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Golden Harvest

ORANGE SKY GOLDEN HARVEST ENTERTAINMENT (HOLDINGS) LIMITED

橙天嘉禾娛樂(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1132)

**VERY SUBSTANTIAL DISPOSAL
IN RELATION TO
THE DISPOSAL OF CITY ENTERTAINMENT CORPORATION LIMITED
AND
RESUMPTION OF TRADING**

Sole Financial Advisor to the Company



BNP PARIBAS

THE DISPOSAL

The Board is pleased to announce that on 25 January 2017, the Vendor, an indirect wholly-owned subsidiary of the Company, the Company, as the guarantor of the Vendor, the Purchaser and Nan Hai, as the guarantor of the Purchaser, have entered into the Sale and Purchase Agreement, pursuant to which, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares at the Consideration.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the relevant applicable percentage ratios set forth under Rule 14.07 of the Listing Rules in respect of the Disposal are 75% or more, the Disposal constitutes a very substantial disposal for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Disposal, the Sale and Purchase Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, no Shareholder has a material interest in the Disposal and accordingly, no Shareholder is required to abstain from voting in respect of the ordinary resolution to approve the Disposal at the SGM.

A circular containing, among other things, further information relating to the Disposal and the notice of convening the SGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 13 March 2017, as the Company expects that it will require more time to collate the financial information to be included in the circular.

Closing of the Disposal is conditional upon the satisfaction of, among others, the conditions set out in the section headed “Conditions Precedent” in this announcement, including the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder by the Shareholders at the SGM. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

RESUMPTION OF TRADING

Trading in the shares of the Company on the Stock Exchange was halted with effect from 9:00 a.m. on Wednesday, 25 January 2017 at the request of the Company pending the publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on Friday, 10 February 2017.

THE DISPOSAL

The Board is pleased to announce that on 25 January 2017, the Vendor, an indirect wholly-owned subsidiary of the Company, the Company, as the guarantor of the Vendor, the Purchaser and Nan Hai, as the guarantor of the Purchaser, have entered into the Sale and Purchase Agreement, pursuant to which, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares at the Consideration of approximately RMB3.286 billion (subject to certain adjustments).

Sale and Purchase Agreement

Date : 25 January 2017

Vendor : Giant Harvest Limited

Vendor’s Guarantor : Orange Sky Golden Harvest Entertainment (Holdings) Limited

Purchaser : True Vision Limited

Purchaser’s Guarantor : Nan Hai Corporation Limited

As at the date of this announcement, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Purchaser, Nan Hai and their ultimate beneficial owners are third parties independent of the Company and its connected persons.

(a) Assets to be disposed of

As at the date of this announcement, the Vendor owns the Sale Shares, being the entire issued share capital of the Target Company. Pursuant to the Sale and Purchase Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares at the Consideration.

The Target Company is a company incorporated in Hong Kong, which in turn owns 92.59% of the registered capital of OSGH (China). The Target Group engages in the theatrical exhibition, cinema operation, management and investment holding business of the Group in the PRC.

(b) Payment of Deposit and Total First Guarantee Amount

At the next Business Day following the Signing Date, the Purchaser shall pay the Deposit in the amount equivalent in USD of RMB200 million to the Offshore Bank Account and the First Guarantee Amount of RMB190 million to the Onshore Bank Account. The Earnest Money of RMB10 million received by the Vendor pursuant to the Memorandum of Understanding shall be transferred to the Onshore Bank Account and will form part of the payment of the Total First Guarantee Amount.

(c) Consideration and payment

Consideration

Pursuant to the Sale and Purchase Agreement, the Initial Consideration of the Sale Shares is determined by the Enterprise Value, subject to certain adjustments with reference to among others the Net Debt Value in the Audited Accounts. The Enterprise Value was originally proposed by the Purchaser. The Company has compared offers provided by various bidders in a confidential competitive bid auction process prior to selecting the Purchaser based on the valuation of its offer and certainty of execution. In analysing the valuation of the offers, the Company has also made reference to comparable transactions and companies in the cinema business in the PRC and internationally.

Based on the management accounts of the OSGH (China) Group as at 31 December 2016, the Initial Consideration shall be approximately RMB3.286 billion.

To determine the Consideration, the Initial Consideration will be subject to the following further adjustments:

- (i) Net Debt Adjustment, the Initial Consideration will be subject to the following further adjustments:
 - (a) the addition of the Net Debt Adjustment Amount in the event that the Net Debt Value in the Audited Accounts exceeds the Net Debt Value in the Closing Accounts;

- (b) the deduction of the Net Debt Adjustment Amount in the event that the Net Debt Value in the Closing Accounts exceeds the Net Debt Value in the Audited Accounts;
- (ii) the addition of the cash expenditure in respect of the investment on new cinema projects from 31 December 2016 to the Closing Date; and
- (iii) the deduction of the additional amount of consideration for the Xin Ye Shares that the Purchaser should pay pursuant to the Proposed Xin Ye Agreement if Closing occurs after 15 September 2017.

The Consideration in the amount of approximately RMB3.286 billion is determined based on the assumption that no further adjustment will be made to the Initial Consideration.

Further announcement will be made by the Company to disclose the amount of the Final Consideration and the details of adjustments made as and when appropriate.

Payment of Total Offshore Consideration, Second Guarantee Amount and Joint Amount

In the event that condition (vi) under the section “Conditions Precedent” below has not been waived by the Purchaser:

- (i) at the next Business Day following the date of receiving the Online Appointment Notice, the Purchaser shall pay the Offshore Consideration Payment in the amount equivalent in USD of not less than RMB1.92 billion to the Escrow Account; and
- (ii) at the Closing Date (as the case may be), (1) the Purchaser shall pay the Second Guarantee Amount to the Onshore Bank Account and the Joint Amount of RMB300 million to the Joint Bank Account, (2) the Deposit will become part of the payment of the Consideration and (3) the Offshore Consideration Payment shall be transferred from the Escrow Account to the Offshore Bank Account and in the event that the Closing does not take place, the amount equivalent to the Offshore Consideration Payment in the Escrow Account will be transferred to the designated bank account of the Purchaser.

