

**PROPOSED ACQUISITION OF THE BUSINESS OF A CHAIN OF THIRTEEN (13) CINEMAS FROM  
LOTUS FIVESTAR CINEMAS (M) SDN BHD**

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**1 INTRODUCTION**

- 1.1 The board of directors (the “**Directors**”) of mm2 Asia Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”) wish to announce that the Company has today entered into a binding term sheet (the “**Term Sheet**”) with Lotus Fivestar Cinemas (M) Sdn Bhd (Malaysia Company Registration No. 877197-M with its registered address at 47B, Jalan Batai Laut 5, Kawasan 16, Taman Intan, 41300 Klang, Selangor Darul Ehsan, Malaysia) (the “**Seller**”) for the acquisition (the “**Proposed Acquisition**”) from the Seller of the business of cinema management and operations as carried on by the Seller for the thirteen (13) cinema locations as set out in the **Schedule** to this announcement (the “**Business**”).
- 1.2 The Company may nominate a group company to formally acquire the Business from the Seller (such entity hereinafter referred to as the “**Buyer**”) and the rights of the Company under the Term Sheet will be deemed assigned to such nominee where expeditious or necessary to give effect to the Proposed Acquisition.

**2 INFORMATION ON THE SELLER AND THE BUSINESS**

- 2.1 The Seller is involved in the business of cinema management and operations throughout Malaysia. The Seller has an authorised capital of Malaysian Ringgit (“**RM**”) 5,000,000 divided into 5,000,000 ordinary shares of RM1.00 each, out of which 3,000,000 ordinary shares have been issued and fully paid-up. It currently operates a chain of 23 cinemas in Malaysia.
- 2.2 The cinemas comprised in the Business were established between 2009 and 2016, and currently comprise a total of 90 screens with a total of 15,818 seats.
- 2.3 The book value and net tangible asset value of the Business as at 31 December 2015, was RM48,226,279 (approximately S\$15,927,828 based on the Bank Negara Malaysia exchange rate of S\$1 to RM3.0278 as of 5.00 p.m. on 7 November 2016 (the “**Exchange Rate**”), the date immediately prior to the date of the Term Sheet).
- 2.4 The Seller is the beneficial owner of the entirety of the Business. The Seller is not related to the Directors or controlling shareholders of the Company, and their respective associates.

**3 RATIONALE FOR THE PROPOSED ACQUISITION**

The Proposed Acquisition is in line with the Company’s intention to diversify into the downstream value chain of film production. The Company believes this will complement its current and future businesses, strengthening its competitive advantage through the ownership of cinemas, as well as providing a source of recurring income to the Group. Upon Completion of the Proposed Acquisition, the Group will own a total of 133 cinema screens in Malaysia, elevating the Group to the fourth (4<sup>th</sup>) largest cinema operator in the Malaysian market.

**4 PURCHASE CONSIDERATION FOR THE BUSINESS**

- 4.1 The aggregate purchase consideration payable by the Company to the Seller for the Business is RM118,000,000 (the “**Purchase Consideration**”). The Purchase Consideration will be paid by the Buyer to the Seller, subject to and in accordance with the following:

- 4.1.1 **Earnest Money** – RM1,500,000 on the signing of the Term Sheet, and an additional RM1,000,000 upon the signing of a sale of business agreement (the “**SBA**”), being a good-faith expression of the Buyer’s intention to carry out the Proposed Acquisition, subject to the terms and conditions of the Term Sheet, which shall be applied against the First Tranche Payment. The Earnest Money is refundable in the event the Buyer terminates the Term Sheet, provided that there is a material adverse finding in the course of the legal, financial, tax and commercial due diligence investigations and/or a material adverse change in, *inter alia*, the nature, conduct, assets, position (financial or trading), profits or prospects of the Business, in which case the Seller shall repay the Earnest Money within 30 days from the date of written notice by the Buyer. The Earnest Money is non-refundable in all other circumstances.
- 4.1.2 **First Tranche Payment** – RM98,000,000 (less the Earnest Money) within 30 business days of the completion of the Proposed Acquisition (the “**Completion**”).
- 4.1.3 **Second Tranche Payment** – If the Business has achieved a target earnings before interest, tax, depreciation and amortisation (the “**EBITDA**”) of RM10,000,000 to RM12,500,000 for the period between 1 April 2017 and 31 March 2018 (“**Year 1**”), based on the audited financial statements and records relating to the Business, the Buyer shall pay **up to RM10,000,000** adjusted on a pro-rata basis for the actual achieved EBITDA for such period. The Second Tranche Payment shall be made within 30 days from the date of completion of the audit.
- 4.1.4 **Third Tranche Payment** – If the Business has achieved a target EBITDA of RM10,000,000 to RM12,500,000 for the period between 1 April 2018 and 31 March 2019 (“**Year 2**”), based on the audited financial statements and records relating to the Business, the Buyer shall pay **up to RM10,000,000** adjusted on a pro-rata basis for the actual achieved EBITDA for such period. The Third Tranche Payment shall be made within 30 days from the date of completion of the audit.
- 4.2 The adjustment for the Second and Third Tranche Payments shall be done on the following basis:
- 4.2.1 the Second Tranche Payment and the Third Tranche Payment shall be computed by the following formula (“**Adjusted Tranche Consideration**”):
- $$\text{Adjusted Tranche Consideration} = ((A - \text{Min}) / (\text{Max} - \text{Min})) * C$$
- Where:
- A** = Actual EBITDA for such year (i.e. Year 1 or Year 2);  
**Max** = RM12,500,000  
**Min** = RM10,000,000  
**C** = RM10,000,000
- 4.2.2 in the event that the actual EBITDA does not fall within the range of RM10,000,000 to RM12,500,000:
- (a) where the actual EBITDA for such year is equal to or less than RM10,000,000, no Adjusted Tranche Consideration is payable; or
- (b) where the actual EBITDA for such year exceeds RM12,500,000, an incentive fee of 20% of the additional EBITDA exceeding RM12,500,000 shall be payable to the Seller.
- 4.3 The Purchase Consideration was arrived at on a willing buyer willing seller basis after taking into account the following factors:

- 4.3.1 the Purchase Consideration of RM98,000,000 paid at Completion translates to a valuation of about RM1.09 million per screen. This compares favourably with the Group's cost of acquisition of cinemas from Cathay Cineplexes Sdn Bhd and Mega Cinemas Management Sdn Bhd, which were RM1.33 million and RM1.69 million per screen respectively;
  - 4.3.2 the prevailing market conditions of the cinema industry in Malaysia;
  - 4.3.3 the capabilities and synergies between the Group and the Business;
  - 4.3.4 the management contract for the Seller to manage the Business for a period of two (2) years from the date of Completion (the "**Completion Date**"); and
  - 4.3.5 the rationale for the Proposed Acquisition as elaborated in paragraph 3 above.
- 4.4 No independent valuation has been conducted on the Business.
- 4.5 The Purchase Consideration will be funded entirely via bank borrowings and internal cash resources.

## **5 KEY TERMS UNDER THE TERM SHEET**

- 5.1 The obligation of the Buyer and the Seller to enter into and complete the Proposed Acquisition is subject to the fulfilment by the Seller on or prior to the Completion Date of the following conditions:
- 5.1.1 the Seller providing the Buyer with full access to all information and such books and records relating to the Business as the Buyer requires, and the results of the Buyer's legal, financial, tax and commercial due diligence investigations on the Business and the Seller over, but not limited to, the financial condition (including the adequacy of cash flow for the Business' operations), prospects and records of the Business, being satisfactory to the Buyer;
  - 5.1.2 the Seller providing to the Buyer such undertakings, representations, warranties and indemnities, as the Buyer may reasonably require, in respect of the Business, including but not limited to (a) a warranty that there is no undisclosed, hidden or contingent liabilities relating to, arising from or in connection with the Business, (b) a non-competition and non-solicitation undertaking in relation to the Business, and (c) an indemnity from the Seller for a period of five (5) years from the Completion Date in respect of any arrears on or prior to the Completion Date for any payment or returns due under any taxes or default(s) in payment of any taxes payable for any taxable period under any tax legislation or any penalty or surcharge under any tax legislation;
  - 5.1.3 the Seller procuring the lessor(s) of the thirteen (13) cinemas under the leases comprised in the Business (the "**Leases**") to novate or agree to novate the Leases to the Buyer (or its nominee) on terms that the remaining tenure of each Lease shall be at least twelve (12) years (with clear rental rates specified for each renewal period and capped for each period of renewal) from the Completion Date, and such other terms acceptable to the Buyer in the Buyer's sole discretion;
  - 5.1.4 the Buyer being reasonably satisfied that, based on the Seller's management accounts, that the Business has produced EBITDA of at least RM9,000,000 for their most recently concluded financial year and RM5,000,000 for the six (6) months period from January 2016 to June 2016 respectively;
  - 5.1.5 all required consents, and the approval of and consent to the Proposed Acquisition being given by the directors and shareholders of the Seller and the Buyer (if required), and such approvals, licences and consents remaining in full force and effect at Completion of the Proposed Acquisition;

