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Television Broadcasts Limited

電視廣播有限公司

(Incorporated in Hong Kong with limited liability)
Stock Code: 00511

DISCLOSEABLE TRANSACTION

FORMATION OF A JOINT VENTURE WITH IMAGINE IN THE US

The Board is pleased to announce that on 26 July 2017, TVB Venture (an indirect wholly-owned subsidiary of the Company) and Imagine entered into the LLC Agreement in relation to the formation of a joint venture company, ITT, on a 50:50 basis between TVB Venture and Imagine. The purpose of ITT is to finance the development and production of a slate of television projects which meet the prescribed criteria as more particularly set out in the LLC Agreement, whether developed and/or produced by Imagine alone or with third-party co-financiers/co-production partners. TVB Venture has contributed to the capital of ITT in an amount of US\$33,333,333 as to 50% of the equity interests in ITT and has provided a loan to ITT in an amount of US\$66,666,667 in the form of the Promissory Note.

This joint venture will provide a new opportunity for collaboration in television projects between Imagine and the Company.

With the formation of ITT, subject to the terms of the co-finance agreements/co-production agreements with relevant third-party co-financiers/co-production partners, the Company shall be granted the rights to release, reproduce, distribute, broadcast and use the television programmes developed and/or produced by Imagine alone or with third-party co-financiers/co-production partners in any manner in the PRC, Taiwan, Hong Kong and Macao.

As one or more of the applicable percentage ratios in respect of the Transaction are more than 5% but less than 25%, the Transaction constitutes a discloseable transaction for the Company and is subject to the notification and announcement requirements but exempted from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 26 July 2017, TVB Venture (an indirect wholly-owned subsidiary of the Company) and Imagine entered into the LLC Agreement in relation to the formation of a joint venture company, ITT, on a 50:50 basis between TVB Venture and Imagine.

THE LLC AGREEMENT

Date

26 July 2017

Parties

- (a) TVB Venture
- (b) Imagine

Subject Matter

Pursuant to the LLC Agreement, TVB Venture and Imagine agreed to regulate the business, governance and other related matters concerning ITT, which was formed to finance the development and production of a slate of television projects which meet the prescribed criteria as more particularly set out in the LLC Agreement, whether developed and/or produced by Imagine alone or with third-party co-financiers/co-production partners.

A television project meets the prescribed criteria if such television project (a) has been ordered to production by a television network, and (b) is qualified or is otherwise approved by the directors designated by TVB Venture or the board of directors of ITT for being financed by ITT.

Initial Term

ITT shall be committed to finance the development and production of a slate of television projects during the period of four years from 26 July 2017, being the date of the LLC Agreement, unless extended by the approval of the board of directors of ITT or terminated earlier due to certain events as specified in the LLC Agreement.

Capital Contribution

TVB Venture has contributed to the capital of ITT in an amount of US\$33,333,333 as to 50% of the equity interests in ITT. Imagine shall not be making any capital contribution to ITT but shall contribute in-kind in the form of production expertise as it has the duty to manage and control the business and affairs of ITT and all creative and production decisions with respect to the television projects financed by ITT. The capital contribution of US\$33,333,333 from TVB Venture has been funded by internal cash resources of the Group.

Unless approved by the board of directors of ITT, no additional capital contribution shall be required from any of TVB Venture or Imagine.

The capital contribution of TVB Venture in ITT and the loan under the Promissory Note (as mentioned below) were determined after arm's length negotiations between the Company and Imagine with reference to the estimated funding requirement for the development and production of television projects during the initial term of four years.

Transfer Restrictions

TVB Venture and Imagine shall not transfer their respective equity interests in ITT without the consent of the other except as permitted under the LLC Agreement. TVB Venture has the right to dispose its interest in ITT after the 7th anniversary of the date of LLC Agreement, unless extended by the approval of the board of directors of ITT.

Board Composition

The board of directors of ITT comprises five members, two of whom are designated by TVB Venture and three of whom are designated by Imagine. The decision of the board of directors shall require the approval of at least one director designated by each of TVB Venture and Imagine. Save for certain matters that require the approval of the board of directors of ITT as specified in the LLC Agreement, the business and affairs of ITT shall be managed by Imagine.

Cash Distribution

TVB Venture and Imagine hold an equal amount of equity interests in ITT, designated as Class A Units and Class B Units respectively, with no voting right as to the business and affairs of ITT. They are entitled to receive cash distribution in accordance with the order of priority in the distribution waterfall mechanism more particularly set out in the LLC Agreement.

The distribution waterfall mechanism provides for TVB Venture or Imagine taking a higher percentage of the distribution at different junctures (depending on whether the anticipated return for Class A Units or Class B Units would be met at the relevant time). In summary, (a) first, each member of ITT can receive cash distribution to satisfy its US tax liability, (b) second, no other cash distribution can be paid before

the Promissory Note (including interest) has been repaid in full, (c) third, TVB Venture can receive cash distribution until all its equity contribution plus agreed returns as set out in the LLC Agreement have been recovered and received, (d) fourth, if ITT does not meet certain performance targets, TVB Venture can receive cash distribution until TVB Venture has received the agreed amount of payment for underperformance as set out in the LLC Agreement in full, (e) fifth, Imagine can receive cash distribution until it has recovered all its producer fees, (f) sixth, each of TVB Venture and Imagine can receive cash distribution according to a return-tied waterfall provision as set out in the LLC Agreement, and (g) lastly, TVB Venture and Imagine can receive cash distribution on a 50:50 basis.

