



MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED
東方娛樂控股有限公司*
(Incorporated in Bermuda with limited liability)

Interim Report 2002

* *For identification purpose only*

The Board of Directors of Mandarin Entertainment (Holdings) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated balance sheet of the Company and its subsidiaries (collectively the “Group”) as at 30th June, 2002 and unaudited condensed consolidated income statement and cash flow statement of the Group for the six months ended 30th June, 2002 together with the comparative figures.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

	<i>Notes</i>	Six months ended	
		30.6.2002	30.6.2001
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(unaudited)</i>	<i>(unaudited)</i>
Turnover		34,375	48,174
Cost of sales		(25,920)	(29,873)
Gross profit		8,455	18,301
Other revenue		1,761	1,858
Administrative expenses		(9,546)	(5,089)
Deficit arising on the revaluation of leasehold land and buildings		–	(1,604)
Profit from operations	5	670	13,466
Finance costs		(28)	(220)
Profit before taxation		642	13,246
Taxation	6	(133)	(1,248)
Net profit for the period		509	11,998
Dividends	7	11,550	–
Earnings per share	8		
– Basic		0.17 cents	5.33 cents
– Diluted		0.16 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2002

	<i>Notes</i>	30.6.2002 HK\$'000 (unaudited)	31.12.2001 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	11,598	7,670
Interest in a jointly-controlled entity	10	10,000	–
Investment		1,000	1,000
		<hr/> 22,598 <hr/>	<hr/> 8,670 <hr/>
Current assets			
Film rights and production in progress		80,034	44,094
Inventories		1,503	1,648
Trade and other receivables	11	28,752	45,577
Amounts due from related companies		6,331	5,620
Bank balances and cash		18,920	39,216
		<hr/> 135,540 <hr/>	<hr/> 136,155 <hr/>
Current liabilities			
Trade and other payables	12	21,095	12,946
Amount due to a jointly-controlled entity		738	–
Taxation		1,316	1,638
Bank borrowings – due within one year	13	385	1,187
		<hr/> 23,534 <hr/>	<hr/> 15,771 <hr/>
Net current assets		<hr/> 112,006 <hr/>	<hr/> 120,384 <hr/>
Total assets less current liabilities		134,604	129,054
Non-current liabilities			
Bank borrowings – due after one year	13	987	1,181
		<hr/> 133,617 <hr/>	<hr/> 127,873 <hr/>
Capital and reserves			
Share capital		33,000	30,000
Reserves		100,617	97,873
		<hr/> 133,617 <hr/>	<hr/> 127,873 <hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

	Six months ended	
	30.6.2002	30.6.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
		<i>(note 1)</i>
Net cash used in operating activities	(9,967)	(5,371)
Net cash used in investing activities	(9,539)	(1,285)
Net cash used in financing activities	(790)	(706)
Net decrease in cash and cash equivalents	(20,296)	(7,362)
Cash and cash equivalents at beginning of the period	39,216	6,675
Cash and cash equivalents at end of the period	18,920	(687)
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	18,920	2,687
Bank overdraft	–	(3,374)
	18,920	(687)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2001	10,520	–	7,506	1,720	16,196	35,942
Net profit for the period	–	–	–	–	11,998	11,998
At 30th June, 2001	10,520	–	7,506	1,720	28,194	47,940
Issue of shares for placing and public offer	7,500	60,000	–	–	–	67,500
Expenses incurred in connection with the issue of shares	–	(16,717)	–	–	–	(16,717)
Capitalisation	22,400	(22,400)	–	–	–	–
Surplus arising from Group Reorganisation not recognised in the income statement	(10,420)	–	10,420	–	–	–
Net profit for the period	–	–	–	–	29,150	29,150
At 31st December, 2001	30,000	20,883	17,926	1,720	57,344	127,873
Exercise of share options	3,000	13,800	–	–	–	16,800
Expenses incurred in connection with the issue of shares	–	(15)	–	–	–	(15)
Net profit for the period	–	–	–	–	509	509
Dividends paid	–	–	–	–	(11,550)	(11,550)
At 30th June, 2002	33,000	34,668	17,926	1,720	46,303	133,617

The share capital at 1st January, 2001 represents the aggregate share capital of the subsidiaries prior to the Group Reorganisation as defined in note 1 to the condensed consolidated financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

1. GENERAL

The Company was incorporated in Bermuda on 9th May, 2001 as an exempted company with limited liability.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company has since 21st August, 2001 become the holding company of the companies now comprising the Group. Details of the Group Reorganisation are set out in the prospectus dated 30th August, 2001 issued by the Company.

