as set out in this report.

9. VALUATION METHODOLOGY

In conducting the valuation, we have considered three generally accepted approaches, including income approach, market approach and cost approach.

9.1 General Valuation Approaches

9.1.1 Income Approach

The income approach measures the value of an asset by the present value of its future economic benefits. These benefits can include earnings, cost savings, tax deductions and proceeds from its disposition.

9.1.2 Market Approach

The market approach measures the value of an asset through an analysis of recent sales or offerings of comparable property. Sales and offering prices are adjusted for differences in location, time of sale, utility, and the terms and conditions of sale between the asset being appraised and the comparable properties.

9.1.3 Cost Approach

The cost approach measures the value of an asset by the cost to reproduce or replace it with another of like utility. To the extent that the asset being valued provides less utility than a new asset, the reproduction or replacement cost new would be adjusted to reflect appropriate physical deterioration, functional and economic obsolescence.

9.2 Adopted Approach for the Valuation of the Film Library

Among the abovementioned valuation approaches, the selection of the valuation approach in valuing the Film Library is based on, among other criteria, the quantity and quality of the information provided, accessibility to available data, availability of relevant market information, uniqueness of the Film Library and nature of the Film Library operations, professional judgment and technical expertise.

The income approach was considered to be the most appropriate valuation approach in this valuation, as it takes the future earnings and firm-specific issues of the Film Library into consideration. Under the income approach, the Discounted Cash Flow (“DCF”) method is adopted.

9.2.1 The DCF Method

The DCF method begins with an estimation of the annual cash flows, which a market participant acquirer would expect the asset to generate over a discrete projection period. The expected debt-free cash flow for each year was determined as follows:

$$FCF = NI + NCE + Int (1 - T_{int}) - NCI - InvFA - InvNWC$$

Where:

<i>FCF</i>	=	free cash flow
<i>NI</i>	=	net income after tax
<i>NCE</i>	=	non-cash expenses
<i>Int</i>	=	interest expenses
<i>T_{int}</i>	=	tax rate applied to interest expense
<i>Int (1 - T_{int})</i>	=	after-tax interest expense
<i>NCI</i>	=	non-cash incomes
<i>InvFA</i>	=	investment in capital expenditure
<i>InvNWC</i>	=	investment in net working capital

The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset’s projected cash flows. The present values of the estimated cash flows are then added to the present value equivalent of the residual value of the asset (if any) at the end of the discrete projection period to arrive at an estimate of the value of the specific asset. The present value of the expected free cash flow is calculated as follows:

$$PVFCF = FCF_1/(1 + r) + FCF_2/(1 + r)^2 + \dots + FCF_n/(1 + r)^n$$

Where:

<i>PVFCF</i>	=	present value of free cash flows
<i>FCF</i>	=	free cash flow
<i>r</i>	=	discount rate
<i>n</i>	=	number of year of projections

9.2.2 Revenue

All of the Film Library's revenue in the forecast period are expected to derive from re-run distribution of the films in the Film Library. The films in the Film Library are graded into A+ grade, A grade, B grade, C grade and the PRC only or right exclusive films by the Management according to the industrial practice. In the valuation, revenues are expected to derive solely from re-run distribution which is mainly based on the projections of the future cash flows as provided by the Management.

The expected lifespan of each film is 50 years from its first launch date, as advised by the Management. The projected revenue of each film is then projected according to its upcoming re-runs until its remaining lifespan is expired. The interval between each re-run of a film are categorized according to the grade which the film belongs to. The re-run interval is categorized as either (i) around 5 years for B grade or above films or (ii) 8 years for C grade and the PRC only or right exclusive films, as advised by the Management which are based on their historical sales record and contract intervals. The additional 3 years re-run interval for latter grades is assumed by the Management to account for the less popularity effect of the films in renewing the license contracts between every re-run. The revenue of a film in subsequent re-run would be depreciated by 15% for B grade or above films and 5% for C grade and the PRC only or right exclusive films respectively, as estimated by the Management according to their historical sales record.

Due to the different first launch date, the remaining lifespan of each film in the Film Library as of the Date of Valuation is different; and each film belongs to the same grade may have different upcoming re-run start date and so does its re-run revenue. As such, for illustrative purpose, the table below summarizes the present values of the aggregate revenue generated by the films belong to the corresponding grades in those re-run intervals in the forecast period. For example, the Revenue – A+ under 2017 – 2021 represents the total present value, as of beginning of 2017, of revenue generated by all the film belongs to A+ grade, as classified by the Management, during the period from beginning of 2017 to end of 2021.

HK\$'000	2017- 2021	2022- 2026	2027- 2031	2032- 2036	2037- 2041	2042- 2046	2047- 2051	2052- 2056	2057- 2061	2062- 2066
Revenue - A+	20,750	17,638	14,992	12,743	10,832	9,207	7,826	6,281	2,918	1,304
Revenue - A	28,318	24,071	20,460	17,391	14,782	12,565	9,743	7,668	2,949	313
Revenue - B	22,578	19,191	16,313	13,866	11,786	9,798	7,660	4,017	1,345	162
HK\$'000			2017- 2024	2025- 2032	2033- 2040	2041- 2048	2049- 2056	2057- 2064		
Revenue - C			19,330	18,364	17,446	15,818	8,299	232		
Revenue - the PRC only/Right Excl.			860	817	776	465	24	-		

9.2.3 Comparable Companies

In applying the DCF method, the estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset's projected cash flows, or the discount rate. The appropriate discount rate for the Film Library was determined with reference to the nature of the asset, the business nature and financial information of publicly listed companies that are considered to be comparable to the Company which held the Film Library (the "Comparable Companies").

Due to the fact that there is no company is exactly the same as the Company, a set of the Comparable Companies must be selected in valuing the Film Library. To determine the set of the Comparable Companies, we mainly focused on the following perspectives during the selection process from the public resources (e.g. Bloomberg), including:

- (i) The companies are listed in Hong Kong and principally engaged in producing films and/or distributing movies and related rights; and
- (ii) Sufficiency of information (such as listing and operating histories, and availability of the financial information to the public).

