**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)**

# FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

## RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

## HIGHLIGHTS

| | **2011** | 2010 | **Changes** | |
|---|---|---|---|---|
| | ***HK$ million*** | *HK$ million* | ***HK$ million*** | % |
| **The Group** | | | | |
| Turnover | **1,370** | 1,078 | **+292** | +27% |
| Gross profit | **793** | 628 | **+165** | +26% |
| Profit from operations | **137** | 100 | **+37** | +37% |
| Profit attributable to equity holders | **96** | 71 | **+25** | +35% |
| Basic earnings per share | **3.64 cents** | 2.84 cents | | |

- Turnover increased by 27% to HK$1,370 million
- Gross profit grew by HK$165 million to HK$793 million
- Profit from operations increased to HK$137 million from HK$100 million
- Cinema admissions we served on a full and aggregated basis was 29.5 million across cinema networks in Hong Kong, Mainland China, Taiwan and Singapore as a whole
- Cash on hand was HK$706 million

* *For identification purposes only*

## MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATION AND FINANCIAL REVIEW

It was a fruitful year for the Group in 2011. For the year ended 31 December 2011, the Group reported a net profit attributable to equity holders of HK$96 million for the year, comparing to HK$71 million reported last year. Riding on the favorable market conditions in our operating territories, the Group achieved solid performance. Contributions from exhibition business across the regions were all improved this year. The distribution and production business also showed a mild improvement due to the success of two TV drama series produced during the year.

Both the Group's turnover and gross profit rose by 27% and 26% to HK$1,370 million and HK$793 million respectively this year. This was primarily attributable to contribution from 18 new cinemas opened in Mainland China and strong performance of our exhibition business in Taiwan and Singapore. Gross margin remained at 58%. The Group's EBITD for the year 2011 was HK$230 million, up from HK$165 million last year.

In August 2011, the Group entered into a settlement agreement with Legend Pictures, LLC ("Legendary") and received a sum of US$30 million to transfer the Group's equity interest in Legendary back to Legendary and to terminate a non-binding Memorandum of Understanding dated 23 September 2010 entered into between the Company and Legendary. The Group recorded a gain of HK$29.4 million (net of related expenses) during the year. Since the year 2009, the Group has also held some other equity securities for strategic purpose. Owing to the prolonged decline in share price and investment value, the Group recorded an impairment provision and a loss on disposal of investment in aggregate of HK$21.4 million this year.

Net of the above mentioned exceptional gain and loss, the Group's profit from normal operations attributable to equity holders would have been HK$88 million for the year 2011, remarkably rose by 87% from HK$47 million last year.

During the year, the Group raised additional bank borrowings of approximately HK$400 million and spent around HK$613 million capital expenditures, mainly for new cinema projects in Mainland China, Taiwan and Singapore. As of 31 December 2011, the cash on hand of the Group amounted to HK$706 million (2010: HK$458 million) and the Group maintained its gearing ratio at a reasonable level of about 20% (2010: 6%).

## BUSINESS REVIEW

### Film Exhibition

As of 31 December 2011, the Group is operating 53 cinemas with 405 screens across Mainland China, Hong Kong, Taiwan and Singapore, significantly increased from 33 cinemas with 250 screens a year ago. The total number of screens increased by 62% with seating capacity jumped by 43%, and most of these newly opened cinemas were commenced operations in second half of 2011. The Group's cinemas served approximately 29.5 million guests during the year, comparing to 23.8 million guests for the same period last year. Gross box office receipts, on a full and aggregated basis, was registered at HK$1,672 million, representing a remarkable 27% growth from last year.

In 2011, the Group's 53 cinemas generated HK$1,248 million of turnover to the Group, accounting for about 88% of the Group's total revenue. The major Hollywood blockbusters released this year were *Transformers: Dark Of The Moon, Harry Potter And Deathly Hallows Part 2, Mission Impossible — Ghost Protocol, Pirates of the Caribbean 4: On Stranger Tides, X-Men First Class, Kung Fu Panda 2* and *Fast And Furious 5*. The major Chinese-language blockbusters were *Beginning of the Great Revival (Founding of a Party) (建黨偉業)* and *Love Is Not Blind (失戀33天)* and *You Are The Apple Of My Eye (那些年，我們一起追的女孩).*

## OPERATING STATISTICS OF THE GROUP'S CINEMAS

| | Mainland China | Hong Kong | Taiwan | Singapore |
|---|---|---|---|---|
| Number of cinemas* | 27 (Note) | 6 | 10 | 10 |
| Number of screens* | 197 | 26 | 101 | 81 |
| Admissions (million) | 5.3 | 2.8 | 12.1 | 9.3 |
| Net average ticket price (HK$) | 39 | 61 | 64 | 54 |

* as of 31 December 2011

Note: 4 more cinemas in Mainland China have completed construction and are applying for licenses, which are all expected to be opened within the first quarter of 2012.