The shares of the Company were listed on the Stock Exchanges with effect from 12th September, 2001.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the condensed consolidated income statement and the condensed consolidated cash flow statement for the six months ended 30th June, 2001 have been prepared using the principles of merger accounting in accordance with the Statement of Standard Accounting Practice (“SSAP”) 27 “Accounting for Group Reconstructions” issued by the Hong Kong Society of Accountants.

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and the SSAP 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of leasehold land and buildings. The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the financial statements, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. PRINCIPAL ACCOUNTING POLICIES – continued

Cash flow statements

In the current period, the Group adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under separate headings, are classified as operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The re-definition of cash and cash equivalents has had no significant effect on the disclosures for the current or prior accounting periods.

4. SEGMENTAL INFORMATION

An analysis of the Group’s turnover and contribution to profit from operations by business and geographical segment is as follows:

Business Segments

Six months ended 30th June, 2002

	Advertising and promotional services <i>HK\$'000</i>	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE						
External revenue	11,028	7,431	15,916	1,761	-	36,136
Inter segment revenue	1,030	99	1,907	679	(3,715)	-
Total revenue	<u>12,058</u>	<u>7,530</u>	<u>17,823</u>	<u>2,440</u>	<u>(3,715)</u>	<u>36,136</u>
CONTRIBUTION TO (LOSS) PROFIT FROM OPERATIONS	<u>(209)</u>	<u>(1,377)</u>	<u>1,021</u>	<u>1,235</u>	<u>-</u>	<u>670</u>

4. SEGMENTAL INFORMATION – continued

Six months ended 30th June, 2001

	Advertising and promotional services <i>HK\$'000</i>	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE						
External revenue	11,868	20,163	16,143	1,858	–	50,032
Inter segment revenue	589	157	1,619	634	(2,999)	–
Total revenue	<u>12,457</u>	<u>20,320</u>	<u>17,762</u>	<u>2,492</u>	<u>(2,999)</u>	<u>50,032</u>
CONTRIBUTION TO PROFIT FROM OPERATIONS	<u>1,664</u>	<u>9,009</u>	<u>967</u>	<u>1,826</u>	<u>–</u>	<u>13,466</u>

Geographical Segments

Six months ended 30th June, 2002

	Hong Kong <i>HK\$'000</i>	The People's Republic of China other than Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE				
Turnover	30,399	1,319	2,657	34,375
Other revenue	<u>1,761</u>	–	–	<u>1,761</u>
Total revenue	<u>32,160</u>	<u>1,319</u>	<u>2,657</u>	<u>36,136</u>
CONTRIBUTION TO (LOSS) PROFIT FROM OPERATIONS	<u>(268)</u>	<u>311</u>	<u>627</u>	<u>670</u>

4. SEGMENTAL INFORMATION – continued

Six months ended 30th June, 2001

	Hong Kong <i>HK\$'000</i>	The People's Republic of China other than Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE				
Turnover	37,278	2,304	8,592	48,174
Other revenue	1,858	–	–	1,858
Total revenue	<u>39,136</u>	<u>2,304</u>	<u>8,592</u>	<u>50,032</u>
CONTRIBUTION TO PROFIT FROM OPERATIONS	<u>8,872</u>	<u>972</u>	<u>3,622</u>	<u>13,466</u>

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	Six months ended	
	30.6.2002 <i>HK\$'000</i>	30.6.2001 <i>HK\$'000</i>
Depreciation and amortisation of property, plant and equipment	685	294
and after crediting:		
Interest income	<u>155</u>	<u>220</u>

6. TAXATION

The charge represents Hong Kong Profits Tax calculated at 16% on the estimated assessable profit for the period.

There were no significant unprovided deferred taxation for the period or at the balance sheet date.

7. DIVIDENDS

On 29th May, 2002, a dividend of HK\$0.035 per share (2001: HK\$Nil per share) was paid to shareholders as the final dividend for 2001.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended	
	30.6.2002 <i>HK\$'000</i>	30.6.2001 <i>HK\$'000</i>
Profit for the period	<u>509</u>	<u>11,998</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	308,360,656	<u>225,000,000</u>
Effect of dilutive potential ordinary shares in respect of share options	<u>8,287,796</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>316,648,452</u>	

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$4,613,000 on the acquisition of property, plant and equipment for the expansion of the Group's operations.