Based on the abovementioned selection criteria, we consider the set of the Comparable Companies adopted in the valuation is comprehensive. Details of the Comparable Companies are listed as follows:

Company Name	Bloomberg	
	Ticker	Business Description
Mei Ah Entertainment Group Ltd.	391.HK	Mei Ah Entertainment Group Limited, through its subsidiaries, distributes films and programs in audio visual products formats. The company also sub-licenses film exhibition and rights, and provides internet and related services. In addition, the company operates television station.
See Corporation Limited	491.HK	See Corporation Limited, through its subsidiaries, manufactures and sells multimedia electronic products, toys, and game products. The company also produces television programmes and provides artist management services.
Orange Sky Golden Harvest Entertainment Holdings Limited	1132.HK	Orange Sky Golden Harvest Entertainment (Holdings) Ltd., through its subsidiaries, distributes films and audio visual products related to films and television programs. The company also exhibits films in Hong Kong, Malaysia, Singapore, and the PRC, and produces motion pictures. In addition, the company processes film and produces music.
Pegasus Entertainment Holdings Ltd	1326.HK	Pegasus Entertainment Holdings Limited is engaged in the production and distribution of films in Hong Kong, the PRC and South East Asia through their established distribution channels.
SMI Culture & Travel Group Holdings Limited	2366.HK	SMI Culture & Travel Group Holdings Limited operates in the entertainment industry. The company develops, invests, produces, and publishes movies and TV shows.

Source: Bloomberg

9.2.4 Discount Rate

In order to estimate the value of the Film Library and perform an overall reasonability assessment, it is required to determine the appropriate discount rate for the Film Library.

As such, we have adopted the discount rate by adjusting the weighted average cost of capital (“WACC”) downward as a basic discount rate for the Film Library. WACC represents the weighted average return attributable to all of the operating assets of the Company. WACC was computed using the formula below:

$$WACC = R_e (E/V) + R_d (D/V) (1 - T_c)$$

Where:

WACC	=	weighted average cost of capital
R_e	=	cost of equity
R_d	=	cost of debt
E	=	value of the firm’s equity
D	=	value of the firm’s debt
V	=	sum of the values of the firm’s equity and debt
T_c	=	corporate tax rate

As a component of WACC, the cost of equity was determined using the Capital Asset Pricing Model (“CAPM”). CAPM calculates a required return based on a risk measurement. It describes the relationship between the risk of a particular asset, its market price and the expected return to the investor, that investors required additional return to compensate additional risk associated.

In the valuation, CAPM was modified to reflect the size premium associated with the Company. The cost of equity under the modified CAPM was computed using the formula below:

$$R_e = R_f + \beta * MRP + RP_S$$

Where:

R_e	=	cost of equity
R_f	=	risk-free rate
β	=	beta coefficient
MRP	=	market risk premium
RP_S	=	size premium

In the valuation, the yield rate of the 10-year Government Bond of Hong Kong of 1.3% as at the Date of Valuation, as extracted from Bloomberg, was adopted as the risk-free rate.

The beta coefficient for the Company was determined by the median of the betas of the Comparable Companies, with adjustment for differences in corporate tax rates and leverage compositions. As a result, the beta coefficient of the Company was calculated as 0.79.

In the valuation, the market risk premium of Hong Kong as of the Date of Valuation was calculated as the sum of the market risk premium of the United States and the country risk premium of Hong Kong. The market risk premium of the United States of 6.3% was determined and the country risk premium of Hong Kong is 0.6% was determined with reference to ‘Country Default Spreads and Risk Premiums’, published by Professor Aswath Damodaran, who is a well-known author of several widely used academic textbooks on valuation and related subjects, in July 2016. As a result, the market risk premium of Hong Kong was calculated as 6.9%.

Considering the above mentioned parameters, our analysis suggested a cost of equity before any other risk premium of approximately 6.7%. By adding a size premium of 3.7%, which was determined with reference to “2015 Valuation Handbook – Guide to Cost of Capital”, published by Duff & Phelps Corporation. On the other hand, the weight of debt and weight of equity were determined by making reference to the median of the weight of debt and weight of equity of the Comparable Companies respectively. The weight of equity was adopted as 100%.

Accounting for the above items, the rounded discount rate of 10% was adopted as the WACC as of the Date of Valuation.

In general, for assets most readily exchangeable for cash typically have relatively lower cost of capital, whereas the more illiquid the asset, the higher its cost of capital. The Film Library contains films where the production of which had already completed and generates cash flow by simply leasing the related rights; in this regard, the inherent risk of the Film Library is considered to be relatively lower than the Company’s overall business operation as a film production company. As such, we adopted the discount rate of the Film Library by adjusted downward 1% from the WACC. Therefore, 9% was adopted as the discount rate to the Film Library as of the Date of Valuation.

10. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on information provided by the Management to a considerable extent in arriving at our opinion of value. We have not verified the accuracy of the information provided and have assumed that the aforesaid information is accurate. We have not conducted any further investigations concerning whether all data have been provided to us for our assessment and we have no reason to believe that any material data have been withheld from us. We would particularly point out that our valuation was based on the information of the Film Library provided to us.

Our conclusion of the value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation.

This report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated in **Section 1 – Purpose of Valuation**, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear. We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

The title of this report shall not pass to the Company until all professional fees have been paid in full.

11. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Hong Kong Dollars (HK\$).

We hereby confirm that we have neither present nor prospective interests in the Company, its subsidiaries, associated companies, the Film Library, or the value reported herein.

12. OPINION OF VALUE

Based on the investigation and analysis stated above, our scope of work, limitations in scope of work, the valuation method employed, information reviewed and the assumptions adopted, the fair value of 100% equity interest of the Film Library as of 12 October 2016 (i.e. the Date of Valuation), in our opinion, was reasonably stated as **HK\$160,000,000 (HONG KONG DOLLARS ONE HUNDRED SIXTY MILLION ONLY)**.

Yours faithfully,

For and on behalf of

Access Partner Consultancy & Appraisals Limited

Elvis C. F. Ng

CFA, FRM

Director

Note:

Mr. Elvis C. F. Ng is a holder of Chartered Financial Analyst and a certified Financial Risk Manager. He has over eight years' experience in business valuation, transaction advisory and corporate consultancy in the Asia Pacific Region including Hong Kong, the PRC and Australia, as well as in European, American, Middle-east and African countries.

**APPENDIX V(A) LETTER FROM CROWE HORWATH (HK) IN RELATION
TO THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS**

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountant, Crowe Horwath (HK) CPA Limited, Certified Public Accountants, Hong Kong.