The Group is committed to pursuing visual and audio effect perfection to improve movie-going experience for our audience. Currently, all screens in Mainland China, Hong Kong and Taiwan have been fully installed digital equipment and over 40% of the Group's screens are 3D compatible. Singapore will complete the digitalization of its projection equipment within 2012. In Hong Kong, the Group made an alliance with D-BOX Technologies Inc. ("D-BOX") to become the first Hong Kong's cinema equipped with Motion Chair D-BOX providing an unmatched realistic immersive experience through its motions perfectly synchronized with onscreen actions. In Taiwan, the Group is the exclusive digital IMAX® operator and has added three new digital IMAX® screens in 2011. The Group also entered into a strategic collaboration with SONY China to introduce the unprecedented SONY 4K Projection System into our Mainland China multiplexes. Currently, we have installed 84 sets of SONY 4K Projection System in our Mainland China multiplexes and we believe these unrivalled visual effects would take the viewing experience to the next level.

*Mainland China*

**OPERATING STATISTICS OF THE GROUP'S CINEMAS IN MAINLAND CHINA**

| | **2011** | **2010** |
|---|---|---|
| Number of cinemas* | 27 | 9 |
| Number of screens* | 197 | 60 |
| Admissions (million) | 5.3 | 3.0 |
| Net average ticket price (RMB) | 33 | 41 |
| Gross box office receipts (RMB million)# | 189 | 131 |

* as of 31 December (most new cinemas in 2011 were opened in the second half of the year)
\# before deduction of government taxes and charges

In 2011, the market gross box office receipts of urban area in Mainland China increased to RMB13.15 billion by 29% while the gross box office receipts generated by the Group's multiplexes in Mainland China showed a growth of 44% as compared with last year. During the year, the Group opened 18 new cinemas with 137 screens in cities of Chengdu, Chongqing, Dongguan, Guangzhou, Heyuan, Huizhou, Shangrao, Shenyang, Wuhu, Wuxi, Xian, Yangquan, Yinchuan and Yingkou. Thanks to rich film line-up, continuing strong market demand and the Group's rapid expansion, the Group's multiplexes in Mainland China served approximately 5.3 million patrons during the year, representing 77% growth from last year. However, the strong growth in admissions was partly offset by decline in average ticket price, and as a result, gross box office takings grew by 44% to RMB189 million. The decline in average ticket price is attributable partly to promotional discount offered by new cinemas, and partly to the nationwide expansion of the Group's portfolio to cover emerging non-tier-1 cities.

In December 2011, the Group granted cinema management and operational rights of a cinema located at PCCW Centre in Beijing, namely Orange Cinemas (Beijing), adopting membership system which is different from the traditional cinema operation, to a PRC company wholly owned by Mr. Wu Kebo, a director and substantial shareholder of the Company, with fair and reasonable terms. As the film exhibition industry in Mainland China will become increasingly competitive, continuing improving the management and services delivery by the Group's cinemas is of the utmost importance. The directors considered that the grant of rights would enable the Group to centralize the management and operation of other cinemas managed and operated by the Group.

*Hong Kong*

**OPERATING STATISTICS OF THE GROUP'S CINEMAS IN HONG KONG**

| | 2011 | 2010 |
|---|---|---|
| Number of cinemas* | 6 | 7 |
| Number of screens* | 26 | 32 |
| Admissions (million) | 2.8 | 2.9 |
| Net average ticket price (HK$) | 61 | 63 |
| Box office receipts (HK$ million) | 173 | 183 |

* as of 31 December

During the year, Hong Kong market as a whole recorded a box office receipts of HK$1,387 million, slightly up by 4% from HK$1,339 million last year. The Group's cinemas in Hong Kong recorded lower box office takings of HK$173 million this year (2010: HK$183 million) due to the closure of GH Hollywood at Diamond Hill upon expiry of lease on 30 March 2011. However, the Group's joint-promotional campaign "3Screen" with a telecom operator received an overwhelming response. In June 2011, GH Mongkok became the first Hong Kong cinema equipped with Motion Chair D-BOX which presents authentic motion effects synchronized with onscreen actions to perfectly deliver extraordinary theatrical experience to audience. The well-received of Motion Chair D-Box and the success of "3Screen" promotion had significantly improved the cinema operating results. Excluding GH Hollywood, both the total box office receipts and admissions of the other six cinemas increased by approximately 13% and 18%, respectively. The Group expects to maintain a market share of around 12% after the closure of GH Hollywood.

