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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)

CONTINUING CONNECTED TRANSACTION LEASING OF PROPERTY

The Board is pleased to announce that on 6 November 2013, OSGH (China) (an indirect wholly-owned subsidiary of the Company) entered into the Lease Agreement with Beijing Orange Sky Cinema in relation to the leasing of the Leased Property for a period of 12 years commencing from the Delivery Date. The Leased Property is situated at a prime location within Tangshan City, the PRC, with public transportation facilities, shopping malls and department stores in proximity. Beijing Orange Sky Cinema intends to operate a cinema with approximately 7 separate screens and 1,200 seats in the Leased Property.

OSGH (China) is an indirect wholly-owned subsidiary of the Company. Beijing Orange Sky Cinema is a connected person of the Company by virtue of being an associate of Mr. Wu, who is the chairman, a Director and a controlling shareholder of the Company. Hence, the transactions under the Lease Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The relevant percentage ratios under Rule 14.07 of the Listing Rules in respect of the Caps are more than 0.1% but less than 5%. Accordingly, the Lease Agreement is subject to the reporting, announcement and annual review requirements but is exempt from independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules.

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* For identification purposes only

The transactions under the Lease Agreement constitute continuing connected transactions under the Listing Rules. The principal terms of the Lease Agreement are as follows:

LEASE AGREEMENT

- Date: 6 November 2013
- Parties: Landlord: OSGH (China), an indirect wholly-owned subsidiary of the Company.
Tenant: Beijing Orange Sky Cinema, a connected person.
- Leased Property: Portions of 4th Floor under household no. 100040001, 5th Floor under household no. 100050001 and 6th Floor under household nos. 100060001 and 100060003 (collectively referred to as Unit 4108) of Bohai New World Shopping Centre of No. 88 Xinhua West Road, Tangshan City, Hebei Province, the PRC, with a total gross floor area of approximately 5,504.43 square metres.
- Term: For a period of 12 years commencing from the Delivery Date.
Beijing Orange Sky Cinema has a pre-emptive right to renew the tenancy upon expiry on same terms and conditions being negotiated with third party(ies).
- Decoration Period: (rent-free) Beijing Orange Sky Cinema shall have a rent-free decoration period of 6 months from the Delivery Date. During the decoration period, Beijing Orange Sky Cinema shall be responsible for the payment of government tax and levies, and other outgoings incurred (e.g. water, electricity, gas and telephone charges), but shall be not responsible for rental and management fee.
- Rent-free Period: Beijing Orange Sky Cinema shall have a further rent-free period of 3 months from the day after the expiry of the decoration period during which Beijing Orange Sky Cinema shall be responsible for management fee but not rental.
- Rental: During the term of the Lease Agreement, Beijing Orange Sky Cinema shall pay to OSGH (China) an annual rental being the higher of (a) the Base Rental for the relevant year under the Lease Agreement; or (b) the Annual Turnover Rental based on certain percentage rates ranging from 12% to 15% of the net box office income generated from the operation of the cinema by Beijing Orange Sky Cinema at the Leased Property in the relevant year.

Base Rental: The monthly base rental under the Lease Agreement, being RMB160,000 for the first year of the term of the Lease Agreement amounting to an annual rental of RMB1,920,000 (approximately equivalent to HK\$2,438,400); RMB170,000 for the second year of the term amounting to an annual rental of RMB2,040,000 (approximately equivalent to HK\$2,590,800); RMB180,000 for the third year of the term amounting to an annual rental of RMB2,160,000 (approximately equivalent to HK\$2,743,200); and RMB210,000 for each of the fourth to the twelfth year of the term amounting to an annual rental of RMB2,520,000 (approximately equivalent to HK\$3,200,400). The total Base Rental in aggregate for the entire period of the Lease Agreement shall be RMB28,800,000 (approximately equivalent to HK\$36,576,000).

Annual Turnover Rental: The annual turnover rental under the Lease Agreement, being 12% of the net box office income generated from the operation of the cinema by Beijing Orange Sky Cinema at the Leased Property for the first year of the term of the Lease Agreement; 13% of the net box office income for the second year of the term; 14% of the net box income for the third year of the term; and 15% of the net box income for each of the fourth to the twelfth year of the term.