In the event that condition (vi) under the section “Conditions Precedent” below has been waived by the Purchaser:

- (i) at the Closing Date (as the case may be), the Purchaser shall pay (1) the Offshore Consideration Payment in the amount equivalent in USD of not less than RMB1.92 billion to the Offshore Bank Account, (2) the Second Guarantee Amount to the Onshore Bank Account and (3) the Joint Amount of RMB300 million to the Joint Bank Account; and the Deposit will become part of the payment of the Consideration.

Payment of Third Guarantee Amount

On the next Business Day following 6 months from the Closing Date:

- (i) in the event that the Third Guarantee Amount is equivalent to the Joint Amount, the Joint Amount shall be transferred from the Joint Bank Account to the Onshore Bank Account;
- (ii) in the event that the Third Guarantee Amount exceeds the Joint Amount, the Joint Amount shall be transferred from the Joint Bank Account to the Onshore Bank Account and the Adjustment Amount shall be paid by the Purchaser to the Onshore Bank Account;
- (iii) in the event that the Joint Amount exceeds the Third Guarantee Amount, an amount equivalent to the Third Guarantee Amount shall be transferred from the Joint Bank Account to the Onshore Bank Account and the amount equivalent to the Adjustment Amount in the Joint Bank Account shall be returned to the Purchaser; and
- (iv) in the event the Third Guarantee Amount is a negative value, the Vendor shall pay an amount equivalent to the absolute value of the Third Guarantee Amount to the Purchaser and the Joint Amount in the Joint Bank Account shall be returned to the Purchaser.

The Total Guarantee Amount shall be used to guarantee the Purchaser's obligation to transfer (in full or in part) the amount equivalent in USD of the Total Guarantee Amount from the Onshore Bank Account to the Offshore Bank Account (the "**Transfer**") within 12 months from the Closing Date. Subject to the obtaining of the approval in respect of the transfer of such amount to the Offshore Bank Account (the "**Approved Amount**") from the relevant foreign exchange authority in the PRC and the confirmation from the handling bank in respect of having sufficient foreign exchange in USD, the Vendor shall transfer the Approved Amount from the Onshore Bank Account to the designated bank account of the Purchaser and the Purchaser shall transfer an amount equivalent in USD of the Approved Amount to the Offshore Bank Account. If the Transfer in full does not take place within 12 months from the Closing Date, the Purchaser shall pay an interest of 0.02% per day in respect of the Outstanding Amount, until the transfer of the full amount equivalent in USD of the Total Guarantee Amount from the Onshore Bank Account to the Offshore Bank Account.

Upon the receipt by the Vendor of the payment of the amount equivalent in USD of not less than the Total Guarantee Amount and the Total Offshore Consideration from the Purchaser, the Purchaser's payment obligation of the Consideration under the Sale and Purchase Agreement will be fulfilled.

The Consideration of the Sale Shares in respect of the Disposal was determined after a confidential competitive bid process organised by the Company and arm's length negotiations between the Vendor and the Purchaser with reference to, among others, the valuation of the offers and certainty of execution by various bidders and comparable

transactions and companies in the same industry as the Target Company in the PRC and internationally. The Directors consider that the Consideration of the Sale Shares is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

(d) Conditions Precedent

Closing is subject to the satisfaction of the following conditions:

- (i) the Disposal having been considered and approved at the SGM of the Company in accordance with the Listing Rules;
- (ii) no obligation on the part of the Company being triggered in respect of any matters concerning the sufficient level of operation or asset value and/or cash company issue under the Listing Rules, and no indication has been received from the Stock Exchange concerning the objection, suspension, cancellation, revocation and withdrawal of the continuous listing status of the Shares for any reason due to the Disposal contemplated by the Transaction Documents (under (including but not limited to) Rules 13.24 and 14.82 of the Listing Rules) or no enquiry has been raised by the Stock Exchange in respect of the foregoing matters;
- (iii) the Vendor having obtained all necessary consents and approvals from third parties, including but not limited to the Target Group's creditors, parties to which the Target Group has entered into any contracts with, investors of the Target Group (other than the Vendor) (if necessary), in respect of the Disposal, and such consents and approvals remaining effective;
- (iv) the Disposal having been considered and approved at the SGM of Nan Hai in accordance with the Listing Rules (if required);
- (v) the anti-trust approval, if required, from the competent PRC authority in respect of the Disposal having been obtained;
- (vi) the Target Company, the Purchaser or its nominee and Nan Hai having signed an agreement with Xin Ye in respect of the purchase of the Xin Ye Shares and the Proposed Xin Ye Transfer being approved by the competent commerce authorities of the foreign investment enterprise in the PRC;
- (vii) the completion of the transfer of the following members of the Target Group to a third party outside of the Target Group designated by the Vendor and the change of shareholder registration of the following members of the Target Group:
 - (a) 北京橙天嘉禾橙食品有限公司 (Beijing Orange Sky Golden Harvest Food Limited Company*);
 - (b) Jiashi;
 - (c) 北京橙天嘉禾三里屯影城管理有限公司 (Orange Sky Golden Harvest Sanlitun (Beijing) Cinema Management Company Limited*);
 - (d) 北京司響無限文化傳媒有限公司 (Beijing Sixiang Wuxian Culture Media Limited Company*);