*Taiwan*

**OPERATING STATISTICS OF THE GROUP'S CINEMAS IN TAIWAN**

| | 2011 | 2010 |
|---|---|---|
| Number of cinemas* | 10 | 8 |
| Number of screens* | 101 | 85 |
| Admissions (million) | 12.1 | 9.3 |
| Net average ticket price (NTD) | 237 | 236 |
| Box office receipts (NTD billion) | 2.9 | 2.2 |

* as of 31 December

In 2011, Taipei City as a whole recorded market box office receipts of NTD3.8 billion, comparing to NTD3.1 billion last year. The Group's 35.71%-owned Vie Show Cinema Company Limited ("Vie Show") recorded about 30% growth in both box office receipts and admissions as compared with last year. This was mainly due to overwhelming success of several local Chinese-language films which achieved remarkable box office receipts in Taiwan, namely *Seediq Bale 1 and 2 (賽德克•巴萊)* and *You Are The Apple Of My Eye (那些年，我們一起追的女孩)*. During the year, Vie Show introduced alternative contents in Taiwan cinema circuits such as live broadcast of AKB48 Concert and L'Arc-en-Ciel Concert, which were well-received by customers with occupancy rate over 50% despite the ticket price were more than double of normal movie ticket price. In December 2011, Vie Show opened its third cinema in Taichung with 7 screens at Top City and its first premier cinema in New Taipei City with 9 screens at Banciao Mega City. With the opening of these two new cinemas, the market share of Vie Show has been increased to about 38% now. Vie Show is the exclusive digital IMAX® operator and has added three new digital IMAX® screens up to five in 2011. The Group's share of net profit for the year from Vie Show increased to HK$37 million, up by 48% from last year's HK$25 million.

***Singapore***

**OPERATING STATISTICS OF THE GROUP'S CINEMAS IN SINGAPORE**

| | **2011** | **2010** |
|---|---|---|
| Number of cinemas* | 10 | 9 |
| Number of screens* | 81 | 73 |
| Admissions (million) | 9.3 | 8.6 |
| Net average ticket price (S$) | 8.6 | 8.8 |
| Box office receipts (S$ million) | 80 | 76 |

* as of 31 December

Singapore box office receipts totaled S$188 million in 2011, up 9% from S$172 million in 2010. The Group's 50%-owned "Golden Village" cinema circuit maintained its leading position with a market share of 43% (2010: 44%) by reporting a box office receipts of S$80 million for the year (2010: S$76 million). The Group shared a net profit of HK$48 million for the year, representing a growth of 37% comparing to HK$35 million last year. This was mainly attributable to strong performance of Hollywood blockbusters like *Transformers: Dark of the Moon, Kung Fu Panda 2* and *Harry Potter And Deathly Hallows Part 2* and appreciation of Singapore dollar during the year. The splendid results were also driven by good performance of the three surpassing Gold Class cinemas, which offered luxury movie viewing with exclusive lounge, plush electronic recliner seats comparable to First Class airline seats equipped with call buttons for faster and more discreet service, and super wide screens and digital sound systems. The average occupancy rate of Gold Class cinemas is over 50% and it generates high food and beverage sales income by serving various foods and wines, in addition to traditional candy bar items.

**Film & TV Programmes Distribution and Production**

In 2011, the Group's film distribution and production business recorded revenue of HK$162 million (2010: HK$128 million). The Group distributed over 130 films in Mainland China, Hong Kong, Taiwan and Singapore (over 95 films in 2010). The Group has fined tune its film distribution strategy to focus on releasing high quality selected non-Chinese language films and this, together with higher sales income from our Chinese-language film library, have contributed better results for the year. The Group's film library of more than 140 films and TV titles with perpetual distribution rights continued contributing steady licensing income to the Group. In addition, the Group had a small investment in two films *Beginning of the Great Revival the (Founding of a Party)* (建黨偉業) and *Any Other Side (夜店詭談),* and completed production of two Chinese TV drama series *黃金密碼* and *諜戰深海* which contributed totaled sales income of HK$70 million during the year.

## PROSPECTS

Looking forward, the Group is optimistic in the film industry and in the territories we operated, especially in the fast-growing market, Mainland China. The Group has dedicated its efforts in strengthening and growing both the exhibition and distribution networks in territories with higher market potential and better returns. Coupled with the government support in cultural industry, the success of 3D presentations, and the growing demand of high quality of entertainment experience in Mainland China, the Group will continue to put more resources in our development in Mainland China. The Group will also pursue acquisition opportunities to further expand the Group's cinema portfolio in Asia Pacific region.

