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CHINA MANDARIN HOLDINGS LIMITED

中國東方實業集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 00009)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The board of directors (the “Board”) of China Mandarin Holdings Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2011, together with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000 (restated)
Revenue	4	54,510	126,566
Cost of sales	6	<u>(27,577)</u>	<u>(89,218)</u>
Gross profit		26,933	37,348
Other income	4	4,672	1,310
Gain on disposal of subsidiaries		–	30,262
Fair value gain on an investment property		26,532	16,451
Loss on disposal of property, plant and equipment		–	(2)
Gain on disposal of property held for sale		41,328	–
Administrative expenses	6	<u>(30,406)</u>	<u>(22,220)</u>
Operating profit		69,059	63,149
Finance costs	5	(1,533)	(89)
Finance income	5	802	354
Share of results of: an associate		<u>(57)</u>	<u>(85)</u>
Profit before income tax		68,271	63,329
Income tax expense	7	<u>(10,507)</u>	<u>(6,527)</u>
Profit for the year		<u>57,764</u>	<u>56,802</u>

	<i>Notes</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> (restated)
Attributable to:			
Equity holders of the Company	9	54,798	55,171
Non-controlling interests		<u>2,966</u>	<u>1,631</u>
		<u>57,764</u>	<u>56,802</u>
Earnings per share attributable to equity holders of the Company			
	9		
Basic			
– For profit for the year		<u>HK1.86 cents</u>	<u>HK3.32 cents</u>
Diluted			
– For profit for the year		<u>HK1.62 cents</u>	<u>N/A</u>

Details of the dividend are disclosed in note 8 to the result announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2011

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> (restated)
Profit for the year	57,764	56,802
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	<u>41,810</u>	<u>7,762</u>
Total comprehensive income for the year	<u>99,574</u>	<u>64,564</u>
Attributable to:		
Equity holders of the Company	95,183	62,086
Non-controlling interests	<u>4,391</u>	<u>2,478</u>
	<u>99,574</u>	<u>64,564</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

		31 December 2011	31 December 2010	1 January 2010
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>	<i>HK\$'000</i>
			(restated)	(restated)
Non-current assets				
Goodwill		194,285	–	–
Property, plant and equipment		41,444	6,147	5,354
Land use right		326,055	–	–
Investment property		351,827	310,223	283,801
Investment in an associate		66,038	47,095	–
Deposits paid	<i>11</i>	1,786	161,666	1,666
Film rights		101	101	–
Total non-current assets		981,536	525,232	290,821
Current assets				
Film rights		–	–	1
Film production in progress		18,957	5,339	55,767
Property development in progress		428,867	–	–
Property held for sale		–	2,500	–
Inventories		1,243	2,005	2,237
Trade receivables	<i>10</i>	7,043	7,644	7,320
Other receivables, prepayments and deposits paid	<i>11</i>	81,212	495	1,786
Cash and cash equivalents		48,133	64,764	32,892
		585,455	82,747	100,003
Assets of a disposal group classified as held for sale		–	–	686
Total current assets		585,455	82,747	100,689
Current liabilities				
Trade payables	<i>12</i>	8,618	1,604	1,027
Other payables, accruals and deposits received		24,740	19,256	70,365
Interest-bearing bank and other borrowings	<i>13</i>	108,721	1,789	1,958
Obligations under a finance lease	<i>14</i>	1,034	–	92
Loan from a shareholder	<i>16</i>	14,640	–	–
Tax payable		3,263	666	1
		161,016	23,315	73,443
Liabilities directly associated with the assets classified as held for sale		–	–	134
Total current liabilities		161,016	23,315	73,577

		31 December 2011	31 December 2010	1 January 2010
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i> (restated)	<i>HK\$'000</i> (restated)
Net current assets		<u>424,439</u>	<u>59,432</u>	<u>27,112</u>
Total assets less current liabilities		<u>1,405,975</u>	<u>584,664</u>	<u>317,933</u>
Non-current liabilities				
Convertible bonds	<i>15</i>	39,304	–	–
Deposits received		1,514	1,445	1,078
Deferred tax liabilities		265,788	73,512	65,474
Obligations under a finance lease	<i>14</i>	<u>4,398</u>	<u>–</u>	<u>8</u>
Total non-current liabilities		<u>311,004</u>	<u>74,957</u>	<u>66,560</u>
Net assets		<u><u>1,094,971</u></u>	<u><u>509,707</u></u>	<u><u>251,373</u></u>
Equity				
Equity attributable to owners of the Company				
Issued capital		343,318	209,078	261,348
Reserves		<u>721,226</u>	<u>274,417</u>	<u>(33,709)</u>
		1,064,544	483,495	227,639
Non-controlling interests		<u>30,427</u>	<u>26,212</u>	<u>23,734</u>
Total equity		<u><u>1,094,971</u></u>	<u><u>509,707</u></u>	<u><u>251,373</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 9 May 2001 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at Room 4101, 41st Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