國富浩華 (香港) 會計師事務所有限公司
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**INDEPENDENT ASSURANCE REPORT ON CALCULATION OF DISCOUNTED
FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF
THE FILM LIBRARY**

To the Board of Directors of Universe International Financial Holdings Limited

We have examined the calculation of the discounted future estimated cash flows on which the valuation prepared by Access Partner Consultancy & Appraisal Limited dated 24 February 2017 in respect of the valuation of 100% equity interest of the Film Library comprising 202 movie titles (the "Film Library") as at 12 October 2016 (the "Valuation") is based. The Valuation is prepared based on the discounted future estimated cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and will be included in the circular issued by the Universe International Financial Holdings Limited (the "Company") dated 24 February 2017 (the "Circular"), in connection with the proposed disposal of the Film Library (the "Proposed Disposal") by the Company.

Directors' Responsibilities

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

**APPENDIX V(A) LETTER FROM CROWE HORWATH (HK) IN RELATION
TO THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS**

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

Reporting Accountant’s Responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the bases and assumptions determined by the directors of the Company and as set out in the Valuation. Our work was limited primarily to making inquiries of the Company’s management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and applying analytical procedures to financial data in the discounted future estimated cash flows. Our work does not constitute any valuation of Film Library.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The bases and assumptions adopted by the directors of the Company as set out in the Valuation include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the bases and assumptions determined by the directors of the Company as set out in the Valuation and do not express any opinion whatsoever thereon.

**APPENDIX V(A) LETTER FROM CROWE HORWATH (HK) IN RELATION
TO THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS**

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the bases and assumptions adopted by the directors of the Company as set out in the Valuation.

Yours faithfully,
For and on behalf of

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 24 February 2017

Kwok Cheuk Yuen
Practising Certificate Number P02412

The following is the text of the letter dated 24 February 2017 from Gram Capital, for the purpose of incorporation in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

24 February 2017

The Board of Directors

Universe International Financial Holdings Limited
18/F Wyler Centre Phase II
192-200 Tai Lin Pai Road
Kwai Chung
N.T., Hong Kong

Dear Sir/Madam,

We refer to the valuation report (the “**Valuation Report**”) dated 24 February 2017 and prepared by Access Partner Consultancy & Appraisals Limited (the “**Valuer**”) in relation to the valuation on the Film Library as at 12 October 2016 (the “**Valuation**”). The Valuation Report is included in Appendix IV to the circular of Universe International Financial Holdings Limited (the “**Company**”) dated 24 February 2017 (the “**Circular**”). Capitalised terms used herein shall have the same meanings as those defined in the Circular unless the context requires otherwise.

According to the Valuation Report, the Valuer considered the adoption of the income approach in arriving at the Valuation. Under the income approach, the Valuer adopted the discounted cash flow method. We note that the Valuation, which has been arrived based on discounted cash flow method, is regarded as profit forecast (the “**Profit Forecast**”) under Rule 14.61 of the Listing Rules.

We have discussed with the management of the Company and the Valuer regarding the bases and assumptions of the Valuation Report, and have reviewed the letter dated 24 February 2017 issued by Crowe Horwath (HK) CPA Limited, the auditor of the Company, as set out in Appendix V(A) to the Circular. Crowe Horwath (HK) CPA Limited is of the opinion that, so far as the calculations are concerned, the Profit Forecast has been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors.

On the basis of the foregoing and the calculations reviewed by Crowe Horwath (HK) CPA Limited, we are of the opinion that the Profit Forecast underlying the Valuation, for which the Directors are jointly and severally responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

No.	Film Title	Number of exploitation agreements entered into as at the date of Sale and Purchase Agreement	No.	Film Title	Number of exploitation agreements entered into as at the date of Sale and Purchase Agreement
1.	Fairy Tale Killer (追凶)	12	31.	Moments Of Love (擁抱每一刻花火)	3
2.	The Detective 2 (B+偵探)	14	32.	Divergence (三岔口)	13
3.	Sleepwalker (夢遊)	10	33.	Crazy N' The City (神經俠侶)	8
4.	City Under Siege (全城戒備)	21	34.	Herbal Tea (男上女下)	1
5.	Tactical Unit: Comrades In Arms (機動部隊-同袍)	10	35.	Heat Team (重案竊仔GUN)	7
6.	Tactical Unit : The Code (機動部隊-警例)	8	36.	Protégé De La Rosa Noire (見習黑玫瑰)	1
7.	Tactical Unit : No Way Out (機動部隊-絕路)	4	37.	One Nite In Mongkok (旺角黑夜)	14
8.	Tactical Unit : Human Nature (機動部隊-人性)	7	38.	Abnormal Beauty (死亡寫真)	7
9.	Tactical Unit : Partners (機動部隊-伙伴)	7	39.	Leave Me Alone (阿仔有難)	7
10.	The Storm Warriors (風雲II) [#]	28	40.	Forbidden Wet Tables (極慾燃燒)	1
11.	Rebellion (同門)	7	41.	Anna In Kungfu-Land (安娜與武林)	8
12.	Basic Love (愛情故事)	3	42.	Shiver (心寒)	3
13.	Seven 2 One (關人7事)	2	43.	Miss Du Shi Niang (Miss杜十娘)	3
14.	Trick Or Cheat (愛出貓)	2	44.	Fate Fighter (賭俠之人定勝天)	5
15.	Scare 2 Die (嚇死你)	3	45.	Killer 2 (少年刀手)	0
16.	Sparrow (文雀)	10	46.	Heroic Duo (雙雄)	11
17.	See You in YouTube (愛門大)	2	47.	My Dream Girl (炮製女朋友)	6
18.	House Of Mahjong (嘩咕嘩咕對對碰)	8	48.	The Death Curse (古宅心慌慌)	4
19.	Single Blog (單身部落)	6	49.	My Horny Girl Friend (Big波誘惑)	1
20.	Who's Next (葬禮揸fit人)	3	50.	Tortured Sex Goddess Of Ming Dynasty (極樂酷刑)	0
21.	Forest Of Death (森冤)	10	51.	Emmanuelle In Hong Kong (香港艾曼紐之獸性培慾)	1
22.	Invisible Target (男兒本色)	22	52.	Possessed (奪魄勾魂)	2
23.	The Detective (C+偵探)	14	53.	U-Man (怪獸學園)	1
24.	In Love With The Dead (塚愛)	5	54.	The Stewardess (非常凶姐)	0
25.	Cocktail (半醉人間)	1	55.	The Wall (黑道風雲)	2
26.	Feel It...Say It (談談情說說性)	3	56.	The Conman 2002 (賭俠2002)	7
27.	Bet To Basic (打雀英雄傳)	6	57.	Partners (橫行霸盜)	0
28.	Re-Cycle (鬼域)	13	58.	Psychedelic Cop (狂野臥底)	0
29.	On The Edge (黑白道)	4	59.	Tiramisu (戀愛行星)	2
30.	Diary (妄想)	9	60.	Woman From Mars (當男人變成女人)	2