Management Fee: RMB5 per month per square metre.

Security Deposit: A sum of RMB200,000 (equivalent to approximately HK\$254,000) shall be payable by Beijing Orange Sky Cinema to OSGH (China) as security deposit within 10 business days after the execution of the Lease Agreement. The security deposit shall be refunded to Beijing Orange Sky Cinema (without interest) within 10 business days upon the expiry or early termination of the Lease Agreement provided that there is no outstanding sum due to OSGH (China) by Beijing Orange Sky Cinema.

Payment Term: The Base Rental shall be payable by Beijing Orange Sky Cinema to OSGH (China) monthly in advance on or before the 15th day of each calendar month. If in any calendar year, the Annual Turnover Rental is higher than the total Base Rental of that year, Beijing Orange Sky Cinema shall pay the difference to OSGH (China) within 15 business day after such difference is agreed by the parties before the 15th day of the month following the end of that calendar year.

Beijing Orange Sky Cinema shall pay the utility charges and management fee incurred during the period of the Lease Agreement.

Brand Licensing Fee: During the period of the Lease Agreement, OSGH (China) shall grant a brand licence to Beijing Orange Sky Cinema for using the brand name of “Orange Sky Golden Harvest” and Beijing Orange Sky Cinema shall pay an annual brand licensing fee of RMB100,000 (approximately equivalent to HK\$127,000), which shall be payable within 15 days from the commencement of each leasing year.

ANNUAL CAPS

The annual caps in respect of the Lease Agreement for each of the three financial years ending 31 December 2013, 2014 and 2015 are set at RMB300,000 (equivalent to approximately HK\$381,000), RMB1,500,000 (equivalent to approximately HK\$1,905,000) and RMB2,400,000 (equivalent to approximately HK\$3,048,000) respectively.

Upon the expiry of the Caps, the Company will re-comply with all applicable requirements under the Listing Rules, including (where required) the obtaining of approval of the independent shareholders of the Company.

Bases of the Annual Caps

The terms of the Lease Agreement were negotiated on arm’s length basis and are on normal commercial terms and were determined by reference to the prevailing market rent of similar properties in nearby locations. The Caps represent, for the year ending 31 December 2013, the amount of the security deposit and the brand licensing fee; and, for the two years ending 31 December 2014 and 2015, the amount of the rental and the brand licensing fee, payable by Beijing Orange Sky Cinema to OSGH (China) in such periods under the Lease Agreement.

TC CAPITAL’S VIEW ON AND REASONS FOR THE LEASE AGREEMENT EXCEEDING THREE YEARS

As required by Rule 14A.35 of the Listing Rules, the period for non-exempt continuing connected transactions must not exceed three years, except in special circumstances which are limited to cases where the nature of the transaction requires the contract to be of a duration longer than three years.

To comply with the requirements of the Listing Rules, the Board has appointed TC Capital as the independent financial adviser to advise them in relation to the terms of the Lease Agreement to be entered into between OSGH (China) and Beijing Orange Sky Cinema, which stipulates that the tenure of the Leased Property used for cinema purposes will have a duration of twelve years.

TC Capital has discussed with the Company and was advised that the main reasons for such long term leases are as follows:

- (i) the long duration of lease agreements of cinemas will enable the tenants to prevent the recurrence of expensive initial investment costs such as initial set up cost and interior decoration in the short term, which would improve the capability of bearing higher rent by Beijing Orange Sky Cinema;
- (ii) the business nature as a cinema operator requires Beijing Orange Sky Cinema to enter into long term tenancy agreements to secure strategic and prime locations in highly competitive entertainment industry. Based on the normal business practice of the Group, all of the Group's lease agreements for cinema premises in various cities and provinces in the PRC are in the range of 10 to 20 years. According to the Group, the long term nature of the lease agreements of cinema premises will enhance customers' loyalty and maintain stable sales revenues for the cinema. The Company therefore understands Beijing Orange Sky Cinema's need to enter into a long term tenancy agreement. Furthermore, having a successful cinema operation would benefit the Group by: (a) increasing its rental income as the rental rate of the Leased Property is the higher of an yearly turnover rent based on certain percentage rates of the net box office income and the Base Rental under the Lease Agreement; and (b) improving its business reputation of the Group as Beijing Orange Sky Cinema is operating the cinema under the brand of the Company;
- (iii) the long duration of the lease agreements of cinema premises will insulate the Company from the fluctuation of the market rent; and
- (iv) it will reduce the cost that the Company may incur to locate new tenants if the existing cinema operator leaves abruptly under a shorter term tenancy agreement.