As of 26 March 2012, the Group operated 31 cinemas with 225 screens in Mainland China and 9 cinemas with 60 screens were in various stages of interior decoration and are in the pipeline for openings. By end of 2013, the Group expects to operate 68 cinemas with 502 screens in Beijing, Changshu, Changzhou, Chengdu, Chongqing, Dalian, Dongguan, Fushun, Guangzhou, Heifei, Huizhou, Jiashan, Jicai, Linyi, Maanshan, Nanjing, Nanning, Nantong, Shanghai, Suzhou, Tangshan, Tianjin, Wuhan, Xuyu, Yancheng, Yangjiang, Zhongshan and Zhuzhou based on lease agreements signed as of 26 March 2012, although the number may vary due to the actual handover date, the progress of interior decoration, application of relevant license and additional new lease agreements to be entered into during the period. The Group plans to open flagship multiplexes in tier-1 cities such as Beijing, Guangzhou, Shanghai and Shenzhen. The Group's cinema circuit brand "OSGH" in Mainland China is being well-positioned to succeed and to become one of the leading theatrical operators in the foreseeable future.

In Hong Kong, the Group has installed 38 Motion Chairs D-BOX in 2 screens at GH Mongkok and plans to install another 74 Motion Chairs D-BOX at GH Citywalk and Golden Gateway in 2012.

In Taiwan, Vie Show plans to open a new cinema, namely Vie Show Hsin Chu Big City with 8 screens, in the first half of 2012. In Singapore, the Group will open a new cinema with 6 screens at City Square Mall in late 2012. The Group also plans to renovate 3 existing cinemas with a total of 27 screens in these regions in 2012.

Besides our commitment to our network expansion in Asia, the Group aims to deliver premium and awe-inspiring theatrical experience to our audience through introducing state-of-the-art technology such as IMAX® Screens, SONY 4K Projection System, Dolby Surround 11.1 and Motion Chair D-Box into our multiplexes. In Taiwan, Vie Show will add one more IMAX® screen to increase the total number of IMAX® screens to 6 by end of 2012.

In view of the growing demand for Chinese-language films, the Group will continue to expand its distribution and production business. The Group plans to produce two Chinese TV drama series and re-produce *Fly Me to Polaris* in the coming year. As required by World Trade Organization, the Chinese film market in 2011 begins to be further open to the imported films. The Group is under negotiation to distribute several foreign films on big screens in Mainland China in 2012. The Group is also actively expanding partnership to distribute the films and TV titles in the Group's film library through different channels and platforms.

In December 2011, the Group has entered into a strategic alliance agreement with T-JOY Group ("T-JOY"), under which the Group will broadcast the digital content provided by T-JOY and the Group will provide its production for broadcasting at T-JOY's 19 multiplexes in Japan. The Group will continue to seize different kinds of cooperation opportunities and strategic alliance with various business partners to accelerate our expansion plan and strengthen our market position in this fast-moving film exhibition market.

Currently, the Group has very strong liquidity and reasonable financial leverage. In order to cope with the rapid expansion, the Group will utilize the available bank loan facility to finance the cinema projects in Mainland China and other expansion investment opportunities. The management will closely monitor and maintain optimal gearing structure to limit the risk.

## FINANCIAL RESOURCES AND LIQUIDITY

In May 2011, the Company issued the second tranche zero coupon convertible note of principal amount of about HK$45 million, convertible into ordinary shares of the Company at a conversion price of HK$0.338 per share, to Orange Sky Entertainment Group (International) Holding Company Limited, a substantial shareholder of the Company, as part of the consideration in acquisition of its subsidiary and business relating to Chinese-Language films and television programmes, production, investment, marketing and advertising and/or distribution. In June 2011, convertible notes in aggregate amount of HK$54 million have been converted into ordinary shares of the Company, creating a total of approximately 160 million new ordinary shares at a conversion price of HK$0.338 per share.

As of 31 December 2011, the Group maintained a rich liquid fund with cash balance of HK$706 million (2010: HK$458 million) and had net current assets of HK$382 million (2010: HK$280 million). The Group's outstanding bank loans totaled HK$504 million (2010: HK$104 million). The significant increase in bank loans is to finance the cinema projects in Mainland China. In 2011, the Group spent about HK$613 million for fixed assets investment of which, approximately HK$496 million was for the capital expenditure of the cinema projects in Mainland China.

As of 31 December 2011, the Group's gearing ratio, calculated on the basis of external borrowings over total assets, was about 20% (2010: 6%). Management will continue to monitor the gearing structure and make adjustments if necessary in light of changes in the Group's development plan and economic conditions.