10. INTEREST IN A JOINTLY-CONTROLLED ENTITY

During the period, the Group made a capital contribution of HK\$5,000,000 representing a 40% interest in Prosper China Limited ("PCL"), a company incorporated in the British Virgin Islands. The Group also advanced an unsecured and non-interest bearing loan of HK\$5,000,000 to PCL.

The principal activity of PCL is holding of a 100% interest in 北京東方新青年文化發展有限公司, a company which is engaged in the provision of cultural education courses in the People's Republic of China.

11. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 days to 120 days. Included in trade and other receivables are trade receivables of HK\$15,380,000 (31.12.2001: HK\$32,206,000) and their aged analysis is as follows:

	30.6.2002 <i>HK\$'000</i>	31.12.2001 <i>HK\$'000</i>
0 – 90 days	7,240	21,513
91 – 180 days	4,618	3,548
181 – 365 days	3,387	6,409
1 – 2 years	135	736
	<u>15,380</u>	<u>32,206</u>

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$2,262,000 (31.12.2001: HK\$5,767,000) and their aged analysis is as follows:

	30.6.2002 <i>HK\$'000</i>	31.12.2001 <i>HK\$'000</i>
0 – 90 days	2,189	5,649
91 – 180 days	13	118
181 – 365 days	60	–
	<u>2,262</u>	<u>5,767</u>

13. BANK BORROWINGS

The loans bear interest at prevailing market rates and are repayable in instalments over a period of ten years from the date of advance. The Group also repaid bank loans of approximately HK\$996,000 during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

This was a very sluggish year for the film market. The film industry was undergoing a very tough period have ever seen. Affected by the World Cup frenzy, the local market slumped further. Statistics revealed that in the first half of this year, there were only 30 films completed in Hong Kong which was a significant decline compared to that of 126 films last year. The situation was further aggravated by the “911” incidence in the United States last year, the overseas sale market was slowed down abruptly.

Nevertheless, the Group still recorded a marginal profit for the half year ended 30th June, 2002, after taxation. The unaudited consolidated turnover and profit after tax were HK\$34,375,000 and HK\$509,000 respectively, compared with HK\$48,174,000 and HK\$11,998,000 in the corresponding period last year. For the first half year, the Group had launched only one film, namely the *HappyFamily*. While the other film that had better box office results like the *DryWoodFierceFire* and others were not booked in the accounts of the first half of the year. This compares to a total of 3 films which were booked in the accounts in the corresponding period last year.

Although the Group’s film distribution and licensing incomes declined for the reasons mentioned above, the film processing business has not been affected by the weak market condition and remained stable instead. Although there was a decline in the processing of long films, there was an increase in the processing of advertisement films. As for Chili Advertising & Promotions Limited, the Group’s subsidiary, engaging in advertising and promotion services, were also affected by the slow market condition and show a loss margins. For the six months ended 30th June, 2002, the turnover from the Group’s advertising and promotion services, film distribution and licensing and film processing business represent 31%, 21% and 44% of the turnover of the Group.

The Board has resolved not to declare any interim dividend for the six months ended 30th June, 2002.

Looking forward, following its listing on 12th September, 2001, the Group devoted to explore and develop the market in the People’s Republic of China (the “PRC”). Early this year, it invested HK\$10,000,000 to establish a joint venture company in Beijing and later on 23rd April, 2002, it signed an agreement with the national Association of Youth and Children’s Palace in the Great Hall of the People, Beijing to gradually provide drama training courses to 1,500 Youth and Children’s Palace under the Association. This is an advantage for the expansion of the Group’s film business into the PRC market. This year is just a seeding stage, but a bumper harvest is expected in the foreseeable future. As for the Group’s core business, the management will also endeavor to overcome the adversity and to attain the highest contribution to its shareholders.

Liquidity and financial resources

As at 30th June, 2002, the Group retained total cash and bank balances of HK\$18.9 million, most of which were in Hong Kong dollars – the exposure to foreign exchange fluctuation has been minimal. On the same date, the Group had bank borrowing of HK\$1.4 million, including trade lines and short term loans, of which were in Hong Kong dollars, secured by leasehold land and buildings held by one of Group's subsidiary in Hong Kong. Interest rates on these bank borrowings were at prevailing bank lending rates.

As at the financial period ended date, the Group had bank borrowings of HK\$0.4 million which were repayable within one year. On the same date, the current ratio and the gearing ratio (expressed as total bank borrowings to shareholders' fund) of the Group were 5.8 and 0.01 respectively.

The directors are in the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure.

Contingent Liabilities

As at 30th June, 2002, the directors considered that there was no material contingent liabilities for the Group.