- (viii) the following companies becoming the subsidiary of the OSGH (China) Group:
- (a) 北京美林華映影院管理有限公司 (Meilin (Beijing) Cinema Management Company Limited*) (which holds 51% shareholding interest of 景德鎮橙天嘉禾金鼎影城有限責任公司 (Orange Sky Golden Harvest Jinding (Jingdezhen) Cinema Company LLC*);
 - (b) 北京橙天嘉禾上地影城有限公司 (Orange Sky Golden Harvest Shangdi (Beijing) Cinema Company Limited*);
- (ix) the Target Group having entered into the termination agreement in respect of the acquisition of Wan Ke Hong Cinema and Jining Cinema;
- (x) the Target Company having completed the following:
- (a) the relevant financial accounting treatment, including but not limited to the clearance of all outstanding debts (excluding payments and shareholders' loan between the Target Company and OSGH (China)). Upon the clearance of all outstanding debts (the “**Clearance Date**”), the Vendor and the Purchaser shall appoint an independent auditor to audit/review the accounts of the Target Company and such accounts will be binding on the Parties provided that no additional debt has been incurred from the Clearance Date to the Closing Date;
 - (b) the disposal of assets which (i) the Vendor plans to dispose of, (ii) are held by the Target Company and (iii) are irrelevant to the usual daily operation of the OSGH (China) Group;
 - (c) the transfer of 深圳市粵鳳數碼科技有限公司 (Shenzhen City Phoenix Digital Company Limited*) and OSGH Finance Limited (BVI) to a third party;
 - (d) the signing of a novation agreement in relation to a tenancy agreement of a cinema in Hong Kong among the Target Company, a subsidiary of the Company in the Remaining Group and the lessor, and the signing of a management services agreement in respect of the management of the cinema between the Target Company and a subsidiary of the Company in the Remaining Group; and
 - (e) the termination of the assignment of dividends and guarantee agreements entered into between the Target Company with Standard Chartered Bank and CCB International (Holdings) Limited respectively.

In respect of condition (iii) above, the Vendor and the Purchaser shall liaise with the Target Group's creditors under the bank loan agreements and finance lease agreements (the “**Creditors**”) in respect of the changing of the guarantors in such agreements to the Purchaser or its related party before the Closing Date. If the Creditors disagree with the change of the guarantor, the Target Company shall repay the debts (including interests) under such bank loan agreements and finance lease agreements. The Purchaser shall bear any penalty interest and additional costs incurred due to the above arrangements.

In the event that all the Conditions Precedent (apart from condition (vi) above) have been satisfied, the Purchaser shall be entitled to waive condition (vi) above before the Long Stop Date (the “**Xin Ye Waiver**”).

In the event that the Target Company and Xin Ye have signed the Proposed Xin Ye Agreement, and the Purchaser (or its nominee) or Nan Hai refused to sign the Proposed Xin Ye Agreement, the Purchaser shall not be entitled to exercise the Xin Ye Waiver. The Purchaser shall assist in obtaining the approval from the competent commerce authorities of the foreign investment enterprise in the PRC in respect of the Proposed Xin Ye Transfer and Nan Hai shall continue to be the guarantor of the Purchaser or its nominee pursuant to the Proposed Xin Ye Agreement. The Purchaser shall also indemnify the Vendor’s or the Company’s losses in connection to any claims from Xin Ye against the Vendor.

If as a result of:

- (i) the Purchaser’s act or omission, such that any of the Conditions Precedent is not fulfilled by the Long Stop Date, or when all the Conditions Precedent are fulfilled (including where the Purchaser has exercised the Xin Ye Waiver and all the other Conditions Precedent (except for waiver condition (vi)) are fulfilled), the Disposal has not completed or the Purchaser or its nominee has not paid the consideration in respect of the Xin Ye Shares in accordance to the payment arrangement under the Proposed Xin Ye Agreement, the Vendor shall be entitled to forfeit the Deposit and the Total First Guarantee Amount;
- (ii) the Vendor’s act or omission, such that the Conditions Precedent are not fulfilled by the Long Stop Date, or when all the Conditions Precedent are fulfilled, the Disposal has not completed, the Vendor has to return the Deposit and the Total First Guarantee Amount to the Purchaser and has to pay the Purchaser an amount of RMB400 million; and
- (iii) the reasons other than the Purchaser’s or the Vendor’s act or omission, by the Long Stop Date, the Conditions Precedent are not fulfilled or the Registration has not been completed (such as not being able to obtain the anti-trust approval from the competent PRC authority in respect of the Disposal for reasons other than the Purchaser’s act or omission), the Vendor shall return the Deposit and the Total First Guarantee Amount to the Purchaser.

The Parties shall have no obligation to proceed with the sale and purchase of the Sale Shares and the Sale and Purchase Agreement shall be terminated and shall cease to be of effect.

(e) **Leases**

Pursuant to the Sale and Purchase Agreement, the Vendor shall procure the renewal of an existing lease of the Target Group (the “**Existing Lease**”) on such terms which are not less favourable than the renewal terms set out in the Sale and Purchase Agreement (the “**Agreed Renewal Terms**”) during the period from the Signing Date to the Closing Date (unless otherwise agreed by the Purchaser) (the “**Renewal Period**”) and the Vendor and Purchaser shall procure the renewal of the Existing Lease from the Closing Date to the expiry of the Existing Lease (the “**Expiry Date**”) in such terms as agreed by the Parties.

The Vendor shall also procure the entering into of new lease agreements of certain cinemas (the “**New Leases**”) by the Target Group on such terms which are not less favourable than the lease terms of certain cinemas as set out in the Sale and Purchase Agreement (the “**Agreed Lease Terms**”) and, subject to further agreement with the Purchaser, such other lease agreements of other cinemas (the “**Other Leases**”) during the period from the Signing Date to 31 December 2018 (the “**Period**”).