In considering whether it is normal business practice for lease agreements of cinema business to have duration longer than three years, TC Capital has reviewed the leases entered into between the Company and independent third parties in the PRC (the "Sample Leases"). TC Capital noted that the Sample Leases typically have duration in excess of three years, with a period ranging from 10 to 20 years. Accordingly, TC Capital considers that the lease for premises mainly used for cinema in the PRC with a duration not exceeding twenty years, fall within the range of the duration of the Sample Leases.

In view of the above, TC Capital is of the opinion that the Lease Agreement with a duration of 12 years is in line with normal business practices for lease agreements of this type.

REASONS FOR AND BENEFITS OF ENTERING INTO THE LEASE AGREEMENT

The Leased Property is situated at a prime location within Tangshan City with public transportation facilities, shopping malls and department stores in the proximity. It is the Company's business plan/strategy to, amongst others, focus in operating cinemas in 1st and 2nd tier cities and some major 3rd tier cities, whereas the Leased Property is situated in a 4th tier city area in the PRC. Accordingly, the Company has decided instead of operating a cinema at the Leased Property on its own, the Leased Property will be leased to Beijing Orange Sky Cinema.

The granting of a brand licence to Beijing Orange Sky Cinema to use "Orange Sky Golden Harvest" brand under the Lease Agreement is a trial business model. If it is proven to be successful, the Group may grant further brand licence(s) to third party(ies) for cinemas operation under the brand name "Orange Sky Golden Harvest" to extend the brand awareness and business scale within the region.

The Directors are of the view that the entering into of the Lease Agreement will also enable the Group to secure stable and attractive rental income on a long-term basis. The Group may also have the opportunity to earn a higher rental income than the Base Rental depending on the performance of the cinema operated at the Leased Property. Further, the trial run of granting a brand licence will enable the Group to explore future business development opportunity.

The Directors (including the independent non-executive Directors) believe that the Lease Agreement has been entered into in the ordinary and usual course of business of the Group and is on normal commercial terms and is fair and reasonable and in the interests of the Company and its shareholders as a whole. The Directors (including the independent non-executive Directors) also believe that the Caps of the Lease Agreement are fair and reasonable. Whilst reaching these views, the Directors have considered, amongst other factors, the amount of Base Rental compared to rental charged in the market and the opinion of an independent financial adviser. TC Capital, the independent financial adviser which has been appointed to advise the Directors on the Lease Agreement, has opined that the Lease Agreement is on normal commercial terms and is fair and reasonable.

The Directors are of the view that the long duration of the Lease Agreement will enable the Group to secure a stable annual income and insulate the Group from the fluctuation of the market rent. The Group will also be able to save the costs for locating new tenants from time to time. Due to the business nature of a cinema operator, Beijing Orange Sky Cinema requires the Group to enter into a long term tenancy agreement. Therefore, the Directors consider that it is normal commercial practice to have a long-term tenancy arrangement for cinema operation in the PRC and the 12 years' term of the tenancy is to the best interest of the Group.

INFORMATION REGARDING THE COMPANY, OSGH (CHINA) AND BEIJING ORANGE SKY CINEMA

The Company

The Company is a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange.

The principal business activities of the Group are in production, financing, distribution and theatrical exhibition of motion pictures. As of 6 November 2013, the Group operated 74 cinemas with 552 screens across China, Hong Kong, Taiwan and Singapore and is a leading distributor in the region.

OSGH (China)

OSGH (China) is a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company.

Beijing Orange Sky Cinema

Beijing Orange Sky Cinema is a company incorporated in the PRC and its principal businesses are cinema operation and property leasing.

