



MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED (東方娛樂控股有限公司*)

(Stock Code 9)

(Incorporated in Bermuda with limited liability)

ANNUAL RESULTS FOR YEAR ENDED 31ST DECEMBER, 2004

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, 2004, together with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		53,192	58,535
Cost of sales		(72,812)	(37,559)
Gross (loss) profit		(19,620)	20,976
Other operating income		2,227	2,982
Impairment loss recognised in respect of investment securities		–	(4,000)
Administrative expenses		(23,744)	(18,685)
(Loss) profit from operations	3	(41,137)	1,273
Finance costs		(751)	(513)
Allowance on loan to a jointly controlled entity		(10,927)	–
Amortisation on goodwill of investment in jointly controlled entity		(300)	(300)
Impairment on goodwill of investment in jointly controlled entity		(2,400)	–
Share of results of jointly controlled entities		(321)	1,084
(Loss) profit before taxation		(55,836)	1,544
Income tax expense	4	(507)	(1,011)
(Loss) profit before minority interests		(56,343)	533
Minority interests		74	18
Net (loss) profit for the year		(56,269)	551
Dividends	5	–	–
(Loss) earnings per share – basic	6	(17.05 cents)	0.17 cents

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of leasehold land and buildings, and in accordance with accounting principles generally accepted in Hong Kong.

2. 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.

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	23,473	21,426	10,520	-	-	55,419
Inter segment revenue	1,930	1,551	523	216	(4,220)	-
Total revenue	<u>25,403</u>	<u>22,977</u>	<u>11,043</u>	<u>216</u>	<u>(4,220)</u>	<u>55,419</u>
RESULT						
Segment result	<u>(38,592)</u>	<u>(775)</u>	<u>18</u>	<u>(1,788)</u>	<u>-</u>	<u>(41,137)</u>
Finance costs						(751)
Allowance 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				(321)		(321)
Loss before taxation						(55,836)
Income tax expense						(507)
Loss before minority interests						<u>(56,343)</u>

Inter segment revenue is charged at prevailing market rate.

2003

	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	26,103	26,211	8,922	281	-	61,517
Inter segment revenue	2,383	2,508	684	216	(5,791)	-
Total revenue	<u>28,486</u>	<u>28,719</u>	<u>9,606</u>	<u>497</u>	<u>(5,791)</u>	<u>61,517</u>
RESULT						
Segment result	<u>8,183</u>	<u>(1,699)</u>	<u>(31)</u>	<u>(1,180)</u>	<u>-</u>	<u>5,273</u>
Impairment loss recognised in respect of investment securities						(4,000)
Profit from operations						1,273
Finance costs						(513)
Amortisation on goodwill of investment in jointly controlled entities				(300)		(300)
Share of results of jointly controlled entities				1,084		1,084
Profit before taxation						1,544
Income tax expense						(1,011)
Profit before minority interests						<u>533</u>

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, other than Hong Kong (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 and an analysis of the carrying amount of segment assets and capital additions analysed by the geographical area in which the assets are located, is presented below.

2004	Hong Kong HK\$'000	The PRC HK\$'000	Others HK\$'000	Total HK\$'000
REVENUE				
Turnover	38,712	7,982	6,498	53,192
Other operating income	2,222	5	–	2,227
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue	<u>40,934</u>	<u>7,987</u>	<u>6,498</u>	<u>55,419</u>

2003	Hong Kong HK\$'000	The PRC HK\$'000	Others HK\$'000	Total HK\$'000
REVENUE				
Turnover	40,825	3,725	13,985	58,535
Other operating income	2,382	600	–	2,982
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue	<u>43,207</u>	<u>4,325</u>	<u>13,985</u>	<u>61,517</u>

3. (Loss) profit from Operations

	2004 HK\$'000	2003 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Directors' emoluments	3,146	4,274
Other staff costs	11,492	11,318
	<u> </u>	<u> </u>
Total staff costs	<u>14,638</u>	<u>15,592</u>
Auditors' remuneration	878	820
Depreciation and amortisation		
– property, plant and equipment	2,301	2,274
– goodwill	300	300
– film rights	720	–
Impairment loss recognised in respect of film production in progress (included in cost of sales)	6,981	3,000
and after crediting:		
Interest income	<u>36</u>	<u>36</u>

Included in total staff costs is an aggregate amount of approximately HK\$607,000 (2003: HK\$545,000) in respect of contribution to retirement benefit schemes paid or payable by the Group.

4. Income tax expense

	2004 HK\$'000	2003 HK\$'000
Hong Kong Profits Tax		
– provision for current year	342	160
– underprovision of Hong Kong Profits Tax in prior years	197	–
	<u>539</u>	<u>160</u>
Deferred tax (credit) charge		
Current year	(73)	192
Attributable to a change in tax rate	–	68
	<u>(73)</u>	<u>260</u>
Taxation attributable to the Company and its subsidiaries	466	420
Taxation attributable to the jointly controlled entities	41	591
	<u>507</u>	<u>1,011</u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated profit for the year.

