MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED

東方娛樂控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 009)

ANNUAL RESULTS FOR YEAR ENDED 31ST DECEMBER, 2005

The board of directors (the "Board") of Mandarin Entertainment (Holdings) Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2005, together with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

	NOTES	**2005** **HK$'000**	2004 HK$'000
Revenue		**43,256**	53,192
Cost of sales		**(42,193)**	(72,812)
Gross profit (loss)		**1,063**	(19,620)
Other income		**2,743**	2,227
Administrative expenses		**(22,952)**	(23,744)
Finance costs		**(804)**	(751)
Impairment loss recognised on loan to a jointly controlled entity		**–**	(10,927)
Amortisation on goodwill of investment in jointly controlled entity		**–**	(300)
Impairment on goodwill of investment in jointly controlled entity		**–**	(2,400)
Share of results of jointly controlled entities		**87**	(362)
Loss before taxation	5	**(19,863)**	(55,877)
Taxation	6	**1,244**	(466)
Loss for the year		**(18,619)**	(56,343)
Attributable to:			
Equity holders of the Company		**(18,619)**	(56,269)
Minority interests		**–**	(74)
		(18,619)	(56,343)
Dividends	7	**–**	–
Loss per share – basic	8	**(5.64 cents)**	(17.05 cents)

CONSOLIDATED BALANCE SHEET

At 31st December, 2005

	2005	2004
	HK$'000	*HK$'000*
		(restated)
NON-CURRENT ASSETS		
Property, plant and equipment	**4,194**	6,202
Prepaid lease payments	**2,578**	2,653
Investment securities	**–**	6,100
Available-for-sale investments	**7,221**	–
Interests in jointly controlled entities	**19,871**	16,284
Pledged bank deposits	**1,005**	–
	34,869	31,239
CURRENT ASSETS		
Film rights	**3,277**	6,837
Film production in progress	**51,058**	29,029
Prepaid lease payments	**75**	75
Inventories	**2,007**	1,949
Trade and other receivables and deposits paid	**14,426**	27,827
Amount due from a jointly controlled entity	**172**	–
Amount due from a related company	**5,814**	6,147
Amount due from a minority shareholder of a subsidiary	**–**	280
Pledged bank deposits	**506**	500
Bank balances and cash	**10,410**	9,646
	87,745	82,290
CURRENT LIABILITIES		
Trade and other payables and deposits received	**44,352**	19,806
Bank overdraft	**384**	1,483
Bank and other borrowings – due within one year	**10,117**	16,294
Taxation payable	**66**	919
	54,919	38,502
NET CURRENT ASSETS	**32,826**	43,788
TOTAL ASSETS LESS CURRENT LIABILITIES	**67,695**	75,027
NON-CURRENT LIABILITIES		
Bank and other borrowings – due after one year	**14,644**	4,080
Deferred taxation	**677**	887
	15,321	4,967
NET ASSETS	**52,374**	70,060
CAPITAL AND RESERVES		
Share capital	**33,000**	33,000
Reserves	**19,374**	36,872
Equity attributable to equity holders of the Company	**52,374**	69,872
Minority interests	**–**	188
TOTAL EQUITY	**52,374**	70,060

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in Bermuda on 9th May, 2001 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting periods are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill on 1st January, 2005 of which negative goodwill of HK$1,720,000 was previously recorded in reserves with a corresponding decrease to accumulated losses.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application and the adoption of HKAS 32 has had no material effect on how the results for the current or prior accounting years are prepared. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of SSAP 24

Up to 31st December, 2004, the Group classified and measured its investments in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, the Group's investments in debt or equity securities are classified as "investment securities". "Investment securities" are carried at cost less impairment losses (if any). From 1st January, 2005 onwards, the Group classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, the Group classified and measured its investments in debt and equity securities in accordance with the transitional provision of HKAS 39. Investments in securities classified under non-current assets with carrying amounts of HK$6,100,000 were reclassified to available-for-sale investments. An adjustment of HK$1,028,000 to the previous carrying amounts of assets at 1st January, 2005 has been made to the Group's investment revaluation reserve.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively.