- 5.1.6 there being no material adverse change in the nature, conduct, assets, position (financial or trading), profits or prospects of the Business and no contract, licence or financial agreement that is material to the Business being terminated, revoked or having its terms materially and adversely amended;
- 5.1.7 no person (including any governmental or regulatory body) having:
- (a) commenced, or threatened to commence, any proceedings or investigation which challenges or seeks to interfere with the Proposed Acquisition;
  - (b) taken or threatened to take any action which would be materially inconsistent with any of the warranties given by the Seller in the SBA, or
  - (c) enacted or proposed any legislation or regulation which would prohibit, materially restrict or materially delay the implementation of the Proposed Acquisition; and
- 5.1.8 the granting of all third party licences necessary for the operation of the Business, including but not limited to such licences from the National Film Development Corporation Malaysia (“**FINAS**”), such licences not being revoked or varied;
- 5.1.9 the signing of a management contract between the Buyer and Seller for the Seller’s management of the Business for a period of two (2) years from the Completion Date on terms mutually agreed between the Buyer and Seller; and
- 5.1.10 the Buyer procuring adequate bank financing for the satisfaction of the Purchase Consideration.
- 5.2 In the event that any of the conditions precedent is not satisfied or waived on or before the Completion Date (or such later date agreed by the Buyer and the Seller), the Term Sheet shall lapse and cease to have further effect.
- 5.3 The Seller has undertaken to the Buyer to take such steps as for the time being lies within its powers to procure that the Seller does not enter into negotiations for, undertake or commence any new business of film exhibition in any location in Malaysia (the “**New Venture**”), without first offering such opportunity to participate in the New Venture to the Buyer.
- 5.4 The Seller has also agreed to grant to the Buyer an option (the “**Cinema Option**”) to purchase the film screening and/or film exhibition business of the Seller at two (2) cinemas located in Terengganu and Sandakan (the “**Terengganu and Sandakan Cinemas**”, details of which are set out in the **Schedule** to this announcement) (the “**Additional Cinemas Business**”), on terms and conditions not less favourable than the terms and conditions on which the Buyer is purchasing the Business as set out in the Term Sheet. The price payable for the Additional Cinemas Business under the Cinema Option shall be eight (8) times the EBITDA achieved by the Additional Cinemas Business for Year 1 (the “**Additional Cinemas Price**”), as evidenced by the audited financial statements in relation to the Additional Cinemas Business for Year 1. The Buyer shall be entitled to exercise its Cinema Option at any time within three (3) months of the end of Year 1 (the “**Cinema Option Period**”).
- In the event the Buyer elects to exercise its Cinema Option, this is subject to the approval of the Company’s shareholders in a general meeting as required under the Listing Manual, Section B: Rules of Catalist of the SGX-ST (the “**Listing Rules**”).
- 5.5 If the Cinema Option is not exercised within the Cinema Option Period, the Seller undertakes to rebrand or procure the rebranding of the Terengganu and Sandakan Cinemas within three (3) months from the end of the Cinema Option Period to the satisfaction of the Buyer, and undertakes to execute a management contract with the Buyer to the Buyer’s satisfaction in relation to the management of the Terengganu and Sandakan Cinemas, for a period of at least 18 months from the Completion Date.

- 5.6 The Seller has also agreed and undertaken that and/or to take such steps as for the time being lies within its powers to cause all future contracts in respect of and concerning the ownership and/or transfer of the property title of Lotus Five Star Properties (M) Sdn Bhd or its successors and assigns, in relation to the Kampar and/or Bukit Jambul location(s) (details of which are set out in items 12 and 13 of the **Schedule** to this announcement) (the **“Future Contracts”**) shall first be offered to the Buyer on terms and conditions not less favourable than those that the Seller intends to offer to a third party (the **“Right of First Refusal”**). In the event the terms and conditions of the Future Contracts are revised more favourably in favour of the third party after the non-exercise of the Right of First Refusal by the Buyer, the Seller shall offer the Right of First Refusal to the Company again on such revised terms and conditions.