The Company acts as an investment holding company. The Group continues its principal activities which consist of film production and related business, the film processing and the rental of property. In addition, the Group is also involved in property development.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). They have been prepared under the historical cost convention, except for an investment property, which has been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

As at 31 December 2011, the Group had outstanding borrowings from a bank and others amounting to approximately HK\$124 million which would be due for repayment in the coming twelve months and cash and cash equivalents of approximately HK\$48 million. The Group recorded a profit before tax of HK\$68 million for the year ended 31 December 2011.

The Group meets its day to day working capital requirements, capital expenditure and financial obligations through cash inflow from operating activities and the facilities obtained from banks and others. The directors closely monitor the Group’s liquidity position and financial performance and have initiated measures to improve the Group’s cash flows. These measures include raising additional capital, extending existing loan facilities, obtaining additional financing from bank and others, and realizing certain assets held by the Group through disposal, if considered necessary.

Based on the director’s review of the Group’s cash flow projection, taking into account the reasonable possible changes in the operational performance and the measures on securing additional funds, the Group is expected to be able to generate sufficient cash flows to cover its operating costs and to meet its financial obligations as and when they fall due in the coming twelve months from the date of these financial statements. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

- (a) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)
- HKAS 24 (Revised), ‘Related Party Disclosures’, effective for annual period beginning on or after 1 January 2011.
 - Amendment to HKAS 32, ‘Classification of Rights Issues’, effective for annual period beginning on or after 1 February 2010.
 - Amendment to HKFRS 1, ‘Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopter’, effective for annual period beginning on or after 1 July 2010.
 - Amendment to HK(IFRIC) – Int 14, ‘Prepayments of a Minimum Funding Requirement’, effective for annual period beginning on or after 1 January 2011.
 - HK(IFRIC) – Int 19, ‘Extinguishing Financial Liabilities with Equity Instruments’, effective for annual period beginning on or after 1 July 2010.
 - Third improvements to HKFRS (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011.
- (b) New standards, amendments and interpretations that have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted
- Amendment to HKAS 1, ‘Presentation of Items of Other Comprehensive Income’, effective for annual period beginning on or after 1 July 2012.
 - Amendment to HKAS 12 Amendment, ‘Deferred Tax: Recovery of Underlying Assets’, effective for annual period beginning on or after 1 July 2012.
 - HKAS 19 (2011), ‘Employee Benefits’, effective for annual period beginning on or after 1 January 2013.
 - HKAS 27 (2011), ‘Separate Financial Statements’, effective for annual period beginning on or after 1 January 2013.
 - HKAS 28 (2011), ‘Investments in Associates and Joint Ventures’, effective for annual period beginning on or after 1 January 2013.
 - Amendment to HKAS 32, ‘Offsetting Financial Assets and Financial Liabilities’, effective for annual period beginning on or after 1 January 2014.
 - Amendment to HKFRS 1, ‘Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters’, effective for annual period beginning on or after 1 July 2011.
 - Amendment to HKFRS 7, ‘Disclosures – Transfers of Financial Assets’, effective for annual period beginning on or after 1 July 2011.
 - Amendment to HKFRS 7, ‘Disclosures – Offsetting Financial Assets and Financial Liabilities’, effective for annual period beginning on or after 1 January 2013.
 - HKFRS 9, ‘Financial Instruments’, effective for annual period beginning on or after 1 January 2015.
 - HKFRS 10, ‘Consolidated Financial Statements’, effective for annual period beginning on or after 1 January 2013.
 - HKFRS 11, ‘Joint Arrangements’, effective for annual period beginning on or after 1 January 2013.
 - HKFRS 12, ‘Disclosure of Interests in Other Entities’, effective for annual period beginning on or after 1 January 2013.
 - HKFRS 13, ‘Fair Value Measurement’, effective for annual period beginning on or after 1 January 2013.

The group is in the process of making an assessment of the impact of adoption of the above new standards, amendments and interpretations that have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted.

(c) Change in accounting policy

The Group has changed its accounting policy for measurement of land and buildings from revaluation model to cost model such that land and buildings are now stated at cost less accumulated depreciation and impairment provision. The directors are of the opinion that the change of the accounting policy is consistent with the new business that the Group is entered into as a hotel developer and manager. This change in accounting policy has been accounted for retrospectively and the comparative figures for the prior periods have been restated.