As at 31st December, 2004, an amount of HK$2,728,000 previously classified as property, plant and equipment has been classified to prepaid lease payments. Of the amount reclassified, HK$75,000 has been classified as a current asset, while the remaining portion of HK$2,653,000 has been classified as a non-current asset.

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The changes in accounting policies in note 2 above have no material impact on the results for the current and prior years.

The effects of the changes in the accounting policies described in note 2 above on the balance sheet items are as follows:

	As at 31st December, 2004 (originally stated) *HK$'000*	Effect of HKAS 1 and HKAS 27 *HK$'000*	Effect of HKAS 17 *HK$'000*	At 31st December, 2004 (restated) *HK$'000*	Effect of HKFRS 3 *HK$'000*	Effect of HKAS 39 *HK$'000*	As at 1st January, 2005 (restated) *HK$'000*
Balance sheet items							
Property, plant and equipment	8,930	–	(2,728)	6,202	–	–	6,202
Prepaid lease payments							
– non-current portion	–	–	2,653	2,653	–	–	2,653
– current portion	–	–	75	75	–	–	75
Available-for-sale investments	–	–	–	–	–	7,128	7,128
Investment securities	6,100	–	–	6,100	–	(6,100)	–
Other assets and liabilities	55,030	–	–	55,030	–	–	55,030
	70,060	–	–	70,060	–	1,028	71,088
Capital and reserves							
Share capital	33,000	–	–	33,000	–	–	33,000
Share premium	34,653	–	–	34,653	–	–	34,653
Investments revaluation reserve	–	–	–	–	–	1,028	1,028
Special reserve	17,926	–	–	17,926	–	–	17,926
Goodwill reserve	1,720	–	–	1,720	(1,720)	–	–
Minority interests	–	188	–	188	–	–	188
Accumulated losses	(17,427)	–	–	(17,427)	1,720	–	(15,707)
	69,872	188	–	70,060	–	1,028	71,088
Minority interests	188	(188)	–	–	–	–	–
	70,060	–	–	70,060	–	1,028	71,088

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised as follows:

	As originally stated *HK$'000*	Effect of HKAS 1 and HKAS 27 *HK$'000*	As restated *HK$'000*
Share capital and other reserves	126,141	–	126,141
Minority interests	–	262	262
Total effects on equity	126,141	262	126,403
Minority interests	262	(262)	–

The Company has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

4. SEGMENT INFORMATION

BUSINESS SEGMENTS

For management purposes, the Group is currently organised into three operating divisions – film distribution and licensing, film processing and advertising and promotional services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

2005

	Film distribution and licensing *HK$'000*	**Film processing** *HK$'000*	**Advertising and promotional services** *HK$'000*	**Other operations** *HK$'000*	**Elimination** *HK$'000*	**Total** *HK$'000*
REVENUE						
External revenue	**18,117**	**17,838**	**7,301**	**–**	**–**	**43,256**
Inter segment revenue	**227**	**2,531**	**2,427**	**–**	**(5,185)**	**–**
Total revenue	**18,344**	**20,369**	**9,728**	**–**	**(5,185)**	**43,256**
RESULT						
Segment result	**(2,904)**	**2,815**	**1,152**	**–**	**–**	**1,063**
Other income						**2,743**
Unallocated corporate expenses						**(22,952)**
Finance costs						**(804)**
Share of results of jointly controlled entities				**87**		**87**
Loss before taxation						**(19,863)**
Taxation						**1,244**
Loss for the year						**(18,619)**

Inter segment revenue is charged at prevailing market rate.

2004

	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Advertising and promotional services *HK$'000*	Other operations *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
REVENUE						
External revenue	22,519	20,162	10,511	–	–	53,192
Inter segment revenue	706	1,519	523	–	(2,748)	–
Total revenue	23,225	21,681	11,034	–	(2,748)	53,192
RESULT						
Segment result	(27,013)	4,555	2,838	–	–	(19,620)
Other income						2,227
Unallocated corporate expenses						(23,744)
Finance costs						(751)
Impairment loss recognised on loan to a jointly controlled entity				(10,927)		(10,927)
Amortisation on goodwill of investment in jointly controlled entity				(300)		(300)
Impairment on goodwill of investment in jointly controlled entity				(2,400)		(2,400)
Share of results of jointly controlled entities				(362)		(362)
Loss before taxation						(55,877)
Taxation						(466)
Loss for the year						(56,343)

Inter segment revenue is charged at prevailing market rate.