No.	Film Title	Number of exploitation agreements entered into as at the date of Sale and Purchase Agreement	No.	Film Title	Number of exploitation agreements entered into as at the date of Sale and Purchase Agreement
61.	Frugal Game (慳錢家族)	3	91.	The Story of Prostitutes (砵蘭街馬王)	0
62.	If U Care (賤精先生)	3	92.	Return To Dark (改正歸邪)	0
63.	My Wife Is 18 (我老婆唔夠秤)	7	93.	Deathnet.com (死亡網絡)	1
64.	May & August (五月八月)	0	94.	Romancing Bullet (浪漫鎗聲)	0
65.	The Wicked Ghost III - The Possession (山村老屍III惡靈纏身)	1	95.	Homicidal Maniac (變態殺人狂)	0
66.	Crime Of Beast II (終極強姦II原始獸性)	1	96.	Sound From The Dark (陰風耳)	0
67.	Naked Poison II (獸性新人類II失憶性行為)	2	97.	Violent Cop (火爆刑警)	0
68.	聊齋誌異之孽慾狐鬼	1	98.	There Is A Secret In My Soup (人頭豆腐湯)	0
69.	The Cheaters (正將)	0	99.	Roaring Wheels (飆車之車神傳說)	2
70.	The Replacement Suspect (困獸)	0	100.	Love Correction (緣份有Take 2)	1
71.	Gangs 2001 (童黨2001)	0	101.	Love Au Zen (愛情觀自在)	0
72.	The Legend Of A Professional (飛哥傳奇)	0	102.	Queen of Kowloon (九龍皇后)	1
73.	Vampire Controller (趕屍先生)	2	103.	For Badboys Only (Bad Boy 特攻)	6
74.	Electrical Girl (發電俏嬌娃)	1	104.	Desirous Express (慾望號列車)	0
75.	The Ultimatum (最後通牒)	0	105.	A Game Of No Rule (無法無天)	0
76.	Run Away (走投有路)	0	106.	Killer (刀手)	0
77.	Hit Team (重裝警察)	1	107.	Troublesome Night VII (陰陽路柒撞到正)	3
78.	Everyday Is Valentine (情迷大話王)	2	108.	Queenie And King The Lovers (Q畸戀人)	0
79.	The Saving Hands (最激之手)	0	109.	Sexy And Dangerous II (古惑女II)	0
80.	Sanguinary Requital (豹女凶鈴)	0	110.	Phantom Call (手機凶靈)	2
81.	Messing Passion (喋血別戀)	0	111.	Resort Massacre (殺人渡假屋)	0
82.	The Final Winner (古惑仔之出位)	0	112.	High K (街女)	0
83.	Crime Of Beast (終極強姦獸性誘惑)	2	113.	True Love (真愛)	2
84.	The Blood Rules (行規)	0	114.	Eternal Love (沒有你, 沒有我)	1
85.	Twilight Garden (幽谷約會)	2	115.	還枝格格	0
86.	Naked Poison (獸性新人類)	1	116.	Phantom Of The Killer (離魂殺手)	0
87.	Killers From Beijing (僱傭兵)	0	117.	The King of Debt Collecting Agent (黑道風雲之收數王)	0
88.	Conspiracy (赤裸紅唇)	1	118.	A Lamb In Despair (人肉玩具)	0
89.	The Temptation Of Office Ladies (OL誘惑之各自各精採)	2	119.	Life In Last Hour (生命祇剩一小時)	0
90.	A Wicked Ghost II The Fear (山村老屍II色之惡鬼)	1	120.	Ungrateful Tink (反骨仔)	0

No.	Film Title	Number of exploitation agreements entered into as at the date of Sale and Purchase Agreement	No.	Film Title	Number of exploitation agreements entered into as at the date of Sale and Purchase Agreement
121.	Never Compromise (逆我者死)	0	147.	The End Of The Stumer (偽鈔的末日)	0
122.	A Wicked Ghost (山村老屍)	0	148.	The Secret Pursuit (密情追蹤)#	0
123.	The Lord Of Amusement (娛樂之王)	1	149.	歲月風雲	1
124.	The Rules Of The Game (新家法)	1	150.	龍爭虎鬥	0
125.	Troublesome Night 6 (陰陽路之凶周刊)	3	151.	決裂	0
126.	Trust Me U Die (新羔羊醫生)	0	152.	梟雄風雲	0
127.	How To Get Rich By Fung Shui (行運秘笈)	0	153.	英雄末路	0
128.	The Mad Phoenix (南海十三郎(舞台劇))#	1	154.	縱橫天下	0
129.	Hong Kong Night Guide (豪情夜生活)	1	155.	Maniacal Night (男人三十攞攞震)	0
130.	Erotic Ghost Story – Perfect Match (聊齋艷譚之幽媾)	1	156.	Sworn Revenge (撞鬼你之血光之災)	0
131.	Enemy Shadow (影子敵人)	0	157.	Bloody Secret (愛殺2000)	0
132.	New Tenant (新房客)	0	158.	Come From China (葡京大劫案)	0
133.	Pygmalion (窈窕淑女(舞台劇))#	1	159.	The Sting (俠聖)	3
134.	The Crucifixion (九九九誰是兇手)	0	160.	The Tragic Fantasy – “Tiger Of Wanchai” (醉生夢死之灣仔之虎)#	1
135.	A Gleam Of Hope (一線生機)	0	161.	Ghosty Bus (鬼巴士)#	0
136.	Bomb Disposal Officer Baby Bomb (拆彈專家寶貝炸彈)	0	162.	Remember M Remember E (那有一天不想你)#	0
137.	Law On The Brink (流氓律師)	0	163.	Fire Dragon (火雲傳奇 又名：火龍小子)#	1
138.	White Lotus Cult (白蓮邪神)	1	164.	Oh! My Three Guys... (三個相愛的少年)#	0
139.	The Other Side Of Dolls (新應召女郎)	1	165.	Always Be The Winners (神龍賭聖之旗開得勝)#	1
140.	Cohabitation (同居關係)	0	166.	Underground Judgement (地下裁決)#	0
141.	A Day Without Policeman (冇警時份)	0	167.	Rose Rose I Love You (玫瑰玫瑰我愛你)#	0
142.	I Have A Date With Spring (我和春天有個約會(舞台劇))#	0	168.	Run And Kill (烏鼠)#	0
143.	Madame Bamboo (竹夫人)	0	169.	Lover Of The Swindler (千王情人)#	0
144.	The Golden Lotus “Love & Desire” (金瓶風月)	1	170.	Emotional Girl (那個少女不多情之脫的疑惑)#	0
145.	The Plot (布局)	0	171.	The Final Judgement (紙盒藏屍之公審)#	0
146.	Fortune Chaser (爛賭財神)	0	172.	Holy Weapon (武俠七公主)#	0