LISTING RULES IMPLICATIONS

The transactions under the Lease Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Mr. Wu owns 99% equity interest in Beijing Orange Sky Cinema. Mr. Wu is the chairman, a Director and a controlling shareholder of the Company and is interested in an aggregate of approximately 60.41% of the total issued share capital of the Company as at the date of this announcement. Accordingly, Beijing Orange Sky Cinema is a connected person of the Company and the Lease Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

As the relevant percentage ratios under Rule 14.07 of the Listing Rules in respect of the Caps are more than 0.1% but less than 5%, the Lease Agreement is subject to the reporting, announcement and annual review requirements but is exempt from independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules.

Ms. Wu Keyan (a Director) is the sister of Mr. Wu and is an associate of Mr. Wu under Chapter 14A of the Listing Rules. In view of their interests above, Mr. Wu and Ms. Wu Keyan have abstained from voting on the relevant board resolution for approving the Lease Agreement. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, other than Mr. Wu and Ms. Wu Keyan, none of the Directors has material interest in the transactions contemplated under the Lease Agreement and none of them is required to abstain from voting on the relevant board resolution.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meaning when used herein:

“Annual Turnover Rental”	The annual turnover rental under the Lease Agreement as set out in the section headed “Lease Agreement — Annual Turnover Rental” in this announcement.
“Base Rental”	The monthly base rental under the Lease Agreement as set out in the section headed “Lease Agreement — Base Rental” in this announcement.
“Beijing Orange Sky Cinema”	北京橙天影院投資管理有限公司 (Beijing Orange Sky Cinema Investment Management Co., Ltd.*), a company established in the PRC and 99% of its equity interest is owned by Mr. Wu.
“Board”	The board of Directors.
“Caps”	For the purpose of Chapter 14A of the Listing Rules, means the proposed annual caps of the transaction under the Lease Agreement for the three years ended 31 December 2013, 2014, 2015 as set out in the section headed “Annual Caps” in this announcement.
“Company”	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.
“Delivery Date”	The date on which OSGH (China) delivers up the Leased Property to Beijing Orange Sky Cinema pursuant to the Lease Agreement which shall not be later than 31 December 2013.
“Director(s)”	The director(s) of the Company.
“Group”	The Company together with its subsidiaries.
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China.
“HK\$”	Hong Kong Dollars, the lawful currency in Hong Kong.
“Lease Agreement”	The lease agreement entered into between OSGH (China) and Beijing Orange Sky Cinema dated 6 November 2013 in connection with the leasing of the Leased Property.

“Leased Property”	Portions of 4th Floor under household no. 100040001, 5th Floor under household no. 100050001 and 6th Floor under household nos. 100060001 and 100060003 (collectively referred to as Unit 4108) of Bohai New World Shopping Centre of No. 88 Xinhua West Road, Tangshan City, Hebei Province, the PRC, with a total gross floor area of approximately 5,504.43 square metres.
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange.
“Mr. Wu”	Mr. Wu Kebo, chairman, Director and controlling shareholder of the Company and is interested in an aggregate of approximately 60.41% of the total issued share capital of the Company as at the date of this announcement.
“OSGH (China)”	Orange Sky Golden Harvest Cinemas (China) Co. Ltd. (橙天嘉禾影城 (中國) 有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company.
“PRC”	The People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, Taiwan and Macao.
“RMB”	Renminbi, the lawful currency in the PRC.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.
“TC Capital”	TC Capital Asia Limited, a corporation licensed to conduct type 1 (dealing in 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 appointed as the independent financial adviser to the Company.
“%”	Per cent.

In this announcement, the exchange rate of RMB1 to HK\$1.27 is used for reference only.

By Order of the Board
**Orange Sky Golden Harvest
Entertainment (Holdings) Limited**
Wong Kwan Lai
Company Secretary

Hong Kong, 6 November 2013

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

Chairman and Executive Director:

Mr. Wu Kebo

Executive Directors:

Mr. Mao Yimin

Mr. Tan Boon Pin Simon

Mr. Li Pei Sen

Ms. Wu Keyan

Independent Non-executive Directors:

Mr. Leung Man Kit

Mr. Huang Shao-Hua George

Ms. Wong Sze Wing