GEOGRAPHICAL SEGMENTS

The Group's customers are located in Hong Kong, the People's Republic of China (the "PRC"), Taiwan, Malaysia, Europe and other parts of Asia. Film distribution and licensing business is carried out in Hong Kong and the PRC. The Group's advertising and promotional and film processing divisions are located in Hong Kong.

An analysis of the Group's revenue by geographical market, based on the origin of the services, is presented below.

2005

	Hong Kong *HK$'000*	**The PRC** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Revenue	**38,407**	**383**	**4,466**	**43,256**

2004

	Hong Kong *HK$'000*	The PRC *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue	38,712	7,982	6,498	53,192

5. LOSS BEFORE TAXATION

	2005	2004
	HK$'000	HK$'000
Loss before taxation has been arrived at after charging:		
Directors' emoluments	**3,408**	3,146
Other staff costs	**11,492**	11,492
Total staff costs	**14,900**	14,638
Auditors' remuneration	**1,005**	878
Depreciation of property, plant and equipment	**2,191**	2,226
Release of prepaid lease payments	**75**	75
Impairment on trade and other receivables	**3,713**	3,742
Impairment loss recognised in respect of film production in progress (included in cost of sales)	**7,795**	6,981
Cost of inventories recognised as expenses	**8,410**	8,943
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	**43**	41
and after crediting:		
Interest income	**100**	36

Included in total staff costs is an aggregate amount of HK$527,000 (2004: HK$607,000) in respect of contribution to retirement benefit schemes paid or payable by the Group.

6. TAXATION

	2005	2004
	HK$'000	HK$'000
Hong Kong Profits Tax		
– provision for current year	**143**	342
– (over)underprovision in prior years	**(1,177)**	197
	(1,034)	539
Deferred tax credit	**(210)**	(73)
Taxation attributable to the Company and its subsidiaries	**(1,244)**	466

Hong Kong Profits Tax is calculated at 17.5% of the estimated profit for both years.

No provision for tax in other jurisdictions for both years has been made in the financial statements as neither the Company nor any of its subsidiaries had any assessable profit subject to tax in other jurisdictions.

7. DIVIDENDS

No dividends were paid or proposed during the year ended 31st December, 2005 and 2004, nor has any dividend been proposed since the balance sheet date.

8. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the loss attributable to equity holders of the Company of HK$18,619,000 (2004: loss of HK$56,269,000) and on 330,000,000 shares in issue during both years.

During the year ended 31st December, 2005 and 2004, no diluted loss per share is presented as no options were granted, exercised or outstanding during the year ended 31st December, 2005 and 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In the year under review, the Group recorded a revenue of HK$43.3 million. Film distribution and licensing, film processing and advertising and promotional services contributed to 41.9%, 41.2% and 16.9% respectively of the Group's revenue. The decrease in revenue compared with the prior year is mainly due to the general market slump in Hong Kong's film industry.

The Group reported a loss of HK$18.6 million compared to a loss of HK$56.3 million last year. Loss per share is HK5.64 cents, calculated on the 330,000,000 shares in issue in 2005 compared with loss of HK17.05 cents per share of the prior year.

As at 31st December, 2005, the Group's gross assets stood at HK$122.6 million. The net tangible assets of the Group is HK$52.4 million or HK15.87 cents per share. The cash and cash equivalents is HK$10.0 million. The Group has bank borrowings of HK$14 million for the year under review. Current ratio and gearing ratio as at 31st December 2005 is 1.60 times and 48% respectively.

BUSINESS REVIEW AND OUTLOOK

Business review

As previously stated in the 2004 Annual Report, the Hong Kong film industry continues to be affected by the existence of, amongst others, pirated VCDs and DVDs, parallel goods, HDVD, BT, illegal downloading and uploading from the Internet and video disc rental in 2005, which caused film productions in Hong Kong to slide to a new low. In 2005, only 55 sets of films were released throughout the year, even fewer than the 64 sets recorded in 2004. Due to the above reasons, the Group's businesses of film distribution and processing as well as advertising and promotional services were all adversely affected. With the implementation of CEPA (Closer Economic Partnership Arrangement) and the rapidly improving and expanding film and television markets in mainland China, new and potentially lucrative market opportunities have been provided to the Hong Kong film industry. Taking advantage of the opportunities offered by CEPA, the Group co-invested in the joint shooting of *Seven Swords* last year, the results of which was quite well received.

