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南海控股有限公司*
NAN HAI CORPORATION LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 680)

CONTINUING CONNECTED TRANSACTION

BUSINESS COOPERATION FRAMEWORK AGREEMENT

On 30 November 2020 (after trading hours), the Company entered into the Business Cooperation Framework Agreement with Dadi Cinema Circuit, pursuant to which Dadi Cinema Circuit shall supply the Group with motion pictures and license the Group to project such motion pictures in its cinemas.

As at the date of this announcement, Ms. Liu, an executive Director, owns 80% of Dadi Century Beijing, which directly owns 82.49% equity interest of Dadi Cinema Circuit. Ms. Liu also has an effective control of 12.95% equity interest of Dadi Cinema Circuit through Dadi Legend, which is an associate of Ms. Liu. In addition, Mr. YCH, an associate of Mr. YPH (an executive Director), owns 20% of Dadi Century Beijing. Given the foregoing, Dadi Cinema Circuit is a connected person of the Company. Accordingly, the Business Cooperation Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the maximum amount of the Annual Caps represents more than 0.1% but less than 5% of the applicable percentage ratios under the Listing Rules, the transactions contemplated under the Business Cooperation Framework Agreement are subject to reporting, annual review and announcement requirements but are exempt from circular (including independent financial advice) and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

* For identification purpose only

I. INTRODUCTION

As set out in the announcement of the Company dated 30 November 2017, the Company entered into the previous business cooperation framework agreement with Dadi Cinema Circuit, pursuant to which Dadi Cinema Circuit shall supply the Group with motion pictures and license the Group to project such motion pictures in its cinemas for the period from 1 December 2017 to 30 November 2020. The above agreement expired on 30 November 2020.

As the relevant parties intend to enter into transactions of similar nature from time to time after 30 November 2020, the Company entered into the Business Cooperation Framework Agreement.

II. BUSINESS COOPERATION FRAMEWORK AGREEMENT

On 30 November 2020 (after trading hours), the Company entered into the Business Cooperation Framework Agreement with Dadi Cinema Circuit, particulars of which are set out below:

Date

30 November 2020

Parties

- (1) the Company; and
- (2) Dadi Cinema Circuit

Term

1 December 2020 to 30 November 2023 (the “**Term**”)

Description of transactions

Pursuant to the Business Cooperation Framework Agreement, Dadi Cinema Circuit shall supply the Group with motion pictures and license the Group to project such motion pictures in its cinemas.

Provision of motion pictures

Subject matter

Dadi Cinema Circuit shall supply the Group with motion pictures and license the Group to project such motion pictures in its cinemas during the Term. Dadi Cinema Circuit shall enter into agreements with individual distributors in relation to the projection and distribution of the motion pictures. Unless restricted by prior agreements, the cinemas of the Group shall join the theatre chain of Dadi Cinema Circuit. Dadi Cinema Circuit shall also formulate relevant management guidelines for the operation of the cinemas operated by the Group which the parties shall observe.

Pricing terms

The fee payable for the motion pictures procured through Dadi Cinema Circuit will either be paid as a Fixed Fee Motion Picture or a Box Sharing Motion Picture, both of which are explained below.

(a) Fixed Fee Motion Pictures

The Group shall pay monthly, a fixed licensing fee to Dadi Cinema Circuit for licensing each Fixed Fee Motion Picture from Dadi Cinema Circuit during the motion picture projection period and such fixed licensing fee shall be determined in accordance with the same terms offered by Dadi Cinema Circuit to its other cinema operators. Dadi Cinema Circuit shall not be entitled to sharing of the Net Box Office of the Fixed Fee Motion Pictures.