## 6 FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

### 6.1 Bases and Assumptions

For the purposes of illustration only, the pro forma financial effects of the Proposed Acquisition taken as a whole are set out below. The pro forma financial effects have been prepared based on the audited consolidated financial statements of the Group for the financial year ended 31 March 2016 and the unaudited accounts prepared by the Seller in relation to the Business for the financial period between 1 January 2015 and 31 December 2015, and do not necessarily reflect the actual future financial position and performance of the Group following Completion of the Proposed Acquisition.

The financial effects of the Proposed Acquisition have been computed based on the following assumptions:

- 6.1.1 the financial effects on the Group’s net tangible assets (the **“NTA”**) attributable to shareholders of the Company (the **“Shareholders”**) and the NTA per ordinary share in the capital of the Company (the **“Shares”**) have been computed assuming that the Proposed Acquisition was completed on 31 March 2016. The NTA also takes into account the expenses incurred by the Company in relation to the share split of every one (1) ordinary share in the capital of the Company into two (2) ordinary shares as completed on 14 October 2016 (the **“Share Split”**), and net proceeds for the issuance of Shares pursuant to the conversion of certain outstanding convertible securities and the placement of Shares since 31 March 2016;
- 6.1.2 the financial effects on the Group’s earnings attributable to the Shareholders and earnings per Share (**“EPS”**) have been computed assuming that the Proposed Acquisition was completed on 1 April 2015. The earnings attributable to the Shareholders also takes into account the expenses incurred by the Company in relation to the Share Split, and net proceeds for the issuance of Shares pursuant to the conversion of certain outstanding convertible securities and the placement of Shares since 31 March 2016;
- 6.1.3 costs and expenses in connection with the Proposed Acquisition are disregarded for the purposes of calculating the financial effects; and
- 6.1.4 the number of Shares before Completion has been computed as of the date of this announcement, taking into account the, and all new Shares that have been issued by the Company pursuant to the conversion of certain outstanding convertible securities and the placement of Shares.

### 6.2 NTA per Share

	Before Completion	After Completion
NTA attributable to Shareholders	S\$54,203,316	S\$93,175,507

Number of Shares	1,047,781,420	1,047,781,420
NTA per Share attributable to Shareholders (cents)	5.17	8.89

### 6.3 EPS

	Before Completion	After Completion
Net profit attributable to Shareholders	S\$8,076,819	S\$8,517,889
Weighted average number of Shares	1,047,781,420	1,047,781,420
EPS (cents)	0.77	0.81

## 7 RELATIVE FIGURES UNDER RULE 1006 OF THE LISTING RULES

7.1 For the purposes of Chapter 10 of the Listing Rules and based on the latest announced audited financial statements of the Group for the financial year ended 31 March 2016 and unaudited accounts prepared by the Seller in relation to the Business for the financial period 31 December 2015, the relative figures of the Proposed Acquisition computed on the bases set out in Rule 1006(a) to (e) of the Listing Rules are as follows:

Listing Rule	Content	Business	Group	Relative Figure
1006(a)	The net asset value of the assets to be disposed of, compared with the group's net asset value. This basis is not applicable to an acquisition of assets.	Not applicable		
1006(b)	The net profits attributable to the assets acquired, compared with the Group's net profits. <sup>(1)</sup>	S\$775,495 <sup>(2)</sup>	S\$9,890,908 <sup>(3)</sup>	7.84%
1006(c)	The aggregate value of the consideration given, compared with the issuer's market capitalisation based on the total number of issued shares excluding treasury shares.	S\$38,972,191 <sup>(2)</sup>	S\$491,199,930 <sup>(4)</sup>	7.93%
1006(d)	The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable		
1006(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the group's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets.	Not applicable		

#### Notes:

- (1) For the purpose of computation of these figures, "net profits" means profit or loss before income tax, minority interests and extraordinary items.
- (2) Based on the Exchange Rate of S\$1 to RM3.0278.
- (3) Based on the Group's latest audited consolidated full year profits before income tax, minority interests and extraordinary items for the financial year ended 31 March 2016 of S\$9,990,908.

- (4) The market capitalisation of the Company, determined by multiplying the 1,047,781,420 Shares in issue as at the date of this announcement by the weighted average price of the Company's shares of approximately S\$0.4688 on 7 November 2016, which is the market day preceding the date of the Term Sheet.

7.2 The relative figures computed under Rules 1006(b) and 1006(c) of the Listing Rules exceed 5% but are less than 75%. Accordingly, the Proposed Acquisition constitutes a "*Disclosable Transaction*" as defined under Chapter 10 of the Listing Rules.

## **8 INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS**

Save for their shareholdings in the Company, none of the Directors or controlling shareholders of the Company has any interest, directly or indirectly, in the Proposed Acquisition.