A payment will be made from the Purchaser to the Vendor, or a refund will be received by the Purchaser from the Vendor, depending on (1) whether (i) the Vendor is able to renew the Existing Lease in accordance with the Agreed Renewal Terms within the Renewal Period, (ii) the Vendor or the Purchaser is able to renew the Existing Lease on such terms as agreed by the Parties from the Signing Date to the Expiry Date and (iii) the Vendor is able to enter into the New Leases by the Target Group in accordance with the Agreed Lease Terms and the Other Leases within the Period and (2) the agreed economic value of the Existing Lease, the New Leases and the Other Leases. The maximum amount of refund received by the Purchaser from the Vendor shall be RMB380 million. On the basis that none of the agreements in relation to the Other Leases have been executed, the maximum amount to be received from the Vendor by the Purchaser is expected to be RMB17 million.

(f) **Non-compete Undertaking**

Apart from the business operation of the Target Group, the Renewal of the Existing Lease and the entering into of the New Leases and the Other Leases as set out in the paragraph headed “Leases” above:

- (i) within 24 months from the Closing Date, unless otherwise agreed by the Purchaser in writing, the Company shall not and shall procure its subsidiaries not to engage in the investment and the operation of the cinema business in the PRC; and
- (ii) from the Closing date to the termination of the Trademark License Agreements, unless otherwise agreed by the Purchaser in writing, the Company shall not, through other entities which are not its subsidiaries, use any Authorised Trademarks to engage in the investment and operation of any cinema business in the PRC.

(g) Post-Closing Obligations

Pursuant to the Sale and Purchase Agreement, the Vendor and/or the Purchaser has/have agreed to perform the following post-Closing obligations in respect of certain operational arrangements, including, among others:

- (i) the Vendor and the Purchaser shall liaise with the landlord of an existing lease to release the guarantee of the Company under such lease;
- (ii) the Vendor shall be responsible for handling the ongoing litigations between OSGH (China) and certain lessors. The Vendor shall be responsible for the payment of damages (if any) or shall be entitled to the compensation fees (if any) arising from such litigations;
- (iii) the Vendor and the Purchaser shall enter into amicable negotiations in respect of the cinema circuit alliance agreements entered into by the Target Group;
- (iv) the Vendor and the Purchaser shall notify the landlords of the existing leases of the Target Group in respect of the Disposal (if required); and
- (v) the Vendor shall be entitled to the continued use of certain vehicles, which were owned by the Remaining Group but were registered under the name of the Target Company and the Purchaser, and the Vendor shall ensure the effective renewal of such licence plates.

(h) Closing

Subject to the satisfaction of the Conditions Precedent (which is subject to the exercise of the Xin Ye Waiver) and other terms and conditions of the Sale and Purchase Agreement, the Closing of the Sale and Purchase Agreement shall take place on the Closing Date at 10:00 a.m. or such time as may be agreed by the Parties at the Hong Kong office and the Beijing office of the Vendor's legal counsel. Upon Closing, the Target Group will cease to be subsidiaries of the Vendor and the Company and the results, assets and liabilities of the Target Group will cease to be consolidated into the accounts of the Company.

(i) Guarantee

The Company has agreed to (i) guarantee the performance of the obligations of the Vendor under the Sale and Purchase Agreement and the obligations of the licensors under the Remaining Group pursuant to the Trademark License Agreements and (ii) warrant to compensate the Purchaser's losses, damages, litigation costs and expenses in connection with, among others, any breach of obligations of the Vendor under the Sale and Purchase Agreement or the obligations of the licensors under the Remaining Group pursuant to the Trademark License Agreements.

Nan Hai has agreed to (i) guarantee the performance of the obligations of the Purchaser under the Sale and Purchase Agreement and the obligations of the licensees under the Target Group pursuant to the Trademark License Agreements and (ii) warrant to compensate the Vendor's losses, damages, litigation costs and expenses in connection with, among others, any breach of obligations of the Purchaser under the Sale and Purchase Agreement or the obligations of the licensees under the Target Group.

LOAN REPAYMENT AGREEMENT

On 25 January 2017, OSGH (China), Jiashi and Nan Hai have entered into the agreement in respect of the repayment of a loan in the amount of RMB250 million owed by OSGH (China) or its related party to Jiashi after Closing. Conditional upon Closing having occurred, Nan Hai shall guarantee OSGH (China)'s repayment obligation of such loan to Jiashi.

INFORMATION OF THE TARGET GROUP

The Target Company is an investment holding company which is indirectly wholly-owned by the Company. The Target Group engages in the theatrical exhibition, cinema operation, management and investment holding business in the PRC which owns, operates and manages 76 cinemas with a total of 531 screens in the PRC as at the date of this announcement.

Set out below is the financial information of the Target Group as extracted from its unaudited combined financial statements for the two years ended 31 December 2015, prepared under the Hong Kong Financial Reporting Standards:

Results	Year ended 31 December	
	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Revenue	816,740	995,793
Loss before taxation	(25,990)	(167,732)
Loss after taxation	(33,133)	(164,884)

Based on the unaudited combined financial statements of the Target Group as at 30 September 2016, the combined net liabilities amount of the Target Group was HK\$47,118,000.

INFORMATION ON THE GROUP AND THE REMAINING GROUP AND REASONS FOR THE DISPOSAL

The Group

The Company is an investment holding company. The Group is principally engaged in theatrical exhibition, cinema operation, film, video and television production and distribution business in Hong Kong, the PRC, Taiwan and Singapore.

The Remaining Group

Following the Disposal, the Company, through the Remaining Group, will continue to own and engage in the following businesses:

- (a) Its entire operations in Hong Kong, which engages in theatrical exhibition, film, video and television production and distribution business in Hong Kong (the “**HK Business**”);
- (b) Film, video and television production and distribution business in the PRC through its remaining 100% owned PRC entities which mainly focuses on purchasing films from the overseas market to distribute to the local Hong Kong and PRC markets (the “**PRC Production & Distribution Business**”);
- (c) 50.00% of the operations in Singapore, which engages in the theatrical exhibition and film distribution business in Singapore; and
- (d) 35.71% of the operations in Taiwan, which engages in the theatrical exhibition and film distribution business in Taiwan.