(b) Box Sharing Motion Pictures

The Net Box Office of each Box Sharing Motion Picture shall be distributed in the following manner:

- (i) a sum equivalent to all fees payable to the distributor (from whom Dadi Cinema Circuit obtained its right to permit the Group to project such motion pictures in its cinemas) (the “**Distributor Fees**”) shall be paid to Dadi Cinema Circuit;
- (ii) the Group shall pay an amount of not more than 0.8% of the Net Box Office of a Box Sharing Motion Picture to Dadi Cinema Circuit in December 2020 and shall pay an amount of not more than 0.5% of the Net Box Office of a Box Sharing Motion Picture to Dadi Cinema Circuit between 1 January 2021 and 30 November 2023, and the exact percentage of such payment shall be agreed upon between the Group and Dadi Cinema Circuit prior to the projection of the motion picture; and
- (iii) the remaining portion of the Net Box Office shall belong to the Group.

If the above pricing terms have to be adjusted due to any laws and regulations in the PRC or at the request of the distributors, the parties shall enter into a supplemental agreement in relation thereto.

The Group may extend the motion picture projection period subject to Dadi Cinema Circuit, the underlying distributor of such motion picture and the Group agreeing to the terms of such extension, including where appropriate the Net Box Office sharing ratio. However, the payment to be made by the Group to Dadi Cinema Circuit for a Box Sharing Motion Picture, shall be subject to the caps and terms set out in paragraph (b)(ii) above.

Settlement and payment terms

(a) Fixed Fee Motion Pictures

For the Fixed Fee Motion Pictures, the Group shall pay the fixed licensing fee on a monthly basis during the motion picture projection period.

(b) Box Sharing Motion Pictures

The Group shall use a ticketing software which is in compliance with the requirements set out by relevant authorities in the PRC, and shall ensure that its ticketing system is linked with the system of Dadi Cinema Circuit.

The amount payable by the Group to Dadi Cinema Circuit in relation to the provision of the Box Sharing Motion Pictures shall be settled within 15 days after the end of the projection period or the extended projection period.

Historical figures and Annual Caps

For the period from 1 December 2017 to 30 November 2020, the amount of historical transactions for the provision of motion pictures between Dadi Cinema Circuit and the Group are set out below:

	For the one month ended 31 December 2017 (HK\$'000)	For the year ended 31 December 2018 (HK\$'000)	For the year ended 31 December 2019 (HK\$'000)	For the eleven months ended 30 November 2020 (approximately)* (HK\$'000)
Amount paid by the Group to Dadi Cinema Circuit in relation to provision of motion pictures, less the Distributor Fees	2,864	24,822	24,733	10,264

* *The total amount for the eleven months ended 30 November 2020 is estimated to be HK\$10,264,000. Such amount does not exceed the Annual Caps for the eleven months ending 30 November 2020 as set out in the announcement of the Company dated 30 November 2017. The relatively low transaction amount for the eleven months ended 30 November 2020 was mainly due to the impact of the COVID-19 epidemic on the cinema operation of the Group.*

Pursuant to the Business Cooperation Framework Agreement, the maximum amount of payment to be made by the Group to Dadi Cinema Circuit in relation to the provision of motion pictures (including both Fixed Fee Motion Pictures and Box Sharing Motion Pictures), less the Distributor Fees (the “Annual Caps”) are set out below:

	For the one month ended 31 December 2020 (HK\$'000)	For the year ended 31 December 2021 (HK\$'000)	For the year ended 31 December 2022 (HK\$'000)	For the eleven months ended 30 November 2023 (HK\$'000)
Maximum amount payable by the Group to Dadi Cinema Circuit in relation to provision of motion pictures, less the Distributor Fees	4,000	30,000	35,000	37,000

In arriving at the Annual Caps, approximately 98% of such cap is attributable to the amount payable for Box Sharing Motion Pictures with the balance for Fixed Fee Motion Pictures. In relation to payment for Box Sharing Motion Pictures, a certain percentage of the Net Box Office for a Box Sharing Motion Picture is attributed to the Distributor Fees while only up to the percentage set out under paragraph b(ii) of the section titled “Pricing terms” above is for the benefit of Dadi Cinema Circuit. As such, only payments to be made under paragraph b(ii) of the section titled “Pricing terms” above is used to compute the Annual Caps.