No.	Film Title	Number of exploitation agreements entered into as at the date of Sale and Purchase Agreement	No.	Film Title	Number of exploitation agreements entered into as at the date of Sale and Purchase Agreement
173.	All Over The World (大吸野) [#]	0	188.	False Lady (哎也女朋友)	0
174.	Summer Lover (夏日情人) [#]	0	189.	The Prince Of Portland Street (砵蘭街大少)	0
175.	Hero Of The Beggars (丐世英雄) [#]	0	190.	Lucky Way (大八卦)	0
176.	True Love (真的愛妳) [#]	0	191.	The Love That Is Wrong (男與女)	0
177.	Once Upon A Time, A Hero In China (黃飛鴻笑傳) [#]	0	192.	Gigolo And Whore II (舞男情未了)	1
178.	Exorcist Master (驅魔道長) [#]	0	193.	First Shot (廉政第一擊)	0
179.	Taxi Hunter (的士判官) [#]	0	194.	Hong Kong Gigolo (香港舞男)	1
180.	Desperation Verge (絕望邊緣) [#]	0	195.	Powerful Four (四大探長)	0
181.	Demoness From Thousand Years (千年女妖)	0	196.	Gigolo And Whore (雞鴨戀)	1
182.	The Roar Of Vietnamese (越青)	0	197.	Love Lifting (高舉愛) [^]	6
183.	Here Comes A Vampire (猛鬼霸王花)	0	198.	The White Storm (掃毒) [*]	18
184.	Big Man Little Affair (大男人小傳)	0	199.	Out Of Inferno (逃出生天) [*]	21
185.	Temptation Summary II (四度誘惑)	1	200.	Conspirators (同謀)	15
186.	Gigolo Club (鴨之一族)	1	201.	My Sassy Hubby (我老公唔生性)	12
187.	Temptation Summary (三度誘惑)	1	202.	The Child's Eye (童眼)	16

Note:

* With effect from the First Completion, the Purchaser shall grant to the Vendor an exclusive right to commence the production, development or exploitation of one (1) sequel or prequel of each of “Out Of Inferno (逃出生天)” and “The White Storm (掃毒)” for a period of 36 months from the date of the First Completion.

All prequel, sequel and remake rights in relation to these 26 Films are excluded from the Film Library.

[^] As at the Latest Practicable Date, the Vendor only has 75% interest in a Film namely, “Love Lifting (高舉愛)” and the remaining 25% interest of the Film is currently held by an Independent Third Party. The Vendor has received a confirmation from the Independent Third Party on 3 January 2017 that the Independent Third Party will assign the 25% interest of the Film to the Vendor by no later than 5 April 2017. Hence, it is expected that the Vendor will acquire the remaining 25% interest in the Film and 100% interest in the Film will be transferred to the Purchaser on Completion.

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

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

Long positions in Shares:

Name	Nature of interest	Number of Shares and underlying shares of the Company held	Approximate percentage of the total issued share capital of the Company
Mr. Lam Shiu Ming, Daneil	Founder of a discretionary trust	17,021,853 <i>(Note 1)</i>	2.66%
Mr. Hung Cho Sing	Beneficial owner	1,680,503 <i>(Note 2)</i>	0.26%
Mr. Lam Kit Sun	Beneficial owner	1,680,503 <i>(Note 2)</i>	0.26%

Notes:

- (1) These 17,021,853 Shares are held by Globalcrest Enterprises Limited, which is wholly owned by Central Core Resources Limited. Central Core Resources Limited is the trustee of a discretionary trust founded by Mr. Lam Shiu Ming, Daneil, the chairman of the Board and an executive Director. As such, Mr. Lam Shiu Ming Daneil is deemed to be interested in all the 17,021,853 Shares held by Globalcrest Enterprises Limited. Certain immediate family members of Mr. Lam Shiu Ming, Daneil are discretionary objects of the aforesaid discretionary trust.
- (2) These interests are underlying shares of the Company in respect of share options granted by the Company to each of Mr. Hung Cho Sing and Mr. Lam Kit Sun.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares (within the meaning of Part XV of the SFO) or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

3. OTHER INTERESTS OF THE DIRECTORS

(i) Interests in service contracts

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

(ii) Interests in assets of the Group

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 30 June 2016, being the date to which the latest audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.

(iii) Interests in contracts or arrangements

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting which is significant in relation to the business of the Group.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company based on the disclosure of interest notices filed with the Company, the following persons (not being Directors or chief executive of the Company) had an interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group:

Long positions in Shares/underlying shares of the Company:

Name	Nature of interest	Number of Shares and underlying shares of the Company held	Approximate percentage of the total issued share capital of the Company
Leung Yuet Kwan Belinda (Note)	Interest of a controlled corporation	143,573,276 (L)	22.43%
Ng Yau Sing (Note)	Interest of a controlled corporation	143,573,276 (L)	22.43%
Unique Prosperity Limited (Note)	Beneficial owner	143,573,276 (L)	22.43%

Note:

These 143,573,276 Shares are beneficially held by Unique Prosperity Limited, a company incorporated in Hong Kong which is owned as to 95% by Ms. Leung Yuet Kwan Belinda and 5% by Mr. Ng Yau Sing.

Save as disclosed above, the Directors or chief executive of the Company are not aware of any other persons (not being Directors or chief executive of the Company) as at the Latest Practicable Date, who had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates had any interest in a business which competes or is likely to compete either directly or indirectly with the business of the Group.