5. Dividends

The directors do not recommend the payment of any dividend for the year ended 31st December, 2004 (2003: NIL).

6. (Loss) Earnings Per Share

The calculation of the basic (loss) earnings per share for the year is based on the net loss for the year of HK\$56,269,000 (2003: net profit of HK\$551,000) and on the 330,000,000 (2003: 330,000,000) shares in issue during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In the year under review, the Group recorded a turnover of HK\$53.2 million. Film distribution and licensing, film processing and advertising and promotional services contributed to 42.4%, 38.7% and 19.0% 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 net loss of HK\$56 million compared to a net profit of HK\$0.6 million last year. Loss per share is 17.05 HK\$ cents, calculated on the 330,000,000 shares in issue in the 2004 compared with 0.17 HK\$ cents profit per share of the prior year.

As at 31st December, 2004, the Group gross assets stood at HK\$113.5 million. The net tangible assets of the Group is HK\$69.9 million or 21 HK\$ cents per share. The cash and cash equivalent is HK\$10.1 million. The Group has bank borrowings of HK\$13.6 million for the year under review. Current ratio and gearing ratio as at 31st December 2004 is 2.14 times and 31.3 respectively.

BUSINESS REVIEW AND OUTLOOK

Business review

In 2004, the existence of pirated VCDs and DVDs, parallel goods, HDVD, BT, illegal downloading from the Internet and video disc rental, among others, which are all factors damaging the box office and the retail market, drove the number of productions in the film industry to a new trough last year. Only 64 films were screened in the whole year, even fewer than the 73 in 2003 with SARS. Because of this, the Group's businesses of film distribution and processing as well as advertising and promotional services were all severely affected. The Group screened the film *Life Express* (生死速遞) in the last year, but due to piracy in the Mainland, its global distribution and box office results were both affected. The Group had already initiated various measures of remedy, but the Group still incurred substantial loss.

The Group formed a joint venture in Beijing in 2002 named “北京東方新青年文化發展有限公司” and signed an agreement with the China National Youth Palace Association to develop a drama training programme. It was suspended by the outbreak of SARS in 2003, but the training was re-launched last year. Because it was re-launched, the response was relatively slow. Being prudent, the Group made appropriate provisions for the investment in the training programme.

Prospects

The Group invested in a major production, *Seven Swords* (七劍), last year, and the filming was completed early this year. It is now in the stage of post production, and is preliminarily scheduled to be screened this summer. Another film, whose scale is to be more substantial, is preliminarily scheduled to start filming in the middle of this year. Also planned to be produced this year are two major television drama serials each with 30 episodes, totalling 60 episodes. The Government is attaching more and more importance to the matter of intellectual property, thus stricter measures to combat piracy are expected from the Government. In view of this, turnover and profit from distribution are expected to surge substantially this year.

The Group prepared the establishment of “東方橫店影視後期製作有限公司” with the Hengdian Group of Zhejiang last year. All the relevant pre-operation procedures have been completed, and the relevant approval was issued early this year. This is the first licence granted to a foreign enterprise to form a film processing joint venture in the Mainland. According to statistics, the number of film productions in the Mainland jumped from 100 in the year 2003 to over 200 in the year 2004, which is a 100% increase. This creates even more room for development for the Group’s film processing business as well as an optimistic future.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2004, the Group employed 77 staff members, including approximately 55 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 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 CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, at any time during the year ended 31st December, 2004, in compliance with the Code of Best Practice (the “Code”) as set out in Appendix 14 (which was then in force for the year under review) to the Listing Rules.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES (“Model Code”)

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 year under review 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, for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the three existing independent non-executive directors of the Company, namely Mr. Wan Ngar Yin, David, Mr. Lai Voon Wai and Mr. Alan Woo.

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

The 2004 Annual Report of the Company for the year ended 31st December, 2004 containing all the information required by paragraph 45(1) to 45(3) of Appendix 16 to the Listing Rules which were in force prior to 31st March, 2004 and remain applicable to results announcement in respect of accounting periods commencing before 1st July, 2004 under the transitional arrangement will be published on the website of the Stock Exchange 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 3 executive directors of the Company are namely, Mr. Wong Pak Ming, Ms. Wong Kit Fong and Ms. Wong Yee Kwan, Alvina; and 3 independent non-executive directors, namely, Mr. Wan Ngar Yin, David, Mr. Lai Voon Wai and Mr. Alan Woo.

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

Hong Kong, 19th April, 2005

* *For identification purpose only*

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