The effect of change in accounting policy on the consolidated income statement is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Increase in gain on disposal of property held for sales	13,100	–
Decrease in depreciation charged	<u>186</u>	<u>375</u>
Total increase in profit for the year	<u>13,286</u>	<u>375</u>
Increase in basic earnings per share (HK cents per share)	0.45	0.02
Increase in diluted earnings per share (HK cents per share)	0.39	N/A

The effect of change in accounting policy on the consolidated statement of financial position is as follows:

	As at 31 December 2011 <i>HK\$'000</i>	As at 31 December 2010 <i>HK\$'000</i>	As at 1 January 2010 <i>HK\$'000</i>
Decrease in properties, plant and equipment	6,391	4,663	12,960
Decrease in property held for sales	–	13,100	–
Decrease in deferred tax liabilities	1,125	3,618	2,764
Decrease in asset revaluation reserve	5,697	14,051	9,727
Increase in retained profits	431	94	469

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into four business units – property rental, film distribution and licensing, film processing and property and hotel development.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit (loss), which is a measure of adjusted profit before income tax. The profit before income tax is measured consistently with the Group's profit before income tax except that finance income, gain on disposal of subsidiaries, gain on disposal of property held for sale, gain (loss) on disposal of property, plant and equipment, fair value gain on investment property, share of results of an associate, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude obligations under a finance lease and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2011

	Property rental <i>HK\$'000</i>	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:						
External revenue	16,529	16,279	21,702	-	-	54,510
Inter-segment revenue	-	-	165	-	(165)	-
Total revenue	<u>16,529</u>	<u>16,279</u>	<u>21,867</u>	<u>-</u>	<u>(165)</u>	<u>54,510</u>
Segment results	<u>11,721</u>	<u>(3,393)</u>	<u>2,968</u>	<u>(3,801)</u>	<u>-</u>	7,495
Other income						210
Unallocated corporate expenses						(6,563)
Finance income						802
Gain on disposal of a property held for sale						41,328
Fair value gain on an investment property						26,532
Finance costs						<u>(1,533)</u>
Profit before income tax						68,271
Income tax expense						<u>(10,507)</u>
Profit for the year						<u>57,764</u>

	Property rental <i>HK\$'000</i>	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets and liabilities						
Segment assets	354,531	88,570	10,557	1,057,049	56,284	1,566,991
Segment liabilities	90,604	8,037	4,573	298,762	70,044	472,020
Other segment information:						
Capital expenditure	2,269	7	47	18,453	7,980	28,756
Write-back of impairment of trade receivables	-	-	(813)	-	-	(813)
Uncollectible trade receivables recovered	-	-	(78)	-	-	(78)
Depreciation	<u>154</u>	<u>1,205</u>	<u>448</u>	<u>477</u>	<u>701</u>	<u>2,985</u>

Year ended 31 December 2010
(restated)

	Property rental <i>HK\$'000</i>	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:						
External revenue	15,193	88,947	22,426	–	–	126,566
Inter-segment revenue	–	–	2,695	–	(2,695)	–
Total revenue	<u>15,193</u>	<u>88,947</u>	<u>25,121</u>	<u>–</u>	<u>(2,695)</u>	<u>126,566</u>
Segment results	<u>8,397</u>	<u>9,690</u>	<u>5,491</u>	<u>(959)</u>	<u>–</u>	22,619
Other income						32
Unallocated corporate expenses						(6,298)
Finance income						354
Gain on disposal of subsidiaries						30,262
Loss on disposal of property, plant and equipment						(2)
Fair value gain on an investment property						16,451
Finance costs						<u>(89)</u>
Profit before income tax						63,329
Income tax expense						<u>(6,527)</u>
Profit for the year						<u>56,802</u>

	Property rental <i>HK\$'000</i>	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets and liabilities						
Segment assets	312,231	57,022	13,272	160,000	65,454	607,979
Segment liabilities	78,210	12,137	4,262	–	3,663	98,272
Other segment information:						
Capital expenditure	13	2,758	1,651	–	1,380	5,802
Write-back of impairment of trade receivables	–	–	(1,858)	–	–	(1,858)
Uncollectible trade receivables recovered	–	–	(1,134)	–	–	(1,134)
Depreciation	<u>36</u>	<u>1,315</u>	<u>434</u>	<u>–</u>	<u>690</u>	<u>2,475</u>

(a) Geographical information

2011

	Hong Kong <i>HK\$'000</i>	People's Republic of China ("PRC") <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	<u>21,771</u>	<u>23,912</u>	<u>8,827</u>	<u>54,510</u>
Non-current assets	<u>79,250</u>	<u>902,286</u>	<u>–</u>	<u>981,536</u>
Capital expenditure	<u>8,034</u>	<u>20,722</u>	<u>–</u>	<u>28,756</u>

