



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

Interim Report 2004

* For identification purpose only

The board of directors (the “Board”) of Mandarin Entertainment (Holdings) Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June, 2004 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

		Six months ended	
	<i>Notes</i>	30.6.2004	30.6.2003
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover		36,465	29,422
Cost of sales		(35,200)	(19,455)
Gross profit		1,265	9,967
Other operating income		843	1,490
Administrative expenses		(9,654)	(9,389)
(Loss) profit from operations	4	(7,546)	2,068
Finance costs		(437)	(183)
Amortisation of goodwill		(150)	(125)
Share of results of jointly controlled entities		488	(1,111)
(Loss) profit before taxation		(7,645)	649
Income tax expense	5	(249)	(40)
(Loss) profit before minority interest		(7,894)	609
Minority interest		63	–
Net (loss) profit for the period		(7,831)	609
Dividends	6	–	–
(Loss) earnings per share			
– basic	7	(2.37) cents	0.18 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2004

	NOTES	30.6.2004 HK\$'000 (unaudited)	31.12.2003 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	9,867	10,878
Interests in jointly-controlled entities	9	28,955	27,261
Investments in securities		6,100	3,000
		<u>44,922</u>	<u>41,139</u>
Current assets			
Film rights and production in progress		61,798	76,687
Inventories, at cost		2,064	2,624
Trade and other receivables	10	30,120	31,717
Amount due from a related company		6,272	6,385
Amount due from a minority shareholder of a subsidiary		281	325
Taxation recoverable		–	269
Bank balances and cash		13,638	15,439
		<u>114,173</u>	<u>133,446</u>
Current liabilities			
Trade and other payables	11	15,835	22,822
Taxation payable		842	–
Bank borrowings – due within one year	12	8,384	14,996
		<u>25,061</u>	<u>37,818</u>
Net current assets		<u>89,112</u>	<u>95,628</u>
Total assets less current liabilities		<u>134,034</u>	<u>136,767</u>
Minority interest		<u>199</u>	<u>262</u>
Non-current liabilities			
Deferred taxation		960	960
Bank and other borrowings – due after one year	12	14,565	9,404
		<u>15,525</u>	<u>10,364</u>
		<u>118,310</u>	<u>126,141</u>
Capital and reserves			
Share capital		33,000	33,000
Reserves		85,310	93,141
		<u>118,310</u>	<u>126,141</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	Six months ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net cash from operating activities	4,791	3,706
Net cash used in investing activities	(5,141)	(18,665)
Net cash from (used in) financing activities	(1,451)	10,535
Net decrease in cash and cash equivalents	(1,801)	(4,424)
Cash and cash equivalents at beginning of the period	15,439	15,117
Cash and cash equivalents at end of the period, representing bank balances and cash	13,638	10,693

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Accumu- lated profits (loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2003	33,000	34,653	17,926	1,720	38,291	125,590
Net profit for the period	-	-	-	-	609	609
At 30th June, 2003	33,000	34,653	17,926	1,720	38,900	126,199
Net loss for the period	-	-	-	-	(58)	(58)
At 31st December, 2003	33,000	34,653	17,926	1,720	38,842	126,141
Net loss for the period	-	-	-	-	(7,831)	(7,831)
At 30th June, 2004	33,000	34,653	17,926	1,720	31,011	118,310

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

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 Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public 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, 2003.

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, 2004

	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	3,250	23,690	10,368	–	–	37,308
Inter segment revenue	326	384	1,250	108	(2,068)	–
Total revenue	<u>3,576</u>	<u>24,074</u>	<u>11,618</u>	<u>108</u>	<u>(2,068)</u>	<u>37,308</u>
SEGMENT RESULT	<u>(484)</u>	<u>(5,620)</u>	<u>511</u>	<u>(343)</u>	<u>(1,610)</u>	(7,546)
Finance costs						(437)
Amortisation of goodwill						(150)
Share of results of jointly controlled entities						<u>488</u>
Loss before taxation						<u>(7,645)</u>