## **9 SERVICE AGREEMENT**

No person is proposed to be appointed as a Director in connection with the Proposed Acquisition. Accordingly, no service agreement is proposed to be entered into between the Company and any such person.

## **10 DOCUMENTS FOR INSPECTION**

The Term Sheet shall be available for inspection at the Company's registered office at 1002 Jalan Bukit Merah #07-11, Singapore 159456, during normal business hours for a period of three (3) months from the date of this announcement.

## **11 FURTHER ANNOUNCEMENTS**

The Company will make such further announcement(s) to keep Shareholders informed, as and when there are further updates or developments in due course.

## **12 RESPONSIBILITY STATEMENT**

The Directors of the Company (including any Director who may have delegated detailed supervision of the preparation of this announcement) collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm after making all reasonable enquiries, that to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts about the Proposed Acquisition, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading. Where information in the announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the announcement in its proper form and context.

## **13 CAUTIONARY STATEMENT**

Shareholders and potential investors should exercise caution when trading in the Shares, as there is no certainty that Completion will take place. In the event of any doubt as to the action they should take, Shareholders and potential investors should consult their financial, tax, legal or other professional advisers.

## By Order of the Board

Melvin Ang Wee Chye  
Chief Executive Officer and Executive Director  
8 November 2016

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*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, Hong Leong Finance (the "Sponsor"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("SGX-ST"). The Sponsor has not independently verified the contents of this announcement.*

*This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.*

*The contact person for the Sponsor is Mr. Tang Yeng Yuen, Vice President, Head of Corporate Finance, at 16 Raffles Quay, #40-01A Hong Leong Building, Singapore 048581. Telephone (65) 64159886.*



## SCHEDULE

### The Business

No.	Location Name	Address
1.	LFS 1 Plaza, Kuala Selangor	Lot 1, Ground Floor, Jalan Medan Niaga 5, 45000 Kuala Selangor, Selangor
2.	LFS Seri Iskandar	FF-01-A, 1st Floor D'Mall, Seri Iskandar Business Centre, 32610 Bandar Seri Iskandar, Perak
3.	LFS 1 Segamat	Lot F.01A, 1 Segamat Shopping Complex, First Floor, Jalan Kolam Air, 85000 Segamat, Johor
4.	LFS Prangin Mall	33-5-09 Prangin Mall, No 33 Jalan Lim Chew Leong, 10100 Georgetown, Penang
5.	LFS Bahau	No 2 - 148, 2nd Floor, Pusat Perniagaan Kiara Square, 72100 Bahau, Negeri Sembilan
6.	LFS Shaw Centre Point Klang	Lot L4-03, Tingkat 4, Kompleks Shaw Centre Point, Jalan Raja Hassan, 41400 Klang, Selangor
7.	LFS Riverside, Kuching	4th Floor, Riverside Shopping Complex, Jalan Tunku Abdul Rahman, 93500 Kuching, Sarawak
8.	LFS IOI Kulai	Lot L1-12, IOI Mall, No 1, Lebuhraya Putra Utama, Bandar Putra, 81000 Kulai Jaya, Johor
9.	LFS Kerian Sentral Mall	2-01, 2nd Floor, Kerian Sentral Mall, Lot 23252, Jalan Sekolah, 34200 Parit Buntar, Perak
10.	LFS Summer Mall	Parcel S1, 2nd floor, The Summer Shopping Mall, Lot 7455, Block 1, Samarahan Land District, Jalan Dato Mohd Musa, 94300 Kota samarahan, Sarawak
11.	LFS Mahkota Parade	Lot S01 & S18, 2nd Floor, Mahkota Parade, No 1, Jalan Merdeka, 75000 Melaka
12.	LFS Bukit Jambul	3A - 5 - 06, Kompleks Bukit Jambul, Jalan Rumbia, 11900 Penang
13.	LFS Kampar	Lot 554,555 & 583, Jalan Baru, Taman Tasik Emas, 31900 Kampar, Perak

### Terengganu and Sandakan Cinemas

No.	Location Name	Address
1.	LFS Kuala Terengganu	Pusat Rekreasi, Paya Bunga Sentral, Level 7&8, Jalan Tengku Embong Fatimah, 20200 Kuala Terengganu, Terengganu
2.	LFS Harbour Mall, Sandakan	Lot 11-A, 11th Floor, Harbour Mall Sandakan, Sandakan Harbour Square, 90000 Sandakan, Sabah