The Remaining Group will continue to manage and receive investment income from the cinema operation businesses in Singapore and Taiwan. As at the date of this announcement, the Remaining Group operated 23 screens in 6 cinemas in Hong Kong, 91 screens in 11 cinemas in Singapore and 127 screens in 13 cinemas in Taiwan. The Remaining Group also retains its trademarks (including “Golden Harvest”, “Golden Village”, “嘉禾”, “The Sky”, and “Vie Show” in Hong Kong, Singapore and Taiwan), content-related intellectual property and other licenses, which can be further monetised in the future.

The Reasons for the Disposal

The Disposed Business is currently sub-scale compared to its competitors in the PRC and the Company believes that a larger strategic player in the PRC would be able to better grow the Disposed Business and realise its full value and potential. The Company believes that significant investment would be required to grow the Disposed Business in order to compete with the larger players, which may lead to the Company incurring significant amount of additional financing and depreciation expenses that would adversely impact the Company’s profitability in the future.

The Target Group incurred losses for the two years ended 31 December 2015 which exerted pressure on the overall profitability of the Group. As such, the Disposal will relieve the pressure on the overall profitability of the Group due to the Target Group’s losses for the two years ended 31 December 2015.

The redeployment of the Group's resources through the Disposal would also enable the Remaining Group to further grow its business and operations. Part of the net proceeds received from the Disposal is expected to be used to expand the HK Business and the PRC Production & Distribution Business. In particular, the Remaining Group expects to continue to produce and seek investment opportunities in quality film production projects with the potential for high box office returns by either actively leading the production process or passively investing in such films as a minority investor. For more details, please refer to the paragraph headed "Use of proceeds" below.

The Directors believe that the Disposal would not affect the operations of the Company's PRC Production & Distribution Business, as the various films under the PRC Production & Distribution Business are substantially distributed through independent third-party cinemas and screens, as compared to the cinemas and screens of the Target Group. In any event, the Disposal will not prevent the Company from distributing films through the cinemas and screens of the Target Group after Closing.

Given the recent trend in increasing consolidation in the film exhibition industry in the PRC, the Directors are of the view that it is in the interest of the Group and Shareholders to seize the opportunity to sell the Disposed Business at an attractive valuation, as the Consideration in respect of the Disposal is significantly higher than the current market capitalisation of the Company. The Company believes that a full sale of the Disposed Business at an attractive valuation will unlock value for the Shareholders and better realise the fair value of the Group's assets. The Directors are also of the view that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair, just and reasonable and in the interests of the Shareholders as a whole.

INFORMATION OF THE PURCHASER

The Purchaser is principally engaged in investment holding and is the indirect wholly-owned subsidiary of Nan Hai. Nan Hai is a listed company, the shares of which are listed and traded on the Stock Exchange. Nan Hai principally engages in culture and media services (mainly in cinemas business on a nationwide basis in the PRC in addition to film distribution and other media related businesses), property development and corporate IT application service. In 2015, Nan Hai and its subsidiaries also started to tap into new business segments such as "New Media" and "Innovative Business". To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser, Nan Hai and their ultimate beneficial owners are third parties independent of the Company and its connected persons.

FINANCIAL EFFECT OF THE DISPOSAL

It is expected that, the Company will record a gain from the Disposal of approximately HK\$2.3 billion, which is calculated based on (i) the difference between the Consideration (subject to price adjustment and audit) and the unaudited combined net asset value of the Target Group (after taking into account the increase in the share capital of the Target Company through the capitalisation of the intercompany loans due from the Target Company to the Vendor, to fulfil one of the conditions precedent as stated in the Sales and Purchase Agreement) and (ii) the release of cumulative exchange reserve attributable to the Target Group. Shareholders should note that the exact amount of the gain on the Disposal to be recorded in the combined statement of profit or loss of the Group for the year ending 31

December 2017 will be subject to audit and the relevant price adjustment, and will be calculated based on the net asset value of the Target Group as at Closing and net of any incidental expenses, tax expenses, transaction costs and any exchange rate fluctuation before Closing and therefore may vary from the figures provided above.

USE OF PROCEEDS

The total proceeds from the Transactions are approximately RMB3.536 billion (approximately HK\$3.996 billion). This includes the proceeds from the Disposal of approximately RMB3.286 billion (approximately HK\$3.713 billion) and the proceeds from the repayment of the loan by OSGH (China) to Jiashi pursuant to the Loan Repayment Agreement of RMB250 million (approximately HK\$282.5 million).

The Group intends to apply the total net proceeds of approximately RMB3.177 billion (approximately HK\$3.590 billion) from the Transactions as follows:

- (a) Approximately HK\$1 billion will be allocated to a special dividend payment to the Shareholders;
- (b) Approximately HK\$680 million will be allocated to the repayment of existing third party debts;
- (c) Approximately HK\$1.3 billion will be allocated to substantially expand existing operations at the Remaining Group within two to three years after Closing and to increase the future profitability of the Company through, including but not limited to, the following:
 - (i) Investing into the film exhibition business in Hong Kong by opening on average one or two new cinemas in Hong Kong each year after Closing by competing for existing cinema sites currently run by other cinema operators upon their lease expiry, identifying populated areas currently not served by any cinema to explore opportunities to open new cinemas, and/or acquiring existing cinema sites of other cinema operators depending on the availability of new sites in the market and the feasibility of the commercial terms;
 - (ii) Ramping up the film, video and TV production business in Hong Kong and the PRC by producing and/or co-investing in an average of two or three new mid-to large scale films every year after Closing by leveraging on the following:
 - (1) Remaking films from the Company's film library

The Company's film library has 135 Chinese and English films and the Company has identified around 20 films which have the market potential for film remake. The Company plans to use part of the net proceeds from the Disposal to invest in mid-to-large scale movie productions;
 - (2) Film production from existing scripts

The Company owns or has rights to approximately 8 scripts that are readily available for film and TV productions;

(3) Co-investing in Chinese films

The Company plans to co-invest in Chinese films with other third parties to produce new films, videos and TV productions;

- (iii) Ramping up the distribution business in Hong Kong and the PRC by acquiring distribution rights to four to five films every year after Closing for distribution in Hong Kong and the PRC depending on availability, quality and potential profitability of such opportunities; and
- (iv) Purchasing cinema operations or businesses in the Asia region (excluding the PRC).

