



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

## **Interim Report 2003**

\* *For identification purpose only*

The board of directors (the “Board”) of Mandarin Entertainment (Holdings) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated income statement of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June, 2003 together with the comparative figures.

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
*FOR THE SIX MONTHS ENDED 30TH JUNE, 2003*

		<b>Six months ended</b>	
	<i>Notes</i>	<b>30.6.2003</b>	30.6.2002
		<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	<b>(unaudited)</b>
Turnover		<b>29,422</b>	34,375
Cost of sales		<b>(19,455)</b>	(25,920)
Gross profit		<b>9,967</b>	8,455
Other operating income		<b>1,490</b>	1,761
Administrative expenses		<b>(9,389)</b>	(9,546)
Profit from operations	4	<b>2,068</b>	670
Finance costs		<b>(183)</b>	(28)
Share of results of jointly controlled entities		<b>(1,236)</b>	–
Profit before taxation		<b>649</b>	642
Taxation	5	<b>(40)</b>	(133)
Net profit for the period		<b>609</b>	509
Dividends	6	<b>–</b>	11,550
Earnings per share	7		
– Basic		<b>0.18 cents</b>	0.17 cents
– Diluted		<b>N/A</b>	0.16 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30TH JUNE, 2003

	<i>Notes</i>	<b>30.6.2003</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2002 HK\$'000 <i>(audited)</i>
<b>Non-current assets</b>			
Property, plant and equipment	8	<b>11,872</b>	12,372
Interest in a jointly-controlled entity	9	<b>9,678</b>	10,850
Investment securities		<b>19,000</b>	1,000
		<b>40,550</b>	24,222
<b>Current assets</b>			
Film rights and production in progress		<b>67,269</b>	62,690
Inventories, at cost		<b>1,740</b>	1,696
Trade and other receivables	10	<b>27,024</b>	27,648
Amounts due from related companies		<b>6,081</b>	5,870
Taxation recoverable		<b>510</b>	879
Bank balances and cash		<b>10,693</b>	15,117
		<b>113,317</b>	113,900
<b>Current liabilities</b>			
Trade and other payables	11	<b>15,253</b>	10,652
Bank borrowings – due within one year	12	<b>3,474</b>	391
		<b>18,727</b>	11,043
Net current assets		<b>94,590</b>	102,857
Total assets less current liabilities		<b>135,140</b>	127,079
<b>Non-current liabilities</b>			
Deferred taxation		<b>700</b>	700
Bank borrowings – due after one year	12	<b>8,241</b>	789
		<b>8,941</b>	1,489
		<b>126,199</b>	125,590
<b>Capital and reserves</b>			
Share capital		<b>33,000</b>	33,000
Reserves		<b>93,199</b>	92,590
		<b>126,199</b>	125,590

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
*FOR THE SIX MONTHS ENDED 30TH JUNE, 2003*

	<b>Six months ended</b>	
	<b>30.6.2003</b>	30.6.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net cash from (used in) operating activities	<b>3,706</b>	(9,967)
Net cash used in investing activities	<b>(18,665)</b>	(9,539)
Net cash from (used in) financing activities	<b>10,535</b>	(790)
Net decrease in cash and cash equivalents	<b>(4,424)</b>	(20,296)
Cash and cash equivalents at beginning of the period	<b>15,117</b>	39,216
Cash and cash equivalents at end of the period, representing bank balances and cash	<b>10,693</b>	18,920

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30TH JUNE, 2003**

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Goodwill reserve HK\$'000	Accumu- lated profits HK\$'000	Total HK\$'000
At 1st January, 2002	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	-	(30)	-	-	-	(30)
Net profit for the period	-	-	-	-	509	509
Dividend paid	-	-	-	-	(11,550)	(11,550)
At 30th June, 2002	33,000	34,653	17,926	1,720	46,303	133,602
Net loss for the period	-	-	-	-	(8,012)	(8,012)
At 31st December, 2002	33,000	34,653	17,926	1,720	38,291	125,590
Net profit for the period	-	-	-	-	609	609
<b>At 30th June, 2003</b>	<b>33,000</b>	<b>34,653</b>	<b>17,926</b>	<b>1,720</b>	<b>38,900</b>	<b>126,199</b>