Foreign Currency Exposure

As the assets, liabilities and business transactions of the Group are mainly denominated in Hong Kong dollars, the directors consider that the Group's exposure to foreign currency exchange risks is minimal.

Employee and Remuneration Policy

As at 30th June, 2002, the Group employed 80 staff members, including approximately 57 staff in the processing and development department.

Apart from basic salaries, discretionary bonus and contribution to the mandatory provident fund for staff in Hong Kong, share options may also be granted to staff with reference to the individual's performance.

PURCHASE, REDEMPTION AND SALE OF SHARES

During the six months ended 30th June, 2002, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30th June, 2002.

DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2002, the interests of the directors, the chief executive and their associates in the securities of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Name of director	Type of interest	Number of shares
Mr. Wong Pak Ming ("Mr. Wong")	Corporate (<i>Note 1</i>)	152,200,000
	Others (<i>Note 2</i>)	5,000,000
Mr. Wan Ngar Yin, David	Personal	4,000,000
Ms. Wong Kit Chun, Jenny	Personal	450,000
Ms. Wong Kit Fong	Personal	<u>6,760,000</u>

Notes:

1. These shares are held as to 30,000,000 shares by Capeland Holdings Limited and as to 122,200,000 shares by Idea Storm Holdings Limited, both of which are incorporated in the British Virgin Islands and are wholly-owned by Mr. Wong.
2. These shares are beneficially owned by The Mandarin Entertainment Employee Trust (the "Employee Trust") and are held by Mr. Wong in the capacity as trustee of the Employee Trust. The Employee Trust is a discretionary trust set up by Mr. Wong and the discretionary beneficiaries include the employees of the Group from time to time (excluding Mr. Wong and his spouse).

Save as disclosed above, at 30th June, 2002, none of the directors, the chief executive or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the heading “Share Options”, at no time during the period was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate, and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SHARE OPTIONS

The Company has adopted a share option scheme (the “Scheme”) on 21st August, 2001 (the “Adoption Date”) and pursuant to which the board of directors may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares of the Company at the subscription price which shall not be less than the higher of (i) the closing price of the Company’s shares as stated in the daily quotation sheet of the Stock Exchange on the date of offer, which must be a business day and (ii) the average closing price of the Company’s shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer.

The Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date but subject to the early termination of the Scheme.

As at 1st January, 2002, there were outstanding options granted to employees under the Scheme in respect of a total of 30,000,000 shares, representing 10% of the shares of the Company in issue at that date, under which the option holders were entitled to subscribe for shares at the subscription price of HK\$0.56 each share during the exercise period commencing 11th April, 2002 and expiring on 20th August, 2011.

During the six months ended 30th June, 2002, no further options were granted under the Scheme. On 10th May, 2002, all the then outstanding options in respect of 30,000,000 shares were exercised at the subscription price of HK\$0.56 each share and the closing price of shares on the Stock Exchange on 9th May, 2002, i.e. immediately before the exercise date was HK\$1.62.

Other than those disclosed above, there was no movement under the Scheme during the period under review. As at 30th June, 2002, there was no outstanding option under the Scheme.

On 10th July, 2002, the Company’s shareholders had passed resolution to refresh the 10% general limit under the Scheme in accordance with the Listing Rules, in order to enable the Company to grant further options up to a maximum of 33,000,000 Shares based on the then 330,000,000 issued shares.

SUBSTANTIAL SHAREHOLDER

As at 30th June, 2002, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that the following shareholder had registered an interest in 10% or more of the nominal value of the issued ordinary shares of the Company:

Name of shareholder	Number of ordinary shares held
Mr. Wong	152,200,000 (<i>Note 1</i>) 5,000,000 (<i>Note 2</i>)

Notes:

1. These shares are held as to 30,000,000 shares by Capeland Holdings Limited and as to 122,200,000 shares by Idea Storm Holdings Limited, both of which are incorporated in the British Virgin Islands and are wholly-owned by Mr. Wong.
2. These shares are beneficially owned by the Employee Trust and are held by Mr. Wong in the capacity as trustee of the Employee Trust. The Employee Trust is a discretionary trust set up by Mr. Wong and the discretionary beneficiaries include the employees of the Group from time to time (excluding Mr. Wong and his spouse).

Other than as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital as at 30th June, 2002.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The unaudited 2002 interim results had been reviewed by the audit committee comprising the two existing independent non-executive directors of the Company.

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 support and our customers for their patronage.

By Order of the Board

Wong Pak Ming

Chairman

Hong Kong, 23rd September, 2002