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>
SEGMENT RESULT						
	<u>466</u>	<u>2,128</u>	<u>87</u>	<u>(469)</u>	<u>(144)</u>	2,068
Finance costs						(183)
Amortisation of goodwill						(125)
Share of results of jointly controlled entities						(1,111)
Profit before taxation						<u>649</u>

4. (LOSS) PROFIT FROM OPERATIONS

(Loss) profit from operations has been arrived at after charging:

	Six months ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation and amortisation of property, plant and equipment	1,122	1,123
and after crediting:		
Interest income	<u>22</u>	<u>22</u>

5. INCOME TAX EXPENSE

The charge for the period represents Hong Kong Profits Tax calculated at 17.5% (for the six months ended 30 June 2003: 17.5%) on the estimated assessable profit for the period.

6. DIVIDENDS

No dividends were paid or proposed during the period.

7. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the following data:

	Six months ended	
	30.6.2004 <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
Net (loss) profit for the period	(7,831)	609
	Number of shares	Number of shares
Number of ordinary shares for the purpose of basic earnings per share	330,000,000	330,000,000

No disclosure of diluted earnings per share for the six months ended 30th June, 2004 and 2003 has been made as there was no potential dilutive ordinary shares outstanding during both periods.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$111,000 on the acquisition of property, plant and equipment for the expansion of the Group's operations.

9. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

At balance sheet date, the Group had interests in the following jointly controlled entities:

Name of entity	Place of incorporation/ operation	Proportion of nominal value of issued capital/ registered capital held by the Company		Nature of business
		Directly %	Indirectly %	
Prosper China Limited ("PCL")	British Virgin Islands/ Hong Kong	40	–	Investment holding
北京東方新青年文化發展有限公司 ("Beijing Youth")	The People's Republic of China ("PRC")/PRC	–	40	Provision of cultural education courses
浙江東方國際發展有限公司 ("浙江東方")	PRC/PRC	–	37.5	Hotel operation

10. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit periods to its trade customers normally ranging from 90 days to 120 days. Included in trade and other receivables are trade receivables of HK\$17,967,000 (31.12.2003: HK\$19,734,000) and their aged analysis is as follows:

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	14,101	14,190
91 – 180 days	1,909	2,264
181 – 365 days	1,545	2,874
1 – 2 years	412	406
	<u>17,967</u>	<u>19,734</u>

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$2,364,000 (31.12.2003: HK\$5,963,000) and their aged analysis is as follows:

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	2,007	5,529
91 – 180 days	256	434
181 – 365 days	101	–
	<u>2,364</u>	<u>5,963</u>

12. BANK AND OTHER BORROWINGS

During the six months ended 30th June, 2004, the Group did not obtain any new loans. The term of an existing loan of HK\$10,000,000 was renewed and an amount of approximately HK\$1,451,000 was repaid.

13. PLEDGE OF ASSETS

At the balance sheet date, the Group's bank facilities are secured by the followings:

- (1) the unlimited corporate guarantee given by the Company;
- (2) the legal charge over the copyright of one film "Dating Death" with a carrying value of approximately HK\$5,543,000, included in film rights and production in progress at 30th June, 2004 (2003: HK\$5,543,000);
- (3) the assignment of income receivables to be derived from the licensing of the film "Dating Death" in all territories throughout the world; and
- (4) certain of its leasehold land and buildings and certain of its plant, machinery and equipment with an aggregate carrying value approximately HK\$6,562,000 (2003: HK\$7,076,000).

14. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group had the following events:

- (a) The Group signed an agreement with an independent third party for the assignment of 75% interest in a batch of films and television series. In March 2004, the Group assigned 25% interest in this batch of films and television series.
- (b) On 28th July, 2004, an indirect wholly-owned subsidiary of the Company, entered into a conditional agreement with an independent third party to subscribe for a 40% interest in a joint venture company established in the PRC, which will be satisfied by assignment of trade receivables arising on the assignment of the interest in the same batch of films and television series disclosed in Note 14(a).