6. LITIGATION

- (i) A court action was commenced in the Court of First Instance of the Hong Kong Special Administrative Region on 17 April 2002 by The Star Overseas Limited (“**Star**”), an Independent Third Party, against Universe Entertainment Limited (“**UEL**”), an indirect wholly-owned subsidiary of the Company.

By the above action, Star alleges that a sum of US\$935,872 (equivalent to HK\$7,299,799) was payable by UEL to Star as its share of the revenue of the movie entitled “Shaolin Soccer” (the “**Movie**”).

Pursuant to an order (the “**Order**”) made by the High Court of Hong Kong on 21 February 2003, UEL was ordered and had paid to Star a sum of HK\$5,495,700, being part of the licence fee of the Movie received by UEL from Miramax Films (being the licensee of the Movie) and which was also part of the sum claimed by Star. Pursuant to the Order, UEL is also liable to pay Star interest in the sum of HK\$350,905 and some of the costs of the application leading to the making of the Order, all of which have been settled. As the Order has not disposed of all the claims of US\$935,872 (equivalent to HK\$7,299,799) by Star, UEL is entitled to continue to defend the claim by Star for recovering the remaining balance in the sum of approximately HK\$1,804,099 (HK\$7,299,799 less HK\$5,495,700).

On 30 April 2002, UEL issued a Writ of Summons against Star for the latter’s wrongful exploitation of certain rights in the Movie co-owned by both parties. UEL claimed to recover all losses and damages suffered by UEL as a result of the wrongful exploitation.

On 9 September 2002, Universe Laser & Video Co. Limited (“**ULV**”), an indirect wholly owned subsidiary of the Company, issued a Writ of Summons against Star for the latter’s infringement of the licensed rights in the Movie held by ULV. ULV claimed to recover all loss and damages suffered by ULV as a result of the said infringement.

In the opinion of legal counsel, it is premature to predict the outcome of the claim against UEL. The Board is of the opinion that the outcome of the said claim against UEL will have no material financial impact on the Group as at 31 December 2016.

- (ii) On 1 September 2008, Koninklijke Philips Electronics N.V. (“**KPE**”) issued a Writ of Summons against among other persons, the Company, ULV and Mr. Lam Shiu Ming, Daneil (one of the Directors), being three of the defendants named therein, in respect of damages arising from alleged infringement of the patents regarding Video Compact Disc owned by KPE.

In the opinion of legal counsel, it is premature to predict the outcome of the said claim made against the Company, ULV and Mr. Lam Shiu Ming, Daneil. The Board is of the opinion that the outflow of economic benefits cannot be reliably estimated and accordingly no provision for any liability that may result has been made as at 31 December 2016.

- (iii) On 8 January 2010, KPE issued a Writ of Summons against among other persons, the Company, ULV and Mr. Lam Shiu Ming, Daneil (one of the Directors), being three of the defendants named therein, in respect of damages arising from alleged infringement of the patents regarding Digital Video Disc owned by KPE.

In June 2012, the action was discontinued against the Company and Mr. Lam Shiu Ming, Daneil. The claim made against ULV has been agreed with KPE and settled by ULV and appropriate legal costs provision was recognised accordingly in the consolidated financial statements for the year ended 30 June 2012.

No additional provision has been made as at 31 December 2016. Based on the consultation with legal counsel, no further material outflow of economic benefits will be incurred for ULV.

- (iv) Universe Artiste Management Limited (“**UAM**”) commenced Court of First Instance Action against Kwong Ling and Oriental Prosperous Int’l Entertainments Limited (collectively the “**Defendants**”) on 30 June 2014 claiming *inter alia* for a declaration that UAM is entitled to extend/renew the term of the Artist Management Contract of the Defendants with UAM (the “**Artist Management Contract**”) for 5 years as from 3 May 2014 to 2 May 2019.

The Defendants filed their defence and counterclaim on 29 September 2014. By such counterclaim, the Defendants claiming against UAM *inter alia* for a declaration that the Artist Management Contract was void and unenforceable, the Artist Management Contract to be rescinded, damages for breach of the Artist Management Contract and for breach of fiduciary duties, a declaration that UAM is liable to account to the Defendants and an order for payment of all sums found to be due by UAM to the Defendants.

In the opinion of legal counsel, it is premature to predict the outcome of the said claim against UAM. The Board considers that the amounts of counterclaim by the Defendants against UAM is insignificant to the Group as a whole.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date:

- (i) the placing agreement dated 10 April 2015 entered into between the Company as the issuer and Fordjoy Securities and Futures Limited (“**Fordjoy**”) as the placing agent, pursuant to which the Company has conditionally agreed to place, through Fordjoy, on a best endeavour basis, up to 49,730,000 new shares of the Company at a placing price of HK\$0.4055 per placing share;
- (ii) the sale and purchase agreement dated 7 May 2015 entered into between Precise Reach Group Limited (“**Precise Reach**”), a wholly-owned subsidiary of the Company, as purchaser, Fairy Fresh International Limited (“**Fairy Fresh**”) as vendor and Mr. Poon Chun Yin, the ultimate beneficial owner of the vendor, as warrantor in relation to the sale and purchase of (a) the amount of HK\$1,155,000 owing by Hong Kong Optical Company Limited (“**Hong Kong Optical**”) to Fairy Fresh; and (b) 11% of the issued share capital of Hong Kong Optical at an aggregate consideration of HK\$1,600,000;
- (iii) the sale and purchase agreement dated 7 May 2015 entered into between Precise Reach as purchaser, Fairy Fresh as vendor and Mr. Poon Chun Yin, the ultimate beneficial owner of the vendor, as warrantor in relation to the sale and purchase of 80% of the issued share capital of Fine Ocean Limited at a consideration of HK\$2,400,000;
- (iv) the sale and purchase agreement dated 7 May 2015 entered into between Fragrant River Entertainment Culture (Holdings) Limited (“**FREC**”), a wholly-owned subsidiary of the Company, as purchaser, Victor Meg Limited, Ng Tang and Most Profitable Investment Ltd. as vendors and Ng Tang and Lo Lai Kuen as guarantors in relation to the acquisition of approximately 79.99% of the enlarged share capital of Winston Asia Limited after its restructuring, at a maximum consideration of HK\$64,000,000 (subject to adjustments);

