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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)**

**ANNOUNCEMENT PURSUANT TO RULE 14.36 OF THE LISTING RULES**

**(1) MAJOR TRANSACTION**

**DEEMED DISPOSAL OF EQUITY INTERESTS IN OSGH (CHINA)**

**AND**

**(2) POSSIBLE MAJOR TRANSACTIONS**

**POSSIBLE ACQUISITION AND POSSIBLE DISPOSAL IN RELATION TO  
THE GRANT OF OPTIONS**

**A. THE JOINT VENTURE AGREEMENT**

Pursuant to requirements under the applicable laws and regulations of the PRC, and in order to satisfy certain of the conditions precedent of the Subscription Agreement as previously disclosed in the Announcements, City Entertainment and Investor 1 entered into the Joint Venture Agreement on 5 September 2016, which sets out the major terms of the Subscription Agreement as applicable between City Entertainment and Investor 1, the operational arrangements between City Entertainment and Investor 1 in relation to OSGH (China), and which further supplements the Subscription Agreement.

**B. TERMINATION OF THE RIGHTS AND OBLIGATIONS OF INVESTOR 2  
AND INVESTOR 3 UNDER THE SUBSCRIPTION AGREEMENT**

On 5 September 2016, (a) pursuant to the Subscription Agreement, City Entertainment and OSGH (China) delivered a Termination Notice to Investor 2 terminating all of the rights and obligations of City Entertainment and OSGH (China) towards Investor 2 under the Subscription Agreement without any claim or liability towards Investor 2; and (b) Investor 3, City Entertainment and OSGH (China) entered into the Third Supplemental Agreement, whereby it was agreed, amongst others, that all of the rights and obligations under the Subscription Agreement of Investor 3 would be terminated from such date, without any claim or liability towards the other parties.

\* For identification purposes only

Reference is made to the announcements of Orange Sky Golden Harvest Entertainment (Holdings) Limited (the “**Company**”) dated 15 March 2016 and 1 April 2016, in respect of the entering into of the Subscription Agreement, the First Supplemental Agreement, the Letter of Undertaking and the Second Supplemental Agreement (the “**Announcements**”). Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

## **A. THE JOINT VENTURE AGREEMENT**

Pursuant to requirements under the applicable laws and regulations of the PRC, and in order to satisfy certain conditions precedent of the Subscription Agreement (which, for the purposes of this announcement, shall mean the Subscription Agreement as amended and supplemented by the First Supplemental Agreement and the Second Supplemental Agreement) as previously disclosed in the Announcements, City Entertainment and Investor 1 entered into a joint venture agreement on 5 September 2016, which (a) sets out the major terms of the Subscription Agreement as applicable between City Entertainment and Investor 1 and the operational arrangements between City Entertainment and Investor 1 in relation to OSGH (China), and (b) further supplements the Subscription Agreement (the “**Joint Venture Agreement**”). The major supplemental terms of the Joint Venture Agreement are summarised as follows:

**Date:** 5 September 2016

**Parties:** (1) City Entertainment; and  
(2) Investor 1.

(for the purposes of this announcement, each a “**Party**” and collectively, the “**Parties**”)

**Deadlock Arrangements:** As disclosed in the Announcements, the Parties agreed that following the completion of registration procedures for changes in relation to the Subscription Agreement by OSGH (China) and subject to the issuance of business license by the State Administrative Department for Industry and Commerce of the PRC, upon the fulfilment (or where appropriate, waiver) of the conditions precedent under the Subscription Agreement as reasonably determined by Investor 1:

(1) the OSGH (China) Board shall comprise seven directors, and City Entertainment shall be entitled to appoint six directors to the OSGH (China) Board while Investor 1 shall be entitled to appoint one director to the OSGH (China) Board;

- (2) the following key matters of OSGH (China), among others, shall be subject to approval of more than 70% of the OSGH (China) Board, including the approval of the director appointed to the OSGH (China) Board by Investor 1:
- (a) any amendment to the articles of association of OSGH (China) or the Joint Venture Agreement;
  - (b) any increase or reduction in the registered capital of OSGH (China);
  - (c) any issuance or repurchase of securities, including the submission, suspension or termination of any Qualified IPO application by OSGH (China);
  - (d) any merger, consolidation, spin-off, reorganisation, of OSGH (China) and its material assets or any other consolidation by OSGH (China) (save in respect of the exercise of the repurchase options of City Entertainment pursuant to the Subscription Agreement, which, for the avoidance of doubt, shall not require the approval of the director appointed to the OSGH (China) Board by Investor 1);
  - (e) the approval of, and any material modification of OSGH (China)'s annual budget, capital expenditure plans, loans and business plans; and
  - (f) any appointment or change of auditors of OSGH (China).