The Company will continue to search for new cinema investment and film investment opportunities that can be executed shortly after Closing.

(d) Approximately HK\$200 million will be allocated for:

- (i) Future investments in the regional media, entertainment and technology sectors which are related to the Remaining Group's existing businesses, including but not limited to:

(1) Regional film exhibition businesses outside the PRC

By investing in regional film exhibition businesses outside the PRC, the Company believes that this would enable the Company to strengthen its existing film exhibition business positioning in the region and its brand name and would also enable the Company to enjoy stronger purchasing power and achieve additional cost savings from the enlarged scale of its business in the region;

(2) Film and video content libraries, and film, video and television production and distribution businesses

By investing in and/or acquiring distribution rights of third-party film and video content libraries, and film, video and television production and distribution businesses, the Company will gain access to an increased amount of film and video content as well as talent and capabilities to produce high quality film, video and television productions in the future. This will help further boost the Company's branding and the scale of its existing production and distribution business, leading to further scale economies;

(3) Alternative Content investment, exhibition and distribution

The Company plans to invest in and/or to acquire distribution rights of the Alternative Content including, among others, live concerts, sports events and online games content which can potentially be exhibited in cinemas and distributed by the Company's distribution business. Exhibiting Alternative Content in cinemas will increase utilization of the existing cinema venues to generate non-movie income, to increase ticket price premiums by introducing

unique contents, and to attract new group of customers in addition to moviegoers. This will therefore boost revenue and profitability of the Company's cinema business. Additionally, the acquired Alternative Content can be distributed by the Company's distribution business, further driving revenue growth of the Company's distribution business. The Company has historically, exhibited Alternative Content in its Hong Kong, Singapore and Taiwan cinemas, and plans to take a more active role to acquire distribution rights of such contents at a larger scale with part of the net proceeds from the Disposal;

(4) AR/VR technologies

The Company plans to invest in and/or deploy AR/VR technologies i.e. hardware and/or content, such as headsets and pods that display interactive, short videos in the open areas of its cinemas to cater for customers' increased appetite for AR/VR experiences. Investment and implementation of the AR/VR technologies in cinemas can help differentiate customer experience, increase customer loyalty and engagement for the Company's cinema exhibition business, ultimately leading to higher box office and non-box office revenues. The Company intends to invest in and/or deploy AR/VR technologies in its cinema environment in order to adapt to the increased demand for immersive film and content experiences and to enrich customer experience;

- (ii) Potential investments in low-risk financial products such as short-term deposits, investment grade bonds and money market funds. The Company believes that it would be prudent and good corporate governance to temporarily deploy a portion of the net proceeds into low-risk financial investment products that would generate a steady and higher return for the Company than cash, as it searches for potential investments in the regional media, entertainment and technology sectors. The investments in low-risk financial products are temporary and the main focus of the HK\$200 million of the net proceeds will be for principal investments in regional media, entertainment and technology targets complementary to the Remaining Group businesses; and

- (e) Approximately HK\$410 million for general working capital purposes for the Remaining Group.

As at the date of this announcement, other than the Sale and Purchase Agreement, the Company has not entered into any agreement, arrangement, understanding, intention, negotiation (concluded or otherwise) in relation to (i) any disposal, termination, or scaling-down of any part of its existing business; (ii) injection of any new business; (iii) any change in its shareholding structure; and (iv) any new cinema investment or film investment opportunities, nor has it identified any specific new cinema investment or film investment opportunities.

Should the Company have any outstanding net proceeds after three years from Closing as a result of unsuccessfully deploying the proceeds towards potential investment opportunities indicated in paragraphs (c) and (d) above or any other investment opportunities complementary to the Remaining Group businesses, the Company may consider to issue a special dividend payment from the outstanding net proceeds to its Shareholders.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the relevant applicable percentage ratios set forth under Rule 14.07 of the Listing Rules in respect of the Disposal are 75% or more, the Disposal constitutes a very substantial disposal for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Disposal, the Sale and Purchase Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, no Shareholder has a material interest in the Disposal and accordingly, no Shareholder is required to abstain from voting in respect of the ordinary resolution to approve the Disposal at the SGM.

GENERAL

BNPP Securities has been appointed as the sole financial adviser to the Company in respect of the Disposal.

A circular containing, among other things, further information relating to the Disposal and the notice of convening the SGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 13 March 2017, as the Company expects that it will require more time to collate the financial information to be included in the circular.

Closing of the Disposal is conditional upon the satisfaction of, among others, the conditions set out in the section headed "Conditions Precedent" in this announcement, including the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder by the Shareholders at the SGM. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

RESUMPTION OF TRADING

Trading in the shares of the Company on the Stock Exchange was halted with effect from 9:00 a.m. on Wednesday, 25 January 2017 at the request of the Company pending the publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on Friday, 10 February 2017.