2010

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	<u>42,527</u>	<u>52,743</u>	<u>31,296</u>	<u>126,566</u>
Non-current assets (restated)	<u>54,762</u>	<u>470,470</u>	<u>–</u>	<u>525,232</u>
Capital expenditure	<u>5,789</u>	<u>13</u>	<u>–</u>	<u>5,802</u>

(b) Information about major customers

Revenue of HK\$7,050,000 (2010: HK\$34,145,000) and HK\$15,427,000 (2010: HK\$13,558,000) were derived from a customer of the film distribution and licensing segment and a tenant of property rental.

4. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and rental income received and receivable from its investment property less business tax during the year.

An analysis of revenue and other income and gains is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Revenue		
Property rental income	16,529	15,193
Film distribution and licensing income	16,279	88,947
Film processing income	21,702	22,426
	<u>54,510</u>	<u>126,566</u>
Other income		
Scrap sales	4,199	882
Others	473	428
	<u>4,672</u>	<u>1,310</u>

5. FINANCE INCOME AND COSTS

An analysis of finance income and costs is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Finance costs:		
Interest on bank and other borrowings wholly repayable within five years	626	71
Interest on loans from a shareholder	497	–
Interest on a finance lease	40	18
Commitment fee for short-term loan	370	–
Interest on other borrowings	7,052	–
Interest on convertible bonds	10,858	–
	<u>19,443</u>	89
Less: amounts capitalised on qualifying assets	<u>(17,910)</u>	–
Total finance cost	<u>1,533</u>	89
Finance income:		
Interest income on short-term bank deposits	(131)	(146)
Foreign exchange difference, net	(671)	(208)
Total finance income	<u>(802)</u>	<u>(354)</u>
Net finance costs (income)	<u>731</u>	<u>(265)</u>

6. EXPENSES BY NATURE

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	13,204	11,848
Retirement benefit scheme contributions	<u>573</u>	<u>500</u>
	<u>13,777</u>	<u>12,348</u>
Auditors' remuneration	1,680	1,500
Depreciation	2,985	2,475
Cost of inventories recognised as expenses*	19,450	78,038
Written off inventories	939	–
Loss on disposal of property, plant and equipment	–	2
Minimum lease payments under operating leases	5,469	4,308
Direct operating expenses of an investment property	1,471	4,392
Write-back of impairment of trade receivables	(813)	(1,858)
Uncollectible trade receivables recovered	<u>(78)</u>	<u>(1,134)</u>

* The cost of inventories recognised as expenses for the year is included in “Cost of sales” on the face of the consolidated income statement.

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the PRC income tax rate is unified to 25% for all enterprises. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> (restated)
Group:		
Current – Hong Kong		
Charge for the year	826	232
Overprovision in prior years	(61)	–
Current – PRC		
Charge for the year	2,650	610
Underprovision in prior years	–	129
Deferred	<u>7,092</u>	<u>5,556</u>
Total tax charge for the year	<u>10,507</u>	<u>6,527</u>

8. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2011 and 2010, nor has any dividend been proposed since the end of the reporting period.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> (restated)
Profit attributable to equity holders of the company	54,798	55,171
Weighted average number of ordinary shares in issue (thousands)	<u>2,948,831</u>	<u>1,662,108</u>

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect.

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> (restated)
Earnings		
Profit attributable to equity holders of the company	54,798	55,171
Interest expense on convertible debt (net of tax)	<u>—</u>	<u>—</u>
Profit used to determine diluted earnings per share	<u>54,798</u>	<u>55,171</u>
Weighted average number of ordinary shares in issue (thousands)	2,948,831	1,662,108
Adjustments for:		
– Assumed conversion of convertible debt (thousands)	<u>426,036</u>	<u>—</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>3,374,867</u>	<u>1,662,108</u>

10. TRADE RECEIVABLES

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Trade receivables	7,968	9,382
Impairment	(925)	(1,738)
	<u>7,043</u>	<u>7,644</u>

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 to 120 days. Before accepting any new customers, the Group uses an internal credit assessment process to assess the potential customers' credit quality and defines credit limits by customers. Limits attributed to customers are reviewed regularly.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
0 – 90 days	4,076	5,460
91 – 180 days	1,554	617
181 – 365 days	685	831
Over 1 year	728	736
	<u>7,043</u>	<u>7,644</u>

11. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	<i>Notes</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Other receivables		210	58
Prepayments		594	164
Deposit for acquisition of a subsidiary	<i>(i)</i>	–	160,000
Deposit for land	<i>(ii)</i>	67,661	–
Deposit for construction costs		12,351	–
Others		2,182	1,939
		<u>82,998</u>	<u>162,161</u>
Carrying amount at 31 December			
Current portion		(81,212)	(495)
		<u>1,786</u>	<u>161,666</u>

- (i) The balance represents an initial refundable deposit paid to an independent third party for acquiring the 100% equity interest in 湖南九華國際新城開發建設有限公司 (Hunan Jiuhua International City Development Construction Company Limited) (“Hunan Jiuhua”).
- (ii) The balance represents a deposit paid to acquire a piece of land in Hunan for property development purpose.

12. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
0 – 90 days	<u>8,618</u>	<u>1,604</u>

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective contractual interest rate %	Maturity	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Current				
Bank loan – secured (<i>note i</i>)	3.75	On demand	1,613	1,789
Other borrowings – secured (<i>note ii</i>)	15	September 2012	45,600	–
Other borrowings – unsecured	15	April 2012	<u>61,508</u>	<u>–</u>
			<u>108,721</u>	<u>1,789</u>

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year	1,613	1,789
Other borrowings repayable:		
Within one year	<u>107,108</u>	<u>–</u>
	<u>108,721</u>	<u>1,789</u>

- (i) The Group's bank borrowings are secured by certain leasehold land and buildings of the Group in Hong Kong.
- (ii) The Group's other borrowings are secured by a corporate guarantee granted by the Company and the Group's 100% equity interest in Profit Source International Limited ("Profit Source"). Profit Source is the immediate holding company of 成都中發黃河實業有限公司(Chengdu Zhongfa Real Estate Development Co. Ltd.) ("Chengdu Zhongfa") which holds the investment property of the Group.

The carrying amounts of the Group's interest-bearing bank and other borrowings approximate to their fair values.

14. OBLIGATIONS UNDER A FINANCE LEASE

During the year, the Group leased its motor vehicle for its business use. The lease was classified as a finance lease and had a remaining lease term of five years. Interest rate underlying all obligations under the finance lease was fixed at contract date of 4.28%. This lease had no terms of renewal or purchase options and escalation clauses. No arrangement had been entered into for contingent rental payments.

	Minimum lease payments 2011 HK\$'000	Present value of minimum lease payments 2011 HK\$'000
Amounts payable:		
Within one year	1,246	1,034
Between 1 and 2 years	1,246	1,079
Between 2 and 5 years	<u>3,530</u>	<u>3,319</u>
Total minimum finance lease payments	6,022	<u><u>5,432</u></u>
Future finance charges	<u>(590)</u>	
Total net finance lease payables	5,432	
Portion classified as current liabilities	<u>(1,034)</u>	
Non-current portion	<u><u>4,398</u></u>	

15. CONVERTIBLE BONDS

On 26 January 2011, the Company issued the convertible bonds carrying a coupon interest rate of 0.5% per annum up to an aggregate principal amount of HK\$515,128,000. The bonds are convertible at the option of the bondholders into fully paid ordinary shares with a par value of HK\$0.10 each of the Company at any time from the date of the issue of the bonds up to and including 26 January 2016 at an initial conversion price of HK\$0.345. The Company may redeem at 100% of the principal amount in cash by giving the bondholders 10 working days' prior written notice. Any convertible bonds not converted will be redeemed on 26 January 2016 at 100% of their principal amount.

The convertible bonds recognised in the consolidated statement of financial position is calculated as follows:

	2011 HK\$'000
Nominal value of the convertible bonds issued during the year	515,128
Equity component	<u>(149,228)</u>
Liability component at the date of issuance	365,900
Conversion of convertible bonds during the year	(336,461)
Interest expense (note 5)	10,858
Interest payable	<u>(993)</u>
Carrying amount as at 31 December 2011	<u><u>39,304</u></u>

Interest expense on the liability component of the convertible bond is calculated using the effective interest method, applying the effective interest rate of 7.698% per annum to the liability component.

16. LOANS FROM A SHAREHOLDER

As at 31 December 2011, the Group had loan balances of HK\$14,640,000 (2010: Nil) from Mr. Cheng Keung Fai ("Mr. Cheng"), a substantial shareholder of the Company, which were unsecured, bearing interest at 1% per annum and were repayable on or before April 2012 but contain a repayment on demand clause.