**NOTES TO THE CONDENSED CONSOLIDATED INCOME STATEMENT**  
*FOR THE SIX MONTHS ENDED 30TH JUNE, 2003*

**1. 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 on The Stock Exchange of Hong Kong Limited and the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

**2. 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, 2002, except as described below.

In the current period, the Group has adopted SSAP 12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. This change in accounting policy has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### 3. SEGMENTAL INFORMATION

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

#### Six months ended 30th June, 2003

	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	4,328	16,496	10,064	24	-	30,912
Inter segment revenue	355	818	1,042	108	(2,323)	-
Total revenue	<u>4,683</u>	<u>17,314</u>	<u>11,106</u>	<u>132</u>	<u>(2,323)</u>	<u>30,912</u>
CONTRIBUTION TO PROFIT (LOSS) FROM OPERATIONS						
	<u>466</u>	<u>2,003</u>	<u>87</u>	<u>(469)</u>	<u>(144)</u>	<u>1,943</u>

#### 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. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	<b>Six months ended</b>	
	<b>30.6.2003</b>	30.6.2002
	<b>HK\$'000</b>	HK\$'000
Depreciation and amortisation of property, plant and equipment	<b>1,123</b>	685
Interest income	<b>22</b>	155

#### 5. TAXATION

The charge for the period represents Hong Kong Profits Tax calculated at 17.5% (six months ended 30th June, 2002: 16%) on the estimated assessable profit for the period.

#### 6. DIVIDENDS

No dividends were paid or proposed during the period (six months ended 30th June, 2002: final dividend paid of HK\$0.035 per share).

#### 7. EARNINGS PER SHARE

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

	<b>Six months ended</b>	
	<b>30.6.2003</b>	30.6.2002
	<b>HK\$'000</b>	HK\$'000
Net profit for the period	<b>609</b>	509
	<b>Number</b>	Number
	<b>of shares</b>	of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>330,000,000</b>	308,360,656
Effect of dilutive potential ordinary shares in respect of share options	<b>N/A</b>	8,287,796
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<b>316,648,452</b>

No disclosure of diluted earnings per share for the six months ended 30th June, 2003 as there was no potential dilutive ordinary shares outstanding during the period.



## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$625,000 on the acquisition of property, plant and equipment for the expansion of the Group's operations.

## 9. INTEREST IN A JOINTLY-CONTROLLED ENTITY

As at 30th June, 2003, the Group holds a 40% interest in Prosper China Limited ("PCL"), a company incorporated in the British Virgin Islands. 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 PRC.

## 10. 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\$12,675,000 (31.12.2002: HK\$12,871,000) and their aged analysis is as follows:

	<b>30.6.2003</b>	31.12.2002
	<b>HK\$'000</b>	HK\$'000
0 – 90 days	<b>5,991</b>	5,287
91 – 180 days	<b>4,669</b>	3,856
181 – 365 days	<b>1,899</b>	3,728
1 – 2 years	<b>116</b>	–
	<b>12,675</b>	12,871

## 11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$2,503,000 (31.12.2002: HK\$3,036,000) and their aged analysis is as follows:

	<b>30.6.2003</b>	31.12.2002
	<b>HK\$'000</b>	HK\$'000
0 – 90 days	<b>2,503</b>	3,028
91 – 180 days	–	8
	<b>2,503</b>	3,036

## 12. BANK BORROWINGS

During the six months ended 30th June, 2003, the Group obtained bank loans amounted to approximately HK\$11,000,000.

## 13. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged its leasehold land and buildings and certain of its plant, machinery and equipment with an aggregate carrying value of approximately HK\$7,589,000 (31.12.2002: HK\$4,244,000) for banking facilities granted to the Group.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business review and prospect**

The first half of 2003 was the most sluggish period for the film industry and Hong Kong which was most contributed by the impact of SARS.

Nevertheless, the Group has made a marginal profit for the half year ended 30th June, 2003. The unaudited consolidated turnover and profit after tax were HK\$29,422,000 and HK\$609,000 respectively, compared with HK\$34,375,000 and HK\$509,000 in the corresponding period last year.