Basis for the box office Annual Caps

The Annual Caps are determined with reference to the historical transaction amount, taking into account the number of cinemas of the Group and the anticipated increase in the Net Box Office due to inflation and economic growth.

Termination

The Group has the right to terminate the Business Cooperation Framework Agreement prior to the expiry of the Term if required by its operation needs and Dadi Cinema Circuit shall not be entitled to claim for any compensation or penalty against the Group in such event.

III. REASONS FOR AND BENEFITS OF ENTERING INTO THE BUSINESS COOPERATION FRAMEWORK AGREEMENT

Pursuant to Pilot practices regarding reform of distribution and projection of motion pictures (《關於改革電影發行放映機制的實施細則(試行)》) (“Pilot Practices”), both producers and distributors of motion pictures shall directly supply motion pictures to cinema circuit companies. In addition, a cinema operator shall join in as a member of a cinema circuit company (a cinema operator shall not join in more than one cinema circuit company) as per the provision set out in the Pilot Practices. In view of the

foregoing, only a cinema circuit company in the PRC shall have right to license and acquire motion pictures directly from motion picture producers and distributors, and to subsequently license the licensed or acquired motion pictures to its cinema operator members, i.e. the only way for a cinema operator projecting motion pictures in its cinema(s) is to become a member of a cinema circuit company in the PRC.

Given the aforesaid mandatory requirement, the Group has been in cooperation with Dadi Cinema Circuit for the purpose of being licensed to project various motion pictures in its digital cinemas in a continuous manner since 2009.

As of the date of this announcement, the Group has an aggregate of approximately 456 cinemas on a nationwide basis in the PRC. Entering of the Business Cooperation Framework Agreement with Dadi Cinema Circuit will enable all the cinemas operated by the Group (save for those restricted by prior agreements) to benefit from the provision of motion pictures by Dadi Cinema Circuit.

The normal market rate for sharing of the Net Box Office of a Box Sharing Motion Picture by a cinema circuit company in the PRC ranges from approximately 0.5% to 2%. As such, the entitlement of not more than 0.8% of the Net Box Office in December 2020 and of not more than 0.5% of the Net Box Office between 1 January 2021 and 30 November 2023 given to Dadi Cinema Circuit for a Box Sharing Motion Picture as stipulated in the Business Cooperation Framework Agreement is at the lower range of the market rate.

The motion pictures distributed as a Fixed Fee Motion Picture are generally considered to be past their prime period, hence projected during non-peak hours and are not expected to generate significant box office. The fixed licensing fee for the Fixed Fee Motion Pictures is not expected to have any significant impact on the Group's box office.

Dadi Cinema Circuit is operating on a nationwide basis and has approximately 1,063 join-in cinemas. Having such a huge base of cinemas, Dadi Cinema Circuit's bargaining power in distribution terms and conditions with motion picture distributors and producers are expected to be stronger than a number of small scale cinema circuit companies, which in turn would be beneficial to its join-in cinema operators, including the Group.

The Board (including the independent non-executive Directors) considers that the Business Cooperation Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and the terms and conditions of the Business Cooperation Framework Agreement (including the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IV. INTERNAL CONTROL MEASURES FOR THE CONTINUING CONNECTED TRANSACTION

To safeguard the interests of the Group, the Group will adopt the following internal control measures:

1. the relevant personnel of the Group will closely monitor the aggregate transactions of the Group under the Business Cooperation Framework Agreement to ensure that the total consideration does not exceed the stipulated Annual Caps;
2. the relevant personnel of the Group will conduct regular checks to review and assess whether the transactions contemplated under the Business Cooperation Framework Agreement are conducted in accordance with the terms set out in the Business Cooperation Framework Agreement, and whether the consideration for the transactions are fair and reasonable and in accordance with the pricing policies set out in the Business Cooperation Framework Agreement;
3. the Company's external auditors will conduct an annual review of the transactions entered into under the Business Cooperation Framework Agreement to ensure the transaction amount are within the relevant Annual Caps and the transactions are conducted in accordance with the terms set out in the Business Cooperation Framework Agreement; and
4. the Company's independent non-executive Directors will conduct an annual review of the transactions conducted pursuant to the Business Cooperation Framework Agreement to ensure the Group has complied with internal approval process, the terms of the Business Cooperation Framework Agreement and the relevant Listing Rules.

V. INFORMATION ON THE PARTIES

The Company

The Company is an investment holding company whose securities are listed and traded on the Main Board of the Stock Exchange. The Group is principally engaged in (i) culture and media services (mainly in cinemas business on a nationwide basis in the PRC and other media related businesses); (ii) property development; and (iii) enterprise cloud services (through its listed subsidiary, Sino-i) as at the date of this announcement. In the meantime, the Group is also engaged in news media and innovative business.

Dadi Cinema Circuit

To the best information, knowledge and belief of the Directors having made all reasonable enquiries, Dadi Cinema Circuit is a limited liability company incorporated in the PRC. Its business scope is film distribution services (cinema circuit); advertising agency; sale, installation and maintenance of film projection equipment and other cinema operation facilities; film projection technical services; leasing of equipment and arenas. Dadi Cinema Circuit has obtained a permit of cross-province cinema circuit issued by the relevant authority.

VI. LISTING RULES IMPLICATIONS

As at the date of this announcement, Ms. Liu, an executive Director, owns 80% of Dadi Century Beijing, which directly owns 82.49% equity interest of Dadi Cinema Circuit. Ms. Liu also has an effective control of 12.95% equity interest of Dadi Cinema Circuit through Dadi Legend, which is an associate of Ms. Liu. In addition, Mr. YCH, an associate of Mr. YPH (an executive Director), owns 20% of Dadi Century Beijing. Given the foregoing, Dadi Cinema Circuit is a connected person of the Company. Accordingly, the Business Cooperation Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the maximum amount of the Annual Caps represents more than 0.1% but less than 5% of the applicable percentage ratios under the Listing Rules, the transactions contemplated under the Business Cooperation Framework Agreement are subject to reporting, annual review and announcement requirements but are exempt from circular (including independent financial advice) and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

VII. BOARD'S APPROVAL

The Board has approved the Business Cooperation Framework Agreement. The Board (including the independent non-executive Directors) considers that the Business Cooperation Framework Agreement, the transactions contemplated thereunder and the terms and conditions of the Business Cooperation Framework Agreement (including the Annual Caps) are (i) fair and reasonable; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) in the interests of the Company and its Shareholders as a whole.

Since Ms. Liu has a material interest in Dadi Cinema Circuit, she has abstained from voting on the relevant meeting of the Board to approve the Business Cooperation Framework Agreement, the transactions contemplated thereunder and the terms and conditions of the Business Cooperation Framework Agreement (including the Annual Caps). For good corporate governance, Mr. YPH has also abstained from voting on the relevant meeting of the Board to approve the Business Cooperation Framework Agreement and the transactions contemplated thereunder.

Save as disclosed above, none of the Directors has a material interest in the Business Cooperation Framework Agreement nor was required to abstain from voting on the relevant Board resolutions approving the Business Cooperation Framework Agreement, the transactions contemplated thereunder and the terms and conditions of the Business Cooperation Framework Agreement (including the Annual Caps).