The Group's assets and liabilities are principally denominated in Hong Kong dollar and Renminbi except for certain assets and liabilities associated with the investments in Singapore and Taiwan. The overseas joint ventures of the Group are operating in their local currencies and subjected to minimal exchange risk on their own. While for Hong Kong and Mainland China operations, due to the volatility of the currency market, management decided to maintain higher level of deposits in Renminbi, thus lowering the exposure to exchange risk. The directors will continue to assess the exchange risk exposure, and will consider possible hedging measures in order to minimize the risk at reasonable cost. The Group did not have any significant contingent liabilities as of 31 December 2011.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Group had 1,565 (2010: 1,045) permanent employees. The Group remunerates its employees largely by reference to industry practice. In addition to salaries, commissions and discretionary bonuses, share options are granted to certain employees based on individual merit. The Group also operates a defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance and as at 31 December 2011, there was no forfeited contribution arising from employees leaving the retirement benefit scheme.

## RESULTS

The Board of directors (the "Board") of Orange Sky Golden Harvest Entertainment (Holdings) Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 together with the comparative figures. These results have been reviewed by the audit committee of the Company (the "Audit Committee") and the figures have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement.

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2011*

| | *Note* | **2011** *HK$'000* | 2010 *HK$'000* |
|---|---|---|---|
| **Turnover** | *2* | **1,369,562** | 1,077,533 |
| Cost of sales | | **(576,287)** | (449,345) |
| **Gross profit** | | **793,275** | 628,188 |
| Other revenue | | **26,137** | 15,538 |
| Other net income | *3(c)* | **58,936** | 48,776 |
| Selling and distribution costs | | **(612,002)** | (474,383) |
| General and administrative expenses | | **(103,162)** | (101,838) |
| Other operating expenses | | **(26,624)** | (16,386) |
| **Profit from operations** | | **136,560** | 99,895 |
| Finance costs | *3(a)* | **(19,126)** | (4,997) |
| **Profit before taxation** | *3* | **117,434** | 94,898 |
| Income tax | *4* | **(22,563)** | (22,511) |
| **Profit for the year** | | **94,871** | 72,387 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **95,943** | 70,823 |
| Non-controlling interests | | **(1,072)** | 1,564 |
| **Profit for the year** | | **94,871** | 72,387 |
| **Earnings per share** | *5* | | |
| Basic | | **3.64 cents** | 2.84 cents |
| Diluted | | **3.63 cents** | 2.78 cents |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2011*

| | *Note* | **2011** *HK$'000* | 2010 *HK$'000* |
|---|---|---|---|
| **Profit for the year** | | **94,871** | 72,387 |
| **Other comprehensive income for the year:** | | | |
| Exchange differences on translation of financial statements of: | | | |
| Overseas subsidiaries | | **14,703** | 6,715 |
| Overseas jointly controlled entities | | **(7,544)** | 22,913 |
| | | **7,159** | 29,628 |
| Realisation of exchange reserve on disposal of an overseas subsidiary | | **—** | (1,062) |
| Available-for-sale equity securities: | | | |
| Deficit on revaluation | | **(20,526)** | (13,727) |
| Impairment loss recognised | | **20,526** | 13,727 |
| Net movement in the fair value reserve | | **—** | — |
| **Total comprehensive income for the year** | | **102,030** | 100,953 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | **102,857** | 98,894 |
| Non-controlling interests | | **(827)** | 2,059 |
| **Total comprehensive income for the year** | | **102,030** | 100,953 |

*Note:* There is no tax effect relating to the above components of the comprehensive income.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2011*

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | **1,206,446** | 681,465 |
| Available-for-sale equity securities | | **149** | 246,083 |
| Prepaid rental | | **28,472** | 30,435 |
| Club memberships | | **2,490** | 2,490 |
| Rental and other deposits | | **106,631** | 63,809 |
| Trademark | | **79,785** | 79,785 |
| Goodwill | | **73,658** | 73,658 |
| Deferred tax assets | | **7,335** | 3,095 |
| Pledged bank deposits | | **48,010** | 29,476 |
| | | **1,552,976** | 1,210,296 |
| **Current assets** | | | |
| Inventories | | **6,137** | 3,480 |
| Available-for-sale equity security | | **20,000** | — |
| Film rights | | **68,640** | 85,870 |
| Trade receivables | *6* | **84,226** | 32,996 |
| Other receivables, deposits and prepayments | | **133,043** | 86,016 |
| Amounts due from jointly controlled entities | | **200** | 1,273 |
| Deposits and cash | | **705,664** | 457,677 |
| Derivative financial asset | | **—** | 246 |
| | | **1,017,910** | 667,558 |
| **Current liabilities** | | | |
| Bank loans | | **127,252** | 21,363 |
| Trade payables | *7* | **120,205** | 86,264 |
| Other payables and accrued charges | | **205,920** | 148,627 |
| Deferred revenue | | **153,199** | 96,911 |
| Taxation payable | | **29,778** | 34,884 |
| | | **636,354** | 388,049 |
| **Net current assets** | | **381,556** | 279,509 |
| **Total assets less current liabilities** | | **1,934,532** | 1,489,805 |