In the first half year, the Group had only launched two films, namely Nine girls and a ghost and Feel 100% 2003. The contribution to the profit was mainly generated from the licensing of old films from the film library.

The Group's film processing business recorded a marginal breakeven in the first half of the year. It was mainly due to the impact of SARS that most movie producers had postponed the launching or production of movies that slowed down the business of the film processing.

The Group's advertising and promotional business had turnaround from a loss in the corresponding period of the last year to a profitable situation even though its turnover had decreased about 61% as compared to that of the last corresponding period. It was the result of shifting the business focus to a relatively high profit margin business.

The Group had shared a loss of HK\$1,236,000 from the joint venture in Beijing. However, the Management had seen the growth of this line of business from the seeding stage towards the bumper harvest. The operation had started to generate revenues in Hong Kong and the PRC.

Looking forward, the Management believes that the impact of SARS will fade and the film industry will be back to normal gradually. With the help of CEPA, the Hong Kong film industry will enter into the PRC market in a much faster pace. The Group will in turn produce more movies so as to capitalize on the CEPA.

## **Liquidity and financial resources**

As at 30th June, 2003, the Group retained total cash and bank balances of HK\$10.7 million, most of which were in Hong Kong dollars – the exposure to foreign exchange fluctuation has been minimal. Therefore, the use of financial instruments for hedging purpose was not considered necessary. On the same date, the Group had bank borrowings of HK\$11.7 million. Part of the loans were secured by leasehold land and buildings, and certain plant, machinery and equipment in Hong Kong held by one of Group's subsidiary with an aggregate carrying value of HK\$7.6 million. 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\$3.5 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 7.1 and 0.09 respectively (31st December, 2002: 10.3 and 0.01).

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

Given the above, the current information in other management and discussion analysis has not changed materially from those information disclosed in the last published 2002 annual report.

## **Contingent Liabilities**

As at 30th June, 2003, the directors considered that there was no material contingent liabilities for the Group.

## **Employee and remuneration policies**

As at 30th June, 2003, the Group employed 89 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, 2003, the Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries purchased, or sold any of the Company's shares.

## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30th June, 2003.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30th June, 2003, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of SFO 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	Name of Company	Type of interest	Number of shares
Mr. WONG Pak Ming ("Mr. WONG")	the Company	Long position	Corporate ( <i>Note 1</i> )
		Long position	Personal
Mr. WAN Ngar Yin, David	the Company	Long position	Personal
Mr. WONG Kit Fong	the Company	Long position	Personal
Mr. WONG Kit Chun, Jenny (resigned as director w.e.f. 1st September, 2003)	the Company	Long position	Personal
Mr. KO Tin Chow (resigned as director w.e.f. 1st September, 2003)	the Company	Long position	Personal
Miss WONG Yee Kwan, Alvina (appointed as director w.e.f. 1st September, 2003)	the Company	Long position	Personal

### Note:

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.

Save as disclosed above, as at 30th June, 2003, none of the directors, the chief executive or their associates had any interests or short positions in any shares or underlying shares in, or debentures of, the Company or its associated corporation as defined in SFO 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 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.

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 afterwards and no further options were granted during the period under review. As at 30th June, 2003, 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 SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY**

As at 30th June, 2003, the register of substantial shareholders maintained by the Company under Section 336 of SFO showed that the following person had interests in 5% or more of the nominal value of the issued ordinary shares of the Company that carry a right to vote in all circumstances at general meetings of the Company:—

<b>Name</b>	<b>Type of interest</b>	<b>Number of shares held</b>
Mr. WONG	Corporate ( <i>Note 1 and 2</i> )	152,200,000 (Long position)
	Personal ( <i>Note 2</i> )	626,000 (Long position)

*Note:*

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. Accordance to SFO, Mr. WONG's spouse is also deemed to be interested in these 152,200,000 shares and 626,000 shares of the Company.

Save as disclosed above, the Company had not been notified of any other interests representing 5% or more of the nominal value of the issued ordinary shares of the Company that carry a right to vote in all circumstances at general meetings of the Company.

## **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, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

## **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 2003 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, 17th September, 2003