17. EVENTS AFTER THE REPORTING PERIOD

- (a) On 11 January 2012, the Company's indirect wholly-owned subsidiary, Profit Source International Limited, had entered into an agreement with 東莞市易豐實業發展有限公司 (Dongguan Yi Feng Enterprise Limited) to purchase the remaining 9.943% equity interest in Chengdu Zhongfa, a subsidiary of the Group at a consideration of HK\$30,000,000.
- (b) On 2 February 2012, the Company proposed an open offer based of one offer share for every one adjusted share. Subject to the Capital reorganisation becoming effective, the Company proposes to raise approximately HK\$185 million, before expenses, by issuing 343,318,399 offer shares to the qualifying shareholders by way of the open offer at the subscription price of HK\$0.538 per Offer Share on the basis of one (1) offer share for every one (1) adjusted share held on the record date and payable in full on acceptance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

For the year ended 31 December 2011, the Group's turnover dropped from HK\$126,566,000 last year to HK\$54,510,000, registering a decrease of 56.9%. Gross profit also decreased to HK\$26,933,000 (2010: HK\$37,348,000). Property rental in the PRC contributed HK\$16,529,000 to the Group (2010: HK\$15,193,000). Particularly, gain on property disposal contributed HK\$41,328,000 profit to the Group. Among our property investments, there was a valuation gain of HK\$26,532,000 on the commercial property in Chengdu, the PRC. Turnover from film production, distribution and licensing, which accounted for 30% of the Group's turnover, recorded an amount of HK\$16,279,000 (2010: HK\$88,947,000), while turnover from film processing was HK\$21,702,000 (2010: HK\$22,426,000).

The Group's profit attributable to equity holders amounted to HK\$54,798,000 (2010:HK\$55,171,000). Basic earnings per share was 1.86 HK cents (restated 2010: 3.32 HK cents). The Board of Directors did not recommend dividend payout for the year ended 31 December 2011 (2010: Nil). As of 31 December 2011, cash on hand was HK\$48,133,000 (2010: HK\$64,764,000).

During the year, the Group made a capital commitment in respect of a wholly foreign owned subsidiary in the PRC for property development of approximately HK\$35,813,000. Other commitment of HK\$1,750,256,000 mainly on property development related expenses.

The Group incurred interest expenses after capitalisation of HK\$1,533,000 (2010: HK\$89,000) derived from bank and other borrowings, loans from a shareholder and obligations under finance lease as well as HK\$10,858,000 from the convertible bonds.

Business Review

During the year under review, the Group was principally engaged in property development and investments in the PRC and film production and related businesses.

Property Development and Investment Business

Property Development

For the year ended 31 December 2011, the property development business was operated at a loss before tax of HK\$3,801,000 (31 December 2010: HK\$959,000).

Last year, the Group acquired entire interest of Hunan Jiuhua International City Development Construction Company Limited ("Hunan Jiuhua"), which owns a parcel of land in Jiuhua district in Xiangtan city. This area, as aforementioned, is used to develop Phase 1 of the "Oriental Venice" project in which is used to build low-density residential units and a five-star hotel, both of which are under construction.

The Group remains optimistic towards the project in the overall and is anticipated to enjoy stable growth amid macroeconomic adjustments. Xiangtan city was selected as a developmental zone of a two-oriented society, upholding visions of resource-saving and environmental-friendly under the model of new urbanization, new industrialization and agricultural industrialization. Alongside its position as the National-level Economic and Technological Zone, the unique developmental positioning of Hunan Jiuhua has attracted buyers where consumer preference towards the district has been observed, amid the modulations in residential sector.

Together with the well-developed infrastructure, including three major highways and Changsha Huanghua Airport within 60 km radius from Xiangtan's downtown, the government is determined to develop Xiangtan city. In late 2010, the construction of an Inter-city railway network between Changsha, Zhuzhou and Xiangtan started and is expected to be in use within 4 years. Upon the opening of the Inter-city railway, transporting to and from these cities will only take half an hour, strengthening the position of Chang-Zhu-Tan City Cluster as an engine of economic development for the Hunan province. With favourable policy support, excellent geographical location and easy accessibility, the project has demonstrated its huge potential to deliver substantial profits in the coming years.

In view of the cumulative increase in the Hong Kong property price, in January 2011, the Group disposed the entire 3rd Floor and the roof floor (inclusive of the fresh water tank on the roof) of an industrial building known as Cheung Fai Industrial Building at the price of HK\$44,093,000. Located at Nos. 131-133 Wai Yip Street, Kowloon, Hong Kong with a total gross floor area of approximately 22,046 square feet, this particular property provided over 578% returns on the investment over the past 22 years (1989: HK\$6,500,000). To avoid unnecessary interruption to the Group's business after the completion of deal on 11 March 2011, the Group has leased back the property, which is currently occupied for film processing.

Property Rental

Rental income was increased by 8.8% reaching HK\$16,529,000 (2010: HK\$15,193,000) during the year under review, which was contributed by the commercial property in Chengdu, the PRC.