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank loans | | **376,345** | 82,400 |
| Convertible notes | | **—** | 6,662 |
| Deposits received | | **9,891** | 5,318 |
| Deferred tax liabilities | | **24,713** | 19,623 |
| | | **410,949** | 114,003 |
| **NET ASSETS** | | **1,523,583** | 1,375,802 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **268,419** | 254,374 |
| Reserves | | **1,245,425** | 1,109,874 |
| **Total equity attributable to equity holders of the Company** | | **1,513,844** | 1,364,248 |
| **Non-controlling interests** | | **9,739** | 11,554 |
| **TOTAL EQUITY** | | **1,523,583** | 1,375,802 |

# NOTES TO THE FINANCIAL STATEMENTS

## 1 STATEMENT OF COMPLIANCE

**(i)** These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

**(ii) Changes in accounting policies**

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— HKAS 24 (revised 2009), *Related party disclosures*

— Improvements to HKFRSs (2010)

— HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*

— Amendments to HK(IFRIC) 14, *HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction — Prepayments of a minimum funding requirement*

The amendments to HK (IFRIC) 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. HK (IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction.

The impacts of other developments are discussed below:

— HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

— Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures.* The disclosures about the Group's financial instruments have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

The Group has assessed the impact of the adoption of the new/revised HKFRSs and the amendments and considered that there was no significant impact to the Group's results and financial position.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 2 SEGMENT REPORTING

The Group manages its businesses by geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the reportable segments, which are as follows:

— Hong Kong

— Mainland China

— Taiwan

— Singapore

The results of the Group's revenue from external customers for entities located in Hong Kong, Mainland China, Taiwan and Singapore are set out in the table below.

Each of the above reportable segments primarily derive their revenue from film exhibition, film and video distribution, film and television programme production, provision of advertising and consultancy services. For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the revenue and results attributable to each reportable segment on the following bases:

**Segment revenue and results**

Revenue is allocated to the reporting segment based on the local entities' location of external customers. Expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those geographical locations or which otherwise arise from the depreciation and amortisation of assets attributable to those segments.

The measure used for reporting segment profit is operating profit after tax.

In addition to receiving segment information concerning operating profit after tax, management is provided with segment information concerning revenue.

Management evaluates performance primarily based on operating profit including the proportionate consolidated results of jointly controlled entities of each segment. Intra-segment pricing is generally determined at arm's length basis.

Segment information regarding the Group's revenue and results by geographical market is presented below:

| | Hong Kong | | Mainland China | | Taiwan | | Singapore | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment revenue** | | | | | | | | | | |
| Revenue from external customers | | | | | | | | | | |
| Exhibition | **201,300** | 216,428 | **328,309** | 187,283 | **369,114** | 288,901 | **349,765** | 298,249 | **1,248,488** | 990,861 |
| Distribution and production | **57,681** | 56,378 | **87,307** | 54,200 | **4,057** | 8,731 | **12,848** | 8,608 | **161,893** | 127,917 |
| Corporate | **2,127** | 2,236 | **—** | — | **—** | — | **—** | — | **2,127** | 2,236 |
| **Reportable segment revenue** | **261,108** | 275,042 | **415,616** | 241,483 | **373,171** | 297,632 | **362,613** | 306,857 | **1,412,508** | 1,121,014 |
| **Reportable segment profit/(loss)** | **14,000** | (5,067) | **27,832** | 34,586 | **36,601** | 25,076 | **50,247** | 36,603 | **128,680** | 91,198 |

| | 2011 | 2010 |
|---|---|---|
| **Reconciliation — Revenue** | | |
| Reportable segment revenue | **1,412,508** | 1,121,014 |
| Elimination of intra-segmental revenue | **(13,990)** | (21,151) |
| Others | **(28,956)** | (22,330) |
| | **1,369,562** | 1,077,533 |
| **Reconciliation — profit before taxation** | | |
| Reportable profit from external customers | **128,680** | 91,198 |
| Unallocated operating expenses, net | **(32,737)** | (20,375) |
| Non-controlling interests | **(1,072)** | 1,564 |
| Income tax | **22,563** | 22,511 |
| **Profit before taxation** | **117,434** | 94,898 |