- (v) the placing agreement dated 26 May 2015 entered into between the Company as the issuer and China Everbright Securities (HK) Limited (“**China Everbright**”) and Jun Yang Securities Company Limited (“**Jun Yang**”) as the placing agents, pursuant to which the Company has conditionally agreed to place, through China Everbright and Jun Yang, on a best effort basis, up to 586,350,000 new shares of the Company at a placing price of HK\$0.3411 per placing share;
- (vi) the underwriting agreement dated 26 May 2015 entered into between the Company as the issuer and Jun Yang Securities Company Limited as the underwriter in relation to the underwriting arrangement in respect of the rights issue of not less than 596,760,614 rights shares and not more than 665,160,614 rights shares at a subscription price of HK\$0.202 per rights share on the basis of two (2) rights shares of every one (1) shares then in issue held on the record date;
- (vii) the sale and purchase agreement dated 21 August 2015 entered into among Rising Fame International Limited, a wholly-owned subsidiary of the Company, as purchaser and Ms. Cheng Hei Yu and Mr. Fang Pei Wei as vendors in relation to the sale and purchase of the entire issued share capital of Win Fung Securities Limited (renamed as China Jianxin Financial Services Limited) at a consideration of HK\$73,000,000;
- (viii) the sale and purchase agreement dated 27 August 2015 (the “**Acquisition Agreement**”) entered into among Fragrant River Entertainment Investment Limited (“**FREI**”), a wholly-owned subsidiary of the Company, as purchaser and Cheung Ming Kuang as vendor in relation to the sale and purchase of 49% of the issued share capital of Glory International Entertainment Limited at a maximum consideration of HK\$55,125,000 (subject to adjustments);
- (ix) the loan agreement dated 5 October 2015 entered into between FREI as lender and Cassia Investments Limited Partnership I (“**Cassia Investment**”) as borrower in relation to (a) the provision of loan in the principal amount of HK\$55,000,000, bearing interest at a rate of 9.75% per annum for a period of one year; and (b) the grant of options to FREI by Cassia Investment to confer FREI the right to purchase a maximum of 15.45% of the issued share capital of Cassia Optical Holdings Limited held by Cassia Investment;

- (x) the sale and purchase agreement dated 12 October 2015 entered into among FREC as purchaser, Very Easy Limited and City Link Consultancy Limited as vendors, and Chan Sze Long and Lim Wah Elsa, being the directors of AP Group Investment Holdings Limited (“**AP Group**”), as guarantors in relation to the sale and purchase of 51% of the issued share capital of AP Group at a consideration of HK\$20,400,000 (subject to downward adjustments);
- (xi) the limited partnership agreement dated 29 October 2015 entered into between Weluck Development Limited (“**Weluck**”), a wholly-owned subsidiary of the Company, as subscriber and Cassia General Partner II Limited (“**Cassia General Partner**”) in relation to the capital commitment of US\$9,000,000 made by Weluck in Cassia Investments Limited Partnership II, being a fund whom Cassia General Partner is responsible for the overall management and control;
- (xii) the placing agreement dated 24 February 2016 entered into between the Company as the issuer and SBI China Capital Financial Services Limited (“**SBI**”) as the placing agent, pursuant to which the Company has conditionally agreed to place, through SBI, on a best endeavour basis, up to 296,250,000 new shares of the Company at a placing price of HK\$0.10 per new placing share. However, this placing agreement was lapsed on 18 March 2016;
- (xiii) the placing agreement dated 23 March 2016 entered into between the Company as the issuer and SBI as the placing agent, pursuant to which the Company has conditionally agreed to place, through SBI, on a best endeavour basis, up to 29,625,000 new Shares at a placing price of HK\$0.779 per new Share;
- (xiv) the supplemental agreement dated 5 May 2016 entered into among FREI as purchaser and Cheung Ming Kuang as vendor in relation to the amendments to the Acquisition Agreement including, among other matters, the reduction of maximum consideration from HK\$55,125,000 to HK\$36,750,000 (subject to adjustments);
- (xv) the sale and purchase agreement dated 13 June 2016 entered into among FREC as vendor, Lucky Famous Limited as purchaser, and the Company as guarantor in relation to the sale and purchase of 51% of the issued share capital of AP Group at a maximum consideration of HK\$20,400,000 (subject to downward adjustments);

- (xvi) the subscription agreement dated 13 June 2016 entered into between Weluck, as subscriber and GET Holdings Limited (“**GET**”) as the issuer, pursuant to which Weluck has conditionally agreed to subscribe for and GET has conditionally agreed to allot and issue 8,583,000 shares of GET for a total consideration of HK\$4,291,500;
- (xvii) the sale and purchase agreement dated 24 June 2016 entered into among Honest Novel Holdings Limited, a wholly-owned subsidiary of the Company, as purchaser and Ample Investment International Limited and Cheng Chi Ming Andrew as vendors in relation to the sale and purchase of the entire issued share capital of Ample Capital Limited at a consideration of HK\$30,000,000;
- (xviii) the underwriting agreement dated 12 July 2016 entered into between the Company and Astrum Capital Management Limited (the “**Underwriter**”) in relation to the underwriting arrangement in respect of the proposed right issue of 355,548,184 Shares (the “**Rights Share(s)**”) on the basis of two (2) Rights Shares for every one (1) existing Share held on the record date at HK\$ 2.60 per Rights Share (the “**Underwriting Agreement**”);
- (xix) the supplemental agreement dated 9 August 2016 and entered into between the Company and the Underwriter supplemental to the Underwriting Agreement in relation to amendment of certain dates in the timetable of the Rights Issue;
- (xx) the placing agreement dated 18 October 2016 entered into between the Company as the issuer and Convoy Asset Management Limited (“**Convoy Asset**”) as the placing agent, pursuant to which the Company has conditionally agreed to procure the placee(s) to subscribe for the 6.25% per annum notes (“**Notes**”) to be issued by the Company in an aggregate principal amount of up to HK\$60,000,000 maturing on the second anniversary of the issue date of the Notes, through Convoy Asset, on a best endeavour basis, at the placing price equal to 100% of the principal amount of the Notes;
- (xxi) the Sale and Purchase Agreement; and
- (xxii) the placing agreements dated 18 January 2017 entered into between the Company as the issuer and Gransing Securities Co., Limited (“**Gransing**”) as the placing agent, pursuant to which the Company has conditionally agreed to place, through Gransing, on a best effort basis: (a) up to 106,660,000 new Shares at a placing price of HK\$0.519 per placing share under the general mandate; and (b) up to 213,320,000 new Shares at a placing price of HK\$0.519 per placing share under the specific mandate.