DEFINITIONS

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

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|-----------------------|---|
| "Adjustment Amount" | means the absolute value of the difference between the Joint Amount and the Third Guarantee Amount; |
| "Alternative Content" | means non-movie entertainment content; |

“Application”	means the application for the registration of the change of shareholder of OSGH (China) in respect of the Proposed Xin Ye Transfer;
“Application Date”	means the date of the Application, being the tenth Business Day following the date of the Completion;
“AR/VR”	means augmented and virtual reality;
“Audited Accounts”	means the audited combined financial statements of OSGH (China) Group as at 31 December 2016;
“Authorised Trademarks”	means the trademarks which are granted for the use of the Purchaser in respect of the operation of cinema in the PRC by the Remaining Group;
“Board”	means the board of Directors;
“BNPP Securities”	means BNP Paribas Securities (Asia) Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the financial adviser to the Company in respect of the Disposal;
“Business Days”	means any day (other than a Saturday, Sunday and public holiday in Hong Kong and the PRC or a day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m. and remains in effect after 12:00 p.m. on such day);
“Closing”	means the closing of the Disposal pursuant to the terms and conditions pursuant to the Sale and Purchase Agreement;
“Closing Account”	means the audited (i) combined balance sheet as the Closing Date and (ii) combined profit or loss statement and cash flow statement for the period from 1 January 2017 to the Closing Date of the OSGH (China) Group conducted by the independent auditors appointed by the Parties within 6 months from the Closing Date;
“Closing Date”	means the next Business Day following the Registration Date (if condition (vi) under the section “Conditions Precedent” above has not been waived by the Purchaser) or the tenth Business Day following the date of Completion (if condition (vi) under the section “Conditions Precedent” above has been waived by the Purchaser);

“Company”	means Orange Sky Golden Harvest Entertainment (Holdings) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1132);
“Completion”	means the satisfaction (or subject to waiver) of all the Conditions Precedent;
“Conditions Precedent”	means the conditions precedent to Closing under the Sale and Purchase Agreement;
“connected person(s)”	has the same meaning ascribed thereto in the Listing Rules;
“Consideration”	means the Initial Consideration subject to the adjustments made with reference to the Net Debt Adjustment and the cash expenditure in respect of the investment on new cinema projects from 31 December 2016 to the Closing Date and the additional amount of consideration for the Xin Ye Shares that the Purchaser should pay pursuant to the Proposed Xin Ye Agreement if Closing occurs after 15 September 2017;
“Corporate Income Tax”	means the corporate income tax in the PRC payable by the Remaining Group pursuant to the Disposal;
“Deposit”	means the amount equivalent in USD of not less than RMB200 million payable by the Purchaser to the Offshore Bank Account on the next Business Day following the Signing Date;
“Directors”	means the Directors of the Company;
“Disposal”	means the disposal of the Sale Shares by the Vendor to the Purchaser pursuant to the Sale and Purchase Agreement;
“Disposed Business”	means the theatrical exhibition, cinema operation, management and investment holding business of the Group in the PRC which owns, operates and manages 76 cinemas with a total of 531 screens in the PRC as at the date of this announcement;
“Disposed Companies”	means北京橙天嘉禾橙食品有限公司 (Beijing Orange Sky Golden Harvest Food Limited Company*), Jiashi, 北京橙天嘉禾三里屯影城管理有限公司 (Orange Sky Golden Harvest Sanlitun (Beijing) Cinema Management Company Limited*), 北京司響無限文化傳媒有限公司 (Beijing Sixiang Wuxian Culture Media Limited Company*), 深圳市粵鳳數碼科技有限公司 (Shenzhen City Phoenix Digital Company Limited*) and OSGH Finance Limited (BVI);

“Earnest Money”	means a sum of RMB10 million which has been paid by the Purchaser to the Vendor pursuant to the Memorandum of Understanding;
“Enterprise Value”	means the amount of approximately RMB3.387 billion, being the enterprise value of the Target Group as at 30 September 2016 (which includes the Xin Ye Shares Consideration);
“Escrow Account”	means the onshore bank account for holding the Total Guarantee Amount which is operated by the Escrow Agent;
“Escrow Agent”	means the escrow agent, being an independent third party, appointed by the Parties for the purpose of managing the Escrow Account;
“First Guarantee Amount”	means the amount of RMB190 million payable by the Purchaser to the Onshore Bank Account on the next Business Day following the Signing Date;
“Group”	means the Company and its subsidiaries;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	mean the Hong Kong Special Administrative Region of the People’s Republic of China;
“Initial Consideration”	means the consideration of the Sale Shares which is determined by the Enterprise Value subject to certain adjustments made with reference to among others the Net Debt Value in the Audited Accounts;
“Jiashi”	means 上海橙天嘉影實業有限公司 (Shanghai Orange Sky Jiayin Shiye Company Limited*), being the subsidiary of the Vendor;
“Jining Cinema”	means 濟寧影城 (Jining Cinema*) located at Guhuai Road, Shi Zhong District, Jining City, Shandong Province, the PRC;
“Joint Amount”	means the amount of RMB300 million being paid to the Joint Bank Account by the Purchaser to the Vendor at the Closing Date;
“Joint Bank Account”	means the onshore bank account designated by the Vendor and the Purchaser;
“Listing Rules”	means The Rules Governing the Listing of Securities on the Stock Exchange;

“Loan Repayment Agreement”	means the agreement dated 25 January 2017 entered into between OSGH (China), Jiashi and Nan Hai in respect of the repayment of a loan in the amount of RMB250 million owed by OSGH (China) or its related party to Jiashi;
“Long Stop Date:	means 12 months from the Signing Date;
“Memorandum of Understanding”	means the memorandum of understanding dated 21 December 2016 entered into between the Vendor and Dadi Cinema (HK Limited);
“Offshore Bank Account”	means the offshore bank account designated by the Vendor;
“Offshore Consideration Payment”	means the amount equivalent in USD of not less than RMB1.92 billion to the Offshore Bank Account;
“Online Appointment Notice”	means the online appointment notice received upon submission of the Application on the Application Date;
“Onshore Bank Account”	means the onshore bank account of Jiashi;
“OSGH (China)”	means 橙天嘉禾影城(中國)有限公司 (Orange Sky Golden Harvest Cinemas (China) Company Limited*), a company with limited liability established in the PRC, which is owned as to 92.59% by the Vendor and 7.41% by Xin Ye;
“OSGH (China) Group”	means OSGH (China) and its subsidiaries;
“Outstanding Amount”	means the outstanding amount in the Onshore Bank Account which has not been transferred to the Offshore Bank Account after 12 months from the Closing Date;
“Parties”	means the Vendor and the Purchaser;
“PRC”	means the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“PRC Tax Payment”	means the amount equivalent to the Corporate Income Tax which will be paid by the Purchaser on behalf of the Vendor;
“Proposed Xin Ye Agreement”	means the proposed agreement anticipated to be entered into between the Purchaser (or its nominee), Nan Hai (as the guarantor of the Purchaser (or its nominee)), the Target Company (as the controlling shareholder of OSGH (China)) and Xin Ye in respect of the Proposed Xin Ye Transfer;