VIII. DEFINITIONS

In this announcement, unless the context otherwise requires, capitalised terms used shall have the following meanings:

“Annual Caps”	has the meaning given to it under the paragraph “Provision of motion pictures” of this announcement
“associate(s)”	has the meaning given to it under the Listing Rules
“Board”	the board of Directors
“Box Sharing Motion Picture(s)”	a motion picture licensed by Dadi Cinema Circuit to the Group for a fixed period upon obtaining a license from the distributor of the motion picture by Dadi Cinema Circuit, which Dadi Cinema Circuit shall be entitled to share an agreed ratio of the Net Box Office received by the Group from projecting such motion picture in its cinemas in the PRC
“Business Cooperation Framework Agreement”	the Business Cooperation Framework Agreement dated 30 November 2020 entered into between the Company and Dadi Cinema Circuit pursuant to which Dadi Cinema Circuit shall supply the Group with motion pictures and license the Group to project such motion pictures in its cinemas
“Company”	Nan Hai Corporation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the Main Board of the Stock Exchange (stock code: 680)
“Dadi Century Beijing”	大地時代文化傳播(北京)有限公司 (Dadi Century Culture Media (Beijing) Company Limited [*]), a company incorporated in the PRC, which is an associate of Ms. Liu (an executive Director) and holds 82.49% equity interest of Dadi Cinema Circuit
“Dadi Cinema Circuit”	廣東大地電影院線股份有限公司 (GD Cinema Circuit Company Limited [*]), a company incorporated in the PRC, and is a connected person of the Company
“Dadi Legend”	北京大地傳奇投資合夥企業 (Beijing Dadi Legend Investment Partnership [*]), a partnership enterprise, equally owned by Ms. Liu and an independent third party, and is an associate of Ms. Liu and holds 12.95% equity interest of Dadi Cinema Circuit
“Director(s)”	the director(s) of the Company

^{*} For identification purpose only

“Distributor Fees”	has the meaning given to it under the paragraph “Provision of motion pictures” of this announcement
“Fixed Fee Motion Picture(s)”	a motion picture licensed by Dadi Cinema Circuit to the Group at a fixed licensing fee for projection of the motion picture in its cinemas in the PRC for a fixed period upon obtaining a license from the distributor of the motion picture by Dadi Cinema Circuit; Dadi Cinema Circuit is not entitled to sharing the box office of such motion pictures
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“independent third party(ies)”	any person(s) or companies and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is/are third party(ies) independent of the Company and connected persons (as defined under the Listing Rules) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. YCH”	Mr. Yu Cheung Hoi (于常海先生), elder brother of Mr. YPH, who is not a substantial shareholder or director or chief executive of the Company or any of its subsidiaries
“Mr. YPH”	Mr. Yu Pun Hoi (于品海先生), a controlling shareholder and the chairman and executive Director of the Company
“Ms. Liu”	Ms. Liu Rong (劉榮女士), an executive Director, but she is not a substantial shareholder of the Company nor any of its subsidiaries
“Net Box Office”	total box office of a motion picture from projection in the cinemas operated by the Group after deduction of (i) the national motion picture business development special funds (國家電影事業發展專項資金); (ii) value-added tax (增值稅); (iii) city construction tax (城建稅); (iv) educational surcharges (教育費附加); and (v) local educational surcharges (地方教育費附加)
“PRC”	the People’s Republic of China, for the purposes of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company, or if there has been a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Sino-i”	Sino-i Technology Limited (stock code: 250), the shares of which are listed and traded on the Main Board of the Stock Exchange, a subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Term”	the term of the Business Cooperation Framework Agreement, from 1 December 2020 to 30 November 2023
“%”	per cent.

By the order of the Board
Nan Hai Corporation Limited
Liu Rong
Executive Director and Chief Executive Officer

Hong Kong, 30 November 2020

As at the date of this announcement, the Directors are as follows:

<i>Executive Directors:</i>	<i>Non-executive Director:</i>	<i>Independent non-executive Directors:</i>
Mr. Yu Pun Hoi	Mr. Lam Bing Kwan	Mr. Lau Yip Leung
Ms. Liu Rong		Mr. Xiao Sui Ning
		Mr. Ho Yeung Nang