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

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

Name	Qualification
Gram Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Crowe Horwath (HK) CPA Limited	Certified public accountants
Access Partner Consulting & Appraisals Limited	Independent valuer

- (i) As at the Latest Practicable Date, each of the experts named above 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 securities in any member of the Group.
- (ii) Each of the experts named above has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its report, letter and references to its name in the form and context in which they appear.
- (iii) As at the Latest Practicable Date, each of the experts named above did not have any direct or indirect interest in any assets which have been, since 30 June 2016 (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 were proposed to be acquired or disposed of by or leased to any member of the Group.

9. MISCELLANEOUS

- (i) The secretary of the Company is Mr. Lam Kit Sun, who is a fellow and practicing member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Chartered Secretaries.

- (ii) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.
- (iii) The head office and principal place of business of the Company is 18th Floor, Wyler Centre Phase II, 192-200 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong.
- (iv) The Company's branch share registrar and transfer office in Hong Kong is Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (v) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any Business Day at the principal place of business of the Company at 18th Floor, Wyler Centre Phase II, 192-200 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong for a period of 14 days from the date of this circular:

- (i) the Sale and Purchase Agreement;
- (ii) the memorandum of association and bye-laws of the Company;
- (iii) the annual reports of the Company for the financial years ended 30 June 2015 and 2016, respectively;
- (iv) the financial information of the Group for the three years ended 30 June 2014, 2015 and 2016, respectively as set out in Appendix I to this circular;
- (v) the unaudited financial information of the Film Library for the three years ended 30 June 2014, 2015 and 2016, respectively and the three months ended 30 September 2016 as set out in Appendix II to this circular;
- (vi) the accountant's report from Crowe Horwath (HK) in respect of the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular;

- (vii) the Valuation Report as set out in Appendix IV to this circular;
- (viii) the letter from Crowe Horwath (HK) in relation to the discounted future cash flows and the letter from Gram Capital in relation to the profit forecast as set out in Appendix V(A) and Appendix V(B), respectively to this circular;
- (ix) the written consents referred to under the paragraph headed “Qualifications and Consents of Experts” in this appendix;
- (x) the material contracts referred to under the paragraph headed “Material Contracts” in this appendix; and
- (xi) this circular.

NOTICE OF SPECIAL GENERAL MEETING

UNIVERSE

| 寰宇 |

UNIVERSE INTERNATIONAL FINANCIAL HOLDINGS LIMITED 寰宇國際金融控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1046)

NOTICE IS HEREBY GIVEN that a special general meeting of Universe International Financial Holdings Limited (the “**Company**”) will be held at 12:00 noon on Friday, 17 March 2017 at 18th Floor, Wyler Centre Phase II, 192-200 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong, or in the event that a black rainstorm warning or a tropical cyclone warning signal number 8 or above is hoisted or remains hoisted in Hong Kong at 9:00 a.m. on that day, at the same time and place on the second Business Day (as defined in Note (1) below) after 17 March 2017 or any adjournment thereof (the “**SGM**”) for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the Sale and Purchase Agreement dated 9 January 2017 (the “**Sale and Purchase Agreement**”) entered into between Universe Films Distribution Company Limited (寰宇影片發行有限公司), an indirect wholly-owned subsidiary of the Company as vendor and 北京愛奇藝科技有限公司 (Beijing iQIYI Science & Technology Co., Ltd*) as purchaser in relation to the sale and purchase of 202 feature films as more particularly described under the Sale and Purchase Agreement at the total consideration of RMB178,895,064 subject to possible adjustment in accordance with the Sale and Purchase Agreement, and a copy of the Sale and Purchase Agreement marked “A” is tabled before the meeting and signed for identification purpose by the Chairman of the meeting, as more particularly described in the circular to the shareholders of the Company dated 24 February 2017 of which this notice forms part, be approved, ratified and confirmed; and

NOTICE OF SPECIAL GENERAL MEETING

- (b) the directors of the Company be and are hereby authorized to exercise all the powers of the Company and take all steps as might in their absolute discretion consider necessary, desirable or expedient to give effect to or in connection with the Sale and Purchase Agreement including, without limitation to:
- (i) the execution, amendment, supplement, delivery, submission and implementation of any further documents or agreements with any other parties in connection with or incidental to the Sale and Purchase Agreement; and
 - (ii) the taking of all necessary actions to implement the transactions contemplated under the Sale and Purchase Agreement.”

On behalf of the Board of
Universe International Financial Holdings Limited
Lam Shiu Ming, Daneil
Chairman and Executive Director

Hong Kong, 24 February 2017

Notes:

- (1) Business Day means any day (excluding Saturday or Sunday) on which no black rainstorm warning or a tropical cyclone warning signal number 8 or above is hoisted or remains hoisted in Hong Kong at 9:00 a.m. on that day and on which licensed banks in Hong Kong are generally open for business. If a black rainstorm warning or a tropical cyclone warning signal number 8 or above is hoisted or remains hoisted in Hong Kong at 9:00 a.m. on 17 March 2017, the SGM will not be held on that day but will be held at the same time and place on the second Business Day after 17 March 2017 or any adjournment thereof.
- (2) All resolutions set out in this notice of the SGM will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the results of the poll will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company in accordance with the Listing Rules.
- (3) A member of the Company entitled to attend and vote at the SGM will be entitled to appoint one or more proxies to attend and, on a poll, vote in his or her stead. A proxy need not be a member of the Company.
- (4) A form of proxy in respect of the SGM is enclosed. Whether or not you intend to attend the SGM in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.

NOTICE OF SPECIAL GENERAL MEETING

- (5) In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the Company's Hong Kong branch share registrar and transfer office, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he/she/it so wish and in such event, the form of proxy shall be deemed to be revoked.
- (6) In the case of joint holders of shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share(s) as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share(s) shall alone be entitled to vote in respect thereof.
- (7) As at the date of this notice, the executive directors of the Company are Mr. Lam Shiu Ming, Daneil (Chairman), Mr. Hung Cho Sing and Mr. Lam Kit Sun, and the independent non-executive directors of the Company are Mr. Lam Chi Keung, Mr. Choi Wing Koon and Ms. Cheng Lo Yee.