In order to supplement the abovesaid arrangements, each of City Entertainment and Investor 1 agree that, in the event of a deadlock situation of the OSGH (China) Board ("**Deadlock**"):

- (a) Each Party shall have the right to provide written notice to the other Party ("**Deadlock Notice**"), requesting that the Parties convene within 10 Business Days of receipt of such Deadlock Notice to discuss how to resolve the Deadlock.
- (b) In the event that the Deadlock cannot be resolved within 10 Business Days of receipt of the Deadlock Notice, each Party shall forthwith refer the Deadlock to their respective members of senior management (and the date on which such referral is made, the "**Referral Date**"), and such members of senior management shall convene to discuss how to resolve the Deadlock.

(c) In the event that the Deadlock cannot be resolved within 10 Business Days of the Referral Date:

- (1) City Entertainment shall have the right to purchase all of the equity interest held by Investor 1 in OSGH (China) at such relevant time; and
- (2) Investor 1 shall have the right to request that City Entertainment purchases all of the equity interest in OSGH (China) held by Investor 1 at such relevant time,

at a consideration being the sum of the following:

- (i) the declared but unpaid dividends of OSGH (China) to its shareholders, based on the portion of equity interest subscribed for by Investor 1 pursuant to the Subscription Agreement and still held by Investor 1 at the relevant time (which shall, in any event, not exceed RMB80 million); and
- (ii) the value of the equity interest held by Investor 1 at such relevant time, which shall represent the consideration paid by Investor 1 under the Subscription Agreement in respect of such equity interest (and shall not include the consideration sums paid for any equity interest in OSGH (China) that has been transferred by Investor 1 to another party), together with an interest of 11% per annum on such proportionate sums during the period between Completion and the date on which notice is provided by the relevant Party invoking their rights to purchase or require the purchase of the entire equity interest in OSGH (China) held by Investor 1 (as applicable),

(collectively, the “**Deadlock Arrangements**”).

**The Investors’  
Buy-back  
Options:**

The Parties agree that, in addition to the existing triggering events pursuant to which Investor 1 may exercise the Investors’ Buy-back Options, in the event that, in respect of the financial year of 2018, the net profit of OSGH (China) (including non-recurring gains and losses in line with the standards of the China Securities Regulatory Commission), which has been audited by an accountant firm licensed to engage in securities business, is negative, Investor 1 may also exercise the option to require City Entertainment to purchase the equity interest subscribed for by them pursuant to the Subscription Agreement (and which has not been transferred to another party) by delivery of written notice to City Entertainment within 10 Business Days.

## **B. LISTING RULES IMPLICATIONS OF THE JOINT VENTURE AGREEMENT**

Pursuant to the Joint Venture Agreement, the Group has the right to appoint six out of the seven directors of OSGH (China). As such, the Group will have control whether the rights under the Deadlock Arrangements may be invoked. Pursuant to Rule 14.75 of the Listing Rules, upon the acquisition or the grant of an option which is exercisable at the discretion of the Group, only the premium will be taken into consideration for the purpose of classification of notifiable transactions. The premium for the rights under the Deadlock Arrangements is nil.

The supplement to the Investors' Buy-back Options serves only to supplement the Investors' Buy-back Options without altering the maximum estimated consideration that would be payable pursuant to the exercise of such options.

As the Subscription Agreement has already been approved by way of written shareholders' approval under Rule 14.44 of the Listing Rules, no circular will be issued to the shareholders of the Company in connection with the entering into of the Joint Venture Agreement.

## **C. REASONS FOR ENTERING INTO THE JOINT VENTURE AGREEMENT**

The Joint Venture Agreement was entered into pursuant to the relevant legal and regulatory requirements under the applicable laws of the PRC, and in order to satisfy certain conditions precedent of the Subscription Agreement.

With respect to the Deadlock Arrangements, the Board is of the view that such provisions are commonly found in joint venture agreements of similar size and nature, and that the addition of such provision would provide certainty of resolution in the situation of deadlock, as well as limit the time period during which OSGH (China)'s operations could be affected by a deadlock situation.