As a further step towards fulfilling the aspirations of the Group and the opportunities offered, the Group established the "東方橫店影視後期製作有限公司" joint-venture with the Hengdian Group of Zhejiang in 2005. All the relevant pre-operation procedures for the joint-venture have been completed, and it has now entered the formal preparation stage of the establishment. The Group believes that, upon the joint-venture becoming operational, the joint-venture will open up new market opportunities and create even more room to develop and contribute to the future growth of the Group's film processing business.

Prospects

As stated above, with the experiences gained from the joint-shooting of *Seven Swords* last year, the Group decided to invest in another major production the *Dragon Tiger Gate* during the latter part of last year. The production of the film had been completed and is scheduled to be released in Hong Kong and Mainland China during the coming summer holiday in 2006. In the meantime, we have been highly encouraged by the positive responses from the foreign film dealers on the film while negotiation with the dealers for selling the licenses are entering an advance stage. On analysis of the current sales of the film, we believe that the contribution to the financial performance of the Group from the *Dragon Tiger Gate* will be better than the *Seven Swords*.

With the new opportunities provided by the implementation of CEPA and the continuing expansion and increasing variety of the film and television markets in Mainland China, we believe that the Group would stand to benefit from even more business opportunities in the near future.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2005, the Group employed 80 staff members, including approximately 53 staff in the processing and development department. Apart from basic salaries, discretionary bonus and contributions to the mandatory provident fund for the staff in Hong Kong, share options may also be granted to staff with reference to the individual's performance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

On 1st January 2005, the Code of Best Practice was replaced by the Code on Corporate Governance Practices (the "Code") as contained in Appendix 14 of the Listing Rules.

During the period, the Company has been taking action to comply with the code provisions set out in the Code and a Remuneration Committee has been set up. Major areas of deviation are detailed below: Firstly, the roles of the chairman of the board of Directors and the chief executive officer are not separated and are performed by the same person. The Directors consider that Mr. WONG Pak Ming, being the founder of the Group, possesses in-depth knowledge of the Group and has developed extensive and valuable network in the film production industry and therefore can enable the Group to make and implement decisions promptly and efficiently which is beneficial to the business prospects of the Group. The Directors also consider that this structure will not impair the balance of power and authority between the Directors and the management as the board of Directors, which comprises experienced and high caliber individuals, meets regularly to discuss issues affecting the operations of the Group.

In addition, according to the Bye-laws, the chairman whilst holding such office is currently not subject to retirement by rotation while one third of the director for the time being shall retire from office by rotation at each annual general meeting and any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall retire and be subject to re-election. The above practice deviates from the provision A.4.2 of the Code which requires all directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years. Having reviewed the relevant Bye-laws, the Board proposed to put forth a special resolution in the coming annual general meeting to amend the Bye-laws to comply with the said code provision.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE") OF LISTING RULES

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Company has set up an audit committee, comprised of three independent non-executive directors of the Company, namely Mr. Tang Kai Kui, Terence, Mr. Lai Voon Wai and Mr. Wan Ngar Yin, David. The audit committee has reviewed the accounting principles and practices adopted by the Group with management and has discussed internal controls and financial reporting matters, with the directors.

PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the Stock Exchange's website in due course.

ACKNOWLEDGEMENT

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

BOARD OF DIRECTORS

As at the date of this announcement, the 4 executive directors of the Company are namely, Mr. Wong Pak Ming, Ms. Wong Kit Fong, Ms. Wong Yee Kwan, Alvina and Mr. Ko Tin Chow; and 3 independent non-executive directors, namely, Mr. Wan Ngar Yin, David, Mr. Lai Voon Wai and Mr. Tang Kai Kui, Terence.

By Order of the Board
Mandarin Entertainment (Holdings) Limited
Wong Pak Ming
Chairman

Hong Kong, 18th April, 2006

* *For identification purpose only*

Please also refer to the published version of this announcement in The Standard.