“Proposed Xin Ye Transfer”	means the proposed transfer of the Xin Ye Shares from Xin Ye to the Purchaser (or its nominee) pursuant to the Proposed Xin Ye Agreement;
“Purchaser”	means True Vision Limited, a company incorporated in Hong Kong, being an indirect wholly-owned subsidiary of Nan Hai;
“M Cinemas”	means M Cinemas Company Limited, a company incorporated in Hong Kong, being an indirect wholly-owned subsidiary of the Company;
“Nan Hai”	means Nan Hai Corporation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the Stock Exchange (stock code: 680), the indirect holding company of the Purchaser;
“Net Debt Adjustment”	means the adjustment made to the Initial Consideration with reference to the difference of the Net Debt Value in the Audited Accounts and the Closing Accounts;
“Net Debt Adjustment Amount”	means the absolute value of the difference between the Net Debt Value in the Audited Accounts and the Closing Accounts;
“Net Debt Value”	means the amount equivalent to the aggregate value of bank loans, finance leases and amount payable for the completed acquisition of cinemas, which such acquisitions have been completed, of the OSGH (China) Group, deducting the aggregate value of cash equivalents (excluding the Xin Ye Shares Consideration) and advanced payment for the acquisition of cinemas, which such acquisitions have not been completed, of the OSGH (China) Group;
“Registration”	means the registration of the change of shareholder of OSGH (China) in respect of the Proposed Xin Ye Transfer;
“Registration Date”	means the date of the completion of the Registration;
“Remaining Group”	means the Group (excluding the Target Company and the OSGH (China) Group);
“RMB”	means Renminbi, the lawful currency of the PRC;
“Sale and Purchase Agreement”	means the sale and purchase agreement dated 25 January 2017 entered into between the Vendor, the Company, the Purchaser and Nan Hai in respect of the Disposal;
“Sale Shares”	means the entire issued share capital of the Target Company;

“Second Guarantee Amount”	means the Initial Consideration deducting the Offshore Consideration Payment, the Deposit, the Total First Guarantee Amount, the Joint Amount and the PRC Tax Payment;
“SGM”	means the special general meeting to be convened for the purpose of considering and, if thought fit, approve, among other things, the Disposal and the Transaction Documents;
“Share(s)”	means the ordinary share(s) of HK\$0.1;
“Shareholders”	means the shareholders of the Company;
“Signing Date”	means the date of the signing of the Sale and Purchase Agreement;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the same meaning ascribed thereto in the Companies Ordinance (Chapter 622);
“Target Company”	means 橙天嘉禾影城有限公司 (City Entertainment Corporation Limited), a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company;
“Target Group”	means the Target Company and its subsidiaries (excluding the Disposed Companies);
“Third Guarantee Amount”	means the Consideration deducting the Deposit, the Offshore Payment Consideration, the Total First Guarantee Amount, the Second Guarantee Amount and the PRC Tax Payment;
“Total First Guarantee Amount”	means the aggregate amount of the First Guarantee Amount and the Earnest Money (which will be transferred to the Onshore Bank Account on the next Business Day following the Signing Date);
“Total Guarantee Amount”	means the Total First Guarantee Amount, the Second Guarantee Amount and the Third Guarantee Amount;
“Total Offshore Consideration”	means the aggregate amount of the Offshore Consideration Payment and the Deposit;
“Trademark License Agreements”	means the trademark licence agreements to be entered into between the licensors under the Remaining Group and the licensees under the Target Group;

“Transaction Documents”	means the Sale and Purchase Agreement and the Trademark License Agreement;
“Transactions”	means the Disposal and the repayment of the loan in the amount of RMB250 million by OSGH (China) to Jiashi pursuant to the Loan Repayment Agreement;
“USD”	means United States dollar, the lawful currency of the United States of America;
“Vendor”	means Giant Harvest Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company;
“Wan Ke Hong Cinema”	means 萬科紅影城 (Wan Ke Hong Cinema*) located at Wankehong Shenghuo Square, Bujijinlong Road, Long Gang District, Shenzhen, the PRC;
“Xin Ye”	means 嘉興信業創贏肆號投資合夥企業 (有限合夥) (Jiaxing Credit Prosperity Investment Enterprise (Limited Partnership)*), a limited partnership established in the PRC;
“Xin Ye Shares”	means the 7.41% registered capital of OSGH (China) owned by Xin Ye; and
“Xin Ye Shares Consideration”	means the consideration of the Xin Ye Shares pursuant to the Proposed Xin Ye Agreement amounting to RMB240 million.

* For identification purpose only

By order of the Board
Orange Sky Golden Harvest Entertainment (Holdings) Limited
Man Tak Cheung
Company Secretary

Hong Kong, 9 February 2017

List of all Directors of the Company as of the time of issuing this announcement:

Chairman and Executive Director:

Mr. Wu Kebo

Executive Directors:

Mr. Mao Yimin

Mr. Li Pei Sen

Ms. Wu Keyan

Ms. Chow Sau Fong, Fiona

Independent Non-Executive Directors:

Mr. Leung Man Kit

Ms. Wong Sze Wing

Mr. Fung Chi Man, Henry