Exploitation Right

With the formation of ITT, subject to the terms of the co-finance agreements/co-production agreements with relevant third-party co-financiers/co-production partners, the Company shall be granted the rights to release, reproduce, distribute, broadcast and use the television programmes developed and/or produced by Imagine alone or with third-party co-financiers/co-production partners in any manner in the PRC, Taiwan, Hong Kong and Macao.

Imagine Services Agreement

On the same date as the LLC Agreement, Imagine and ITT entered into a services agreement, pursuant to which Imagine agreed to provide services to ITT including development services relating to television projects and other overhead and administrative services with reimbursement of applicable costs.

THE PROMISSORY NOTE

On the same date as the LLC Agreement, ITT issued the Promissory Note in the aggregate principal amount of US\$66,666,667 to TVB Venture with respect to TVB Venture's provision of a loan to ITT. The Promissory Note is unsecured and bears an interest rate of 12% per annum payable annually. The Promissory Note shall mature on the 15th anniversary from the date of issue. ITT may repay the outstanding principal under the Promissory Note in whole or in part from time to time, provided that any repayment during the period of four years from the date of the LLC Agreement shall be subject to the prior approval of the board of directors of ITT. The Promissory Note is subordinated to all debts incurred by ITT from time to time. The Promissory Note of US\$66,666,667 has been funded by internal cash resources of the Group.

INFORMATION ON IMAGINE

Imagine is principally engaged in the production of films and television programmes in the US founded by Brian Grazer and Ron Howard. Grazer and Howard's early collaborations included "*Splash*" which earned Grazer an Oscar nomination for Best Original Screenplay and "*A Beautiful Mind*" for which the film won the Oscar for Best

Picture, and Howard won Best Director. Imagine's early cinematic success was followed with an expanded focus on television, producing such award-winning shows as "24", "Empire", "Arrested Development", "Parenthood", and "Friday Night Lights".

As at the date of this announcement, CMC Holdings Limited, an indirect shareholder of Young Lion Holdings Limited (an indirect shareholder of the Company holding 26.00% of the Shares), indirectly holds a 4% (or 3.75% on a diluted basis) beneficial interest in Imagine with no governance right in Imagine. Mr. Li Ruigang, the Vice Chairman and a Non-executive Director of the Company, controls CMC Holdings Limited. Save for CMC Holdings Limited's indirect interest in Imagine, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Imagine and its ultimate beneficial owner(s) are third parties independent of the Company and connected persons of the Company.

INFORMATION ON THE GROUP

The Group is principally engaged in television broadcasting, programme productions, digital new media and other broadcasting related activities.

REASONS FOR AND BENEFITS OF THE TRANSACTION

Since its establishment in 1967, the Group's production base for television programmes has always remained in Hong Kong. The programmes produced by the Group now serve a global audience, targeting mainly the Chinese speaking population. The joint venture between TVB Venture and Imagine will provide a new opportunity for collaboration in television projects between Imagine and the Company. With the formation of ITT, other than the entitlement to cash distribution as return on its capital contribution, the Company shall be granted the rights to release, reproduce, distribute, broadcast and use the television programmes developed and/or produced by Imagine alone or with third-party co-financiers/co-production partners in any manner in the PRC, Taiwan, Hong Kong and Macao which will help strengthen its English language library.

The Directors are of the view that the terms in connection with the Transaction are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Transaction are more than 5% but less than 25%, the Transaction constitutes a discloseable transaction for the Company and is subject to the notification and announcement requirements but exempted from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

DEFINITIONS

Unless the context otherwise requires, capitalised terms used in this announcement shall have the following meanings:

“Board”	the board of Directors
“Class A Units”	membership units designated as class A units issued by ITT to TVB Venture, representing 50% of equity interests in ITT
“Class B Units”	membership units designated as class B units issued by ITT to Imagine, representing 50% of equity interests in ITT
“Company”	Television Broadcasts Limited (電視廣播有限公司), a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the main board of the Stock Exchange (Stock Code: 00511)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Imagine”	Imagine Holding Company LLC, a company incorporated in the US with limited liability
“ITT”	Imagine Tiger Television, LLC, a company incorporated in the US with limited liability pursuant to the LLC Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LLC Agreement”	the limited liability company agreement dated 26 July 2017 entered into between TVB Venture and Imagine
“Macao”	the Macao Special Administrative Region of the PRC

“Promissory Note”	12% interest per annum bearing promissory note in the aggregate principal amount of US\$66,666,667 issued by ITT to TVB Venture
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong and Macao
“Shareholder(s)”	shareholder(s) of the Company
“Share(s)”	ordinary share(s) in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction”	TVB Venture's contribution to the capital of ITT in an amount of US\$33,333,333 as to 50% of the equity interests in ITT and provision of a loan to ITT in an amount of US\$66,666,667 in the form of the Promissory Note
“TVB Venture”	TVB Venture Investment, LLC, a company incorporated in the US with limited liability and indirectly wholly owned by the Company
“US”	the United States of America
“US\$”	United States Dollar, the lawful currency of the US

By Order of the Board
Adrian MAK Yau Kee
Company Secretary

Hong Kong, 26 July 2017

As at the date of this announcement, the Board of the Company comprises:

Chairman and Non-executive Director

Dr. Charles CHAN Kwok Keung

Vice Chairman and Non-executive Director

LI Ruigang

Executive Directors

Mark LEE Po On Group Chief Executive Officer

CHEONG Shin Keong General Manager

Non-executive Directors

Mona FONG

Anthony LEE Hsien Pin

CHEN Wen Chi

Thomas HUI To

Independent Non-executive Directors

Dr. Raymond OR Ching Fai SBS, JP

Dr. William LO Wing Yan JP

Professor Caroline WANG Chia-Ling

Dr. Allan ZEMAN GBM, GBS, JP