In February 2012, the tenant operating department store negotiated for a termination of tenancy agreement and both parties agreed for a compensation of RMB6.5 million which will be booked this year. The Group is looking for new tenant for the vacant floors.

In the first half of the year, the Group signed another 10-year contract with a karaoke, in addition to the long term tenancies with a salon in 2010.

Film related businesses

Film production

For the year ended 31 December 2011, no film was released.

During the year, the Group continued the production of two new films, namely, a 3D film “The Monkey King” and a literary film “Floating City”. Donnie Yen, the main actor in “Ip Man”, will take the main actor role in “The Monkey King” joined by Aaron Kwok and Chow Yun Fat. Based on a popular Chinese story “Journey to the West”, post-production of “The Monkey King” is undergoing and is expected to go on screen in the Summer 2013 after several years of preparation.

RED Digital Cinema, which is the top 3D digital equipment provider in Hollywood, has provided the top and most advanced technological equipment throughout the film making process. It has also regarded “The Monkey King” as one of its three globally recommended films, together with “Pirates of the Caribbean: On Stranger Tides” and “The Amazing Spider-Man”, to be highlighted in their annual sales meeting with worldwide production and distribution partners. In view of the flourishing 3D film market, the Group believes that the film, with rich Chinese cultural heritage content, will be appealing to audience worldwide and will hit the box office record again after the colossal success of “Ip Man”.

Another literary film “Floating City” with settings in the 50s, directed by Yim Ho and starred by Aaron Kwok and Charlie Young, is also in post-production stage and is expected to be released in May 2012. The Group is confident that both films will be popular among audience and capture huge box office.

Film processing

Amid lower film demand from the market and audiences along with the bombardment of rising digital material cost, film processing business still managed to secure over 60% market share among the three films processing factories in Hong Kong, and generated a stable turnover of HK\$21,702,000 comparing to HK\$22,426,000 of last year. Operating profit decreased to HK\$2,968,000 (restated 2010: HK\$5,491,000).

The Group has been keeping close with the market development of digitalization. The Group is looking into opportunities of relocating the film processing factory. With over 40 years of experiences in film processing business, the Group continues to endeavor excellent services including sound recording, sound mixing and top of visual and subtitle, consolidating its leading film laboratory position in Hong Kong and South East Asia.

Prospects

Long-term property investment in the PRC will remain as an important pillar of our businesses providing steady income. Along with the expected Renminbi appreciation, the currency trend will add a premium onto our profit generated from our PRC property projects.

Rapid urbanization is witnessed in the PRC not limited to the coastal areas. In view of the government’s strategic move into urbanizing second- and third-tier cities, the Group has acquired Jiuhua and the “Oriental Venice” project would generate huge income stream for the Group with the sales of residential units and the opening of the five-star hotel in Phase one development.

As shown in the 2011 statistical findings from the Hunan Provincial Bureau of Statistics, property market in Hunan was stabilised, resulting in milder increases in investments from property developers and buyers of 29.1% and 31.7%. We believe that amidst nationwide macroeconomic policies in the prevention of overheated property market, the specific market in Xiangtian city will still flourish with higher demands as the city has well-developed transportation infrastructure and the Hunan provincial policies are favourable to firms looking for relocation from coastal areas with rising costs to inland areas.

In addition, film business of the Group is continued to be benefited by the evolving market in the PRC. Under the strategic direction of the 12th Five-Year Plan of the PRC, reforms and development in the cultural sector has been robust. In the perspective of hardware, numbers of cinemas and screens have risen for about 40% and 50% respectively, accumulating totals of over 2,800 cinemas and 9,200 screens, according to the State Administration for Radio, Film and Television (SARFT). Along with better hardware support, box office throughout China has also surged in a rate of about 29% from 2010 to 2011, with a total of approximately RMB 13.1 billion in which domestic films accounted for an overwhelming proportion of about 54%.

Eyeing the thriving 3D film market, the Group has high hopes on “The Monkey King” starred by Donnie Yen, Aaron Kwok and Chow Yun Fat. To ensure film quality and strive for most advanced technology, the Group also engaged the production talents of the 3D icon film “Avatar”, “Pirates of the Caribbean” and “Star Wars” to work on “The Monkey King”. Receiving recognition from the RED Digital Cinema, it is hoped that “The Monkey King” will not only be well-received by audience in the Greater China but also audiences across the globe.

Furthermore, the literary film “Floating City” is also expected to go on screen in May 2012. As film production is one of the core businesses of the Group contributing a huge proportion of our revenue, the Group will continue to produce more high quality films that cater for the tastes of audience and are close to the market trend.