The potential financial impact on increase in net assets arising from the above post balance sheet transactions is estimated to be approximately HK\$30,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospect

The unaudited consolidated turnover and loss after tax of the Group in the first half of year ended amounted to HK\$36,465,000 and HK\$7,831,000 respectively.

The Group assigned a 25% interest of a batch of certain films at the consideration of HK\$18 million in March this year. However, the Group has subsequently agreed with the assignee to form a joint venture in July (details of this transaction will be covered in a circular to be distributed to the shareholders). As advised by our auditors, due to this subsequent agreement, the Group was not allowed to recognize all of the assignment income in this interim period and have to defer income recognition of HK\$8 million in respect of the assignment. Upon the completion of this transaction, the Group will further recognize an income of approximately HK\$30 million, including the deferred income of HK\$8 million mentioned above.

With the Closer Economic Partnership Arrangement (CEPA) adopted this year, the Group has strived to expand its business to the PRC market. A number of large-scale films and TV series are in progress or being prepared and will be launched into the market in succession next year.

As for the advertising services, despite the joint venture advertising company established in Guangzhou last year which was still in its early beginning, an overall loss of HK\$480,000 was recorded, while a profit of HK\$460,000 was recorded in the corresponding period of last year.

A profit of HK\$510,000 in the processing business was recorded in the first half of the year, which remained stable with that of last year. It is due to the “wait-and-see” stance taken by the industry, and is believed to improve in the second half of the year. The Group has entered into a cooperation agreement with Hengdian Group in respect of establishing a joint venture, which will become the first joint venture that provides post production business such as film processing, copying, editing. It is expected to commence operation next year.

The Group has shared a profit of HK\$488,000 from its jointly owned entities. This is mainly contributed to better control of cost as well as improvement in revenue. The group expects the jointly owned entities will take an increasingly important role to the group contribution in the future.

Although CEPA benefits the development of the film industry in PRC, this year is believed to be a seeding period while next year would be the harvesting period. Looking ahead, the prospect is absolutely optimistic.

Liquidity and financial resources

As at 30th June, 2004, the Group retained total cash and bank balances of HK\$13.6 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\$22.9 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\$6.6 million and some other loans were secured by a legal charge of one film with a carrying up value of approximately HK\$5.5 million and the assignment of income receivable to be derived from such film. 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\$8.4 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 3.69 and 19.4 respectively (31st December, 2003: 3.53 and 19.3).

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 2003 annual report.

Contingent Liabilities

As at 30th June, 2004, the directors considered that there was no material contingent liabilities for the Group.

Employee and remuneration policies

As at 30th June, 2004, the Group employed 79 staff members, including approximately 56 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, 2004, 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, 2004.

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, 2004, 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>)	152,200,000
		Long position	Personal	1,126,000
Mr. WAN Ngar Yin, David	the Company	Long position	Personal	4,032,000
Miss WONG Kit Fong	the Company	Long position	Personal	7,232,000
Miss WONG Yee Kwan, Alvina	the Company	Long position	Personal	2,606,000

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, 2004, 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 period.

SHARE OPTIONS

The Company adopted a share option scheme (the “Scheme”) on 21st August, 2001 (the “Adoption Date”) and pursuant to the shareholders’ resolutions passed on 27th May, 2004, the board of directors may grant options to eligible employees, including directors of the Company and its subsidiaries and other eligible persons as defined in the Scheme, to subscribe for shares of the Company, up to a maximum of 33,000,000 shares (subject to renewal with shareholders’ prior approval) 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.

There was no movement under the Scheme during the period under review. As at 30th June, 2004, there was no outstanding option under the Scheme.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30th June, 2004, 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:–

Name	Type of interest	Number of shares
Mr. WONG	Corporate (<i>Note 1 and 2</i>)	152,200,000 (Long position)
	Personal (<i>Note 2</i>)	1,126,000 (Long position)
Mr. ZHANG Yun	Personal	34,936,000 (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 1,126,000 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 AND MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (“MODEL CODE”) OF THE LISTING RULES

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, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

For the six months ended 30th June, 2004, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30th June, 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

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 2004 interim results had been reviewed by the audit committee comprising the three 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, 2004