With respect to the supplement to the Investors' Buy-back Options, in order to achieve a Qualified IPO within the next three to four years from the date of the Subscription Agreement (the failure of which will give rise to the right to Investor 1 to exercise New Investor Buy-back Option), OSGH (China) must record an operating net profit during the financial year of 2018. As such, if OSGH (China) fails to record an operating net profit during the financial year of 2018, the Board is of the view that it would be mutually beneficial to the Group and Investor 1 to allow Investor 1 to exit from the joint venture at an earlier time, which will not only allow the Group to fully direct the business development of OSGH (China) as considered appropriate at such relevant time, but also reduce the amount that is payable by the Group to Investor 1 under the Investors' Buy-back Options (as and when compared the consideration that is payable by the Group to Investor 1, if Investor 1 exercises its right at the end of the option period).

## **D. THE TERMINATION OF THE RIGHTS AND OBLIGATIONS OF INVESTOR 2 AND INVESTOR 3 UNDER THE SUBSCRIPTION AGREEMENT**

### **(1) Termination Notice**

As disclosed in the Announcements, pursuant to the Second Supplemental Agreement, it was agreed by City Entertainment, OSGH (China) and Investor 2 that, within 180 calendar days following the date of execution of the Subscription Agreement, Investor 2 on the one hand, and City Entertainment and OSGH (China) on the other hand, may by notice, unilaterally terminate all of its rights and obligations under the Subscription Agreement, without any claim or liability towards the other parties (a “**Termination Notice**”).

On 5 September 2016, City Entertainment and OSGH (China) delivered a Termination Notice to Investor 2, thereby terminating all of the rights and obligations of City Entertainment and OSGH (China) towards Investor 2 under the Subscription Agreement without any claim or liability towards Investor 2.

### **(2) The Third Supplemental Agreement**

On 5 September 2016, Investor 3, City Entertainment and OSGH (China) entered into a third supplemental agreement to the Subscription Agreement (the “**Third Supplemental Agreement**”), whereby, among other things, it was agreed that,

- (a) all of the rights and obligations of Investor 3 shall be terminated from the date of such Third Supplemental Agreement; and
- (b) each of City Entertainment, OSGH (China) and Investor 3 may not seek any claims (including any claims for damages, liability and compensation) on the basis of the matters set out in sub-paragraph (a) above.

## **E. LISTING RULES IMPLICATIONS OF THE TERMINATION NOTICE AND THE THIRD SUPPLEMENTAL AGREEMENT**

This announcement is made by the Company pursuant to Rule 14.36 of the Listing Rules, as the entering into of the Third Supplemental Agreement and the delivery by City Entertainment and OSGH (China) of the Termination Notice to Investor 2 constitutes a variation to the terms of the transactions previously announced in the Announcements.

**F. REASONS FOR THE TERMINATION OF SUBSCRIPTION AGREEMENT AS BETWEEN THE GROUP, INVESTOR 2 AND INVESTOR 3**

Subsequent to the execution of the Subscription Agreement, the First Supplemental Agreement and the Second Supplemental Agreement, it was mutually agreed between the Company, Investor 2 and Investor 3 that their strategic interests were no longer aligned.

Reference is made to the circular published by the Company on 13 June 2016. As disclosed in the circular, it was anticipated that the proceeds from the Subscription by the Investors will be used for building and acquiring of more than 100 cinema screens during the coming three years, and that the expected capital expenditure per screen, which will be built or acquired during the coming three years will amount to approximately RMB2.5 million to RMB3.0 million. Due to changes in economic and market conditions in the PRC, it is expected by the Group that the capital expenditure required by OSGH (China) for the abovesaid developments will be reduced to around RMB150 million to RMB200 million.

On the above basis, it was mutually agreed between the Company, Investor 2 and Investor 3 that the subscription monies from Investor 2 and Investor 3 are no longer necessary, and it was therefore in the best interests of all parties that the rights and obligations of Investor 2 and Investor 3 under the Subscription Agreement were terminated.

By order of the Board  
**Orange Sky Golden Harvest Entertainment (Holdings) Limited**  
**Leung Wing Chong**  
*Company Secretary*

Hong Kong, 5 September 2016

List of all directors of the Company as of the time 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