



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, 2006

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, 2006, together with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2006

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Revenue		77,165	43,256
Cost of sales		(60,248)	(42,193)
Gross profit		16,917	1,063
Other income		7,945	2,743
Administrative expenses		(22,984)	(22,952)
Share of (loss) profit of jointly controlled entities		(6)	87
Finance costs		(1,088)	(804)
Profit (loss) before taxation		784	(19,863)
Taxation	5	889	1,244
Profit (loss) for the year, attributable to equity holders of the Company	4	1,673	(18,619)
Dividends	6	-	-
Earnings (loss) per share	7		
Basic		0.51 HKcents	(5.64 HKcents)
Diluted		0.51 HKcents	-

CONSOLIDATED BALANCE SHEET

At 31st December, 2006

	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS		
Property, plant and equipment	2,936	4,194
Prepaid lease payments	2,503	2,578
Available-for-sale investments	3,796	7,221
Interests in jointly controlled entities	20,820	19,871
Pledged bank deposits	–	1,005
	<u>30,055</u>	<u>34,869</u>
CURRENT ASSETS		
Film rights	1,440	3,277
Film production in progress	38,646	51,058
Prepaid lease payments	75	75
Inventories	1,680	2,007
Trade and other receivables and deposits paid	15,600	14,426
Amount due from a jointly controlled entity	602	172
Amount due from a related company	5,042	5,814
Tax recoverable	17	–
Pledged bank deposits	1,556	506
Bank balances and cash	15,172	10,410
	<u>79,830</u>	<u>87,745</u>
CURRENT LIABILITIES		
Trade and other payables and deposits received	35,360	44,352
Bank and other borrowings – due within one year	5,362	10,501
Tax payable	–	66
Obligations under a finance lease – due within one year	92	–
	<u>40,814</u>	<u>54,919</u>
NET CURRENT ASSETS	<u>39,016</u>	<u>32,826</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>69,071</u>	<u>67,695</u>
NON-CURRENT LIABILITIES		
Bank and other borrowings – due after one year	13,627	14,644
Deferred taxation	471	677
Obligations under a finance lease – due after one year	284	–
	<u>14,382</u>	<u>15,321</u>
NET ASSETS	<u>54,689</u>	<u>52,374</u>
CAPITAL AND RESERVES		
Share capital	33,000	33,000
Reserves	21,689	19,374
TOTAL EQUITY	<u>54,689</u>	<u>52,374</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2006

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 (the "Stock Exchange").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and the financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment and interpretations issued but are not yet effective. The directors of the Company anticipate that the application of following standards, amendment and interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" ³
HK(IFRIC) - INT 8	Scope of HKFRS 2 ⁴
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC) - INT 11	HKFRS 2 - Group and Treasury Share Transactions ⁷
HK(IFRIC) - INT 12	Service Concession Arrangements ⁸

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st January, 2009.

³ Effective for annual periods beginning on or after 1st March, 2006.

⁴ Effective for annual periods beginning on or after 1st May, 2006.

⁵ Effective for annual periods beginning on or after 1st June, 2006.

⁶ Effective for annual periods beginning on or after 1st November, 2006.

⁷ Effective for annual periods beginning on or after 1st March, 2007.

⁸ Effective for annual periods beginning on or after 1st January, 2008.

3. 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.

2006

	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Advertising and promotional services <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE					
External revenue	47,603	22,438	7,124	–	77,165
Inter segment revenue	3,720	52	3,830	(7,602)	–
Total revenue	<u>51,323</u>	<u>22,490</u>	<u>10,954</u>	<u>(7,602)</u>	<u>77,165</u>
RESULT					
Segment result	<u>11,712</u>	<u>5,609</u>	<u>(404)</u>	<u>–</u>	<u>16,917</u>
Other income					7,945
Unallocated corporate expenses					(22,984)
Finance costs					(1,088)
Share of loss of jointly controlled entities					(6)
Profit before taxation					784
Taxation					889
Profit for the year					<u>1,673</u>

Inter segment revenue is charged at prevailing market rate.

2005

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

2006

	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Japan <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	<u>46,902</u>	<u>3,802</u>	<u>7,820</u>	<u>18,641</u>	<u>77,165</u>

2005

	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Japan <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	<u>38,407</u>	<u>383</u>	<u>336</u>	<u>4,130</u>	<u>43,256</u>

4. PROFIT (LOSS) FOR THE YEAR

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
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Profit (loss) for the year has been arrived at after charging:

Directors' emoluments	4,050	3,408
Other staff costs	11,410	11,003
Retirement benefit scheme contributions, excluding directors	547	489
Share-based payment expenses, excluding directors	133	–
Total staff costs	<u>16,140</u>	<u>14,900</u>
Auditor's remuneration	1,085	1,005
Depreciation of property, plant and equipment		
– owned assets	