## 3 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(a) Finance costs** | | |
| Interest on bank loans wholly repayable | | |
| — within five years | **9,567** | 3,494 |
| — after five years | **7,577** | 991 |
| | **17,144** | 4,485 |
| Interest on convertible notes | **155** | 512 |
| Other ancillary borrowing costs | **1,827** | — |
| | **19,126** | 4,997 |
| **(b) Other items** | | |
| Cost of inventories | **40,606** | 30,637 |
| Cost of services provided | **474,014** | 385,655 |
| Depreciation of fixed assets | **96,798** | 68,188 |
| Amortisation of film rights | **61,667** | 33,053 |
| Auditors' remuneration | **4,369** | 2,800 |
| Operating lease charges in respect of land and buildings | | |
| — minimum lease payments | **176,902** | 157,772 |
| — contingent rentals | **38,329** | 28,186 |
| Impairment losses | | |
| — available-for-sale equity securities | **20,526** | 13,727 |
| — film rights | **—** | 4,056 |
| Fair value loss/(gain) on financial derivative instrument | **246** | (8,496) |
| Loss on disposals of property, plant and equipment | **3,749** | 2,789 |
| Gain on disposals of subsidiaries | **—** | (11,317) |
| Gain on disposals of available-for-sale equity securities, net *(note)* | **(28,484)** | — |
| Rental income less direct outgoings | **(16,861)** | (13,528) |
| Dividend income from a listed investment | **(330)** | — |

*Note:* Included in the net gain on disposals of available-for-sale equity securities, the amount mainly represented the gain on disposal of all equity interests in Legend Pictures, LLC of HK$29,350,000.

### (c) Other net income

During the year ended 31 December 2011, the Group reached agreement with a contractor in respect of compensation on delay in construction progress on opening and punitive damages in nature of cinemas in Mainland China. Apart from reimbursement of expenses of HK$46,030,000 received by the Group, an amount of RMB12,518,000 (equivalent to approximately HK$15,021,000) of punitive damages in nature was recorded as other net income for the year ended 31 December 2011.

## 4 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Taxation in the consolidated income statement represents:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *The Group* | | |
| **Current income tax** | | |
| Provision for overseas tax | **5,978** | 8,594 |
| Over-provision in respect of prior years | **(251)** | (932) |
| | **5,727** | 7,662 |
| **Deferred tax — overseas** | | |
| Origination and reversal of temporary differences | **(171)** | 1,456 |
| | **5,556** | 9,118 |
| *Jointly controlled entities* | | |
| **Current income tax** | | |
| Provision for overseas tax | **16,428** | 16,412 |
| Over-provision in respect of prior years | **(707)** | (3,584) |
| | **15,721** | 12,828 |
| **Deferred tax — overseas** | | |
| Origination of temporary differences | **1,286** | 565 |
| | **17,007** | 13,393 |
| | **22,563** | 22,511 |

*Notes:*

(i) The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year.

(ii) Taxation for overseas subsidiaries and jointly controlled entities is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

## 5 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK$95,943,000 (2010: HK$70,823,000) and the weighted average number of ordinary shares of 2,634,942,987 (2010: 2,492,008,598) shares, in issue during the year, calculated as follows:

*Weighted average number of ordinary shares (basic and diluted)*

| | **2011** | 2010 |
|---|---|---|
| Issued ordinary shares at 1 January | **2,543,739,900** | 2,199,739,900 |
| Effect of convertible notes converted | **93,041,484** | — |
| Effect of new shares placed | **—** | 289,698,630 |
| Effect of share options exercised | **—** | 2,570,068 |
| Effect of shares repurchased | **(1,838,397)** | — |
| Weighted average number of ordinary shares (basic) at 31 December | **2,634,942,987** | 2,492,008,598 |
| Effect of conversion of convertible notes | **14,848,601** | 26,698,224 |
| Effect of deemed issue of shares under the Company's share option scheme | **16,937** | 43,514,212 |
| Weighted average number of ordinary shares (diluted) at 31 December | **2,649,808,525** | 2,562,221,034 |

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of HK$96,098,000 (2010: HK$71,335,000) and the weighted average number of ordinary shares of 2,649,808,525 (2010: 2,562,221,034) shares, calculated as follows:

*Profit attributable to equity holders of the Company (diluted)*

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| Profit attributable to equity holders | **95,943** | 70,823 |
| After tax effect of effective interest on the liability component of convertible notes | **155** | 512 |
| Profit attributable to equity holders (diluted) | **96,098** | 71,335 |

The weighted average number of ordinary shares (diluted) at 31 December 2011 and 2010 are set out in note 5(a).