In view of continuing our success, we aim to further expand market share in both businesses with an ultimate goal to be value adding to shareholders. With such devotion, the Group will continue to focus on two major business segments: (i) film production and related businesses; and (ii) property investment and development to increase its market share. The Group will continue to seek greater synergies within its existing business operations by utilizing its expertise in film production and property investment and development. Looking into an ever-changing macro-environment, the management is confident that through continuous operational improvements, the twin-lined businesses will remain profitable bringing optimal values to shareholders.

Dividend

The directors do not recommend payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

Liquidity and financial resources

At 31 December 2011, the Group's total equity amounted to HK\$1,094,971,000 (restated 2010: HK\$509,707,000). The gearing ratio based on interest-bearing bank and other borrowings, loans from a shareholder, the obligations under finance lease and convertible bonds over total equity was 0.153 (2010: 0.003).

Net current assets was HK\$424,439,000 (2010: HK\$59,432,000) and current assets was HK\$585,455,000 (2010: HK\$82,747,000). Current liabilities were HK\$161,016,000 (2010: HK\$23,315,000), representing a current ratio based on current assets over current liabilities of 3.64 (2010: 3.55).

At 31 December 2011, the Group had cash and bank balances of HK\$48,133,000 (2010: HK\$64,764,000).

Borrowing and banking facilities

At 31 December 2011, the Group's outstanding borrowings and convertible bonds were HK\$168,097,000 (2010: HK\$1,789,000).

Hedging

At 31 December 2011, no financial instruments were used for hedging (2010: Nil).

Charges on group assets

At 31 December 2011, the Group's borrowings are secured by 100% equity interest of a subsidiary, Profit Source International Limited, of the Group with carrying value of HK\$99,561,810 (2010: Nil), certain leasehold land and buildings and a property held for sale with a net carrying value of HK\$809,000 (2010: HK\$3,337,000) and a motor vehicle with a net carrying value of HK\$7,714,000 (2010: Nil).

Material litigation

At 31 December 2011, the Group had not involved in any material litigation or arbitration.

Employees and remuneration policies

Staff cost for the year ended 31 December 2011 was HK\$15,628,000 (2010: HK\$14,079,000), representing an increase of 11%. The Group employed a workforce of 90 staff members (2010: 71 staff members) as at the end of 2011. Among the 90 staff members, 47 staff members were in the film processing department. Salaries of employees were maintained at competitive levels while bonuses were granted on a discretionary basis.

Exposure of foreign exchange

The Group's asset and liabilities are mainly denominated in Hong Kong Dollars, United States Dollars and Renminbi. There is no significant exposure to the fluctuation of foreign exchange rate, but the Group will closely monitor the market and make appropriate adjustment and measures when necessary.

Capital expenditures

For the year ended 31 December 2011, the Group's capital expenditure were HK\$28,756,000 (2010: HK\$5,802,000).

Acquisition and disposal of subsidiaries and associated companies

The Group had entered an agreement to acquire an indirect wholly-owned subsidiary, Hunan Jiuhua for property development business at a consideration of HK\$700,000,000 and the acquisition was completed on 26 January 2011.

Purchase, redemption or sale of listed securities of the Company

During the year under review, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

Compliance with the code on corporate governance practices of the listing rules

During the year ended 31 December 2011, the Company has complied with all code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Audit committee

The audit committee of the Company has met with the external auditors of the Company, Messrs. PricewaterhouseCoopers, to review the accounting principles and practices adopted by the Group and the consolidated results of the Group for the year ended 31 December 2011, and is of the opinion that the consolidated results complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made. The audit committee is composed of three independent non-executive Directors of the Company, Mr. Tang Ping Sum, Mr. Tsui Pui Hung and Mr. Chu To, Jonathan. The chairman of the audit committee has professional qualifications and experience in financial matters.

Publication of detailed annual results on the Stock Exchange's website

All the financial and other related information of the Company required by the Listing Rules will be published on the Stock Exchange's website in due course.

Acknowledgement

On behalf of the Board, I would like to express my sincere gratitude to all our staff for their dedication and contribution to the Group. In addition, I would like to thank all our shareholders and investors for their patronage.

By Order of the Board
China Mandarin Holdings Limited
Jin Lei
Chairman

Hong Kong, 30 March 2012

As at the date of this announcement, the Board comprises six Directors. The executive Directors are Mr. Jin Lei (Chairman), Ms. Law Kee, Alice (Chief Executive Officer) and Mr. Hui Wai Lee, Willy; and the independent non-executive Directors are Mr. Tang Ping Sum, Mr. Tsui Pui Hung and Mr. Chu To, Jonathan.

* *For identification purpose only*