## 6 TRADE RECEIVABLES

The ageing analysis of trade receivables (net of allowance for doubtful debts) as of the end of the reporting period:

| | **The Group** | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Current to 3 months | **82,187** | 28,942 |
| Within 4 to 6 months | **1,622** | 3,588 |
| Over 6 months | **417** | 466 |
| | **84,226** | 32,996 |

The Group usually grants credit periods ranging from one to three months. Each customer has a credit limit and overdue balances are regularly reviewed by management.

In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, the concentration of credit risk is not considered significant. Trade receivables are non-interest-bearing. The carrying amounts of the trade receivables approximate their fair values.

## 7 TRADE PAYABLES

The ageing analysis of trade payables as of the end of the reporting period:

| | **The Group** | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Current to 3 months | **107,975** | 69,462 |
| Within 4 to 6 months | **1,287** | 6,606 |
| Within 7 to 12 months | **1,049** | 279 |
| Over 1 year | **9,894** | 9,917 |
| | **120,205** | 86,264 |

## FINAL DIVIDEND

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

## PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

As at the date of this announcement, the Company repurchased certain of its shares on The Stock Exchange of Hong Kong Limited. The directors of the Company consider that the share repurchases are beneficial to equity holders of the Company who retain their investments in the Company. Details of the share repurchases are set out below:

| **Month/Year** | **Number of shares repurchased** | **Highest price per share** | **Lowest price per share** | **Aggregated consideration (excluding transaction costs)** |
|---|---|---|---|---|
| | | *HK$* | *HK$* | *HK$'000* |
| September 2011 | 2,375,000 | 0.280 | 0.270 | 662 |
| October 2011 | 365,000 | 0.295 | 0.290 | 107 |
| November 2011 | — | — | — | — |
| December 2011 | 16,995,000 | 0.330 | 0.285 | 5,178 |
| January 2012 | 2,990,000 | 0.280 | 0.260 | 821 |
| | 22,725,000 | | | |

## COMPLIANCE WITH MODEL CODE

The Company has adopted its own code on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code"). The Company has made specific enquiries with all the directors and all of them have confirmed that they had complied with the requirements set out in the Model Code and the Company's code for the year ended 31 December 2011.

## COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of good corporate governance to maintain the Group's competitiveness and lead to its healthy growth. The Company has taken steps not only to comply with code provisions as set out in The Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules but also to aim at enhancing corporate governance practices of the Group as a whole.

For the year ended 31 December 2011, the Company has complied with the code provisions of the CG Code except that pursuant to code provision A.4.1 of the CG Code, non-executive directors of a listed issuer should be appointed for a specific term and subject to re-election. All non-executive directors of the Company were not appointed for a specific term but are subject to the requirement of retirement by rotation and re-election at least once every three years at the annual general meetings of the Company in accordance with the relevant provisions of the Company's Bye-laws, accomplishing the same purpose as being appointed for a specific term.

As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the code provisions of the CG Code.

## AUDIT COMMITTEE

The Audit Committee was established with written terms of reference in accordance with the code provisions of the CG Code. The Audit Committee is delegated by the Board to assess matters related to the financial statements and to perform the duties, including reviewing the Company's financial controls and internal control, financial and accounting policies and practices and the relationship with the external auditor. The Audit Committee comprises three members who are independent non-executive directors of the Company, namely Mr. Leung Man Kit (the chairman), Mr. Huang Shao-Hua, George and Ms. Wong Sze Wing.

## REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established with written terms of reference in accordance with the code provisions of the CG Code. The principal responsibilities of the Remuneration Committee include formulation and making recommendation of remuneration policy and remuneration package of the directors of the Company and members of senior management to the Board. The Remuneration Committee comprises one executive director of the Company, namely, Mr. Wu Kebo, and two independent non-executive directors of the Company, namely Mr. Leung Man Kit and Ms. Wong Sze Wing (the chairman).

## NOMINATION COMMITTEE

The Company has established the nomination committee of the Company (the "Nomination Committee") on 26 March 2012 and has formulated its written terms of reference in accordance with provisions A5.2 of the CG code. The principal responsibilities of the Nomination Committee including to identify individuals qualified to become Board members and to make recommendation on the selection, appointment or re-appointment of individuals nominated for director of the Company and the chief executive. The Nomination Committee currently comprises two independent non-executive directors of the Company, being Ms. Wong Sze Wing and Mr. Leung Man Kit, and an executive director of the Company, Mr. Wu Kebo (the chairman).

By Order of the Board
**Orange Sky Golden Harvest**
**Entertainment (Holdings) Limited**
**Wu Kebo**
*Chairman*

Hong Kong, 26 March 2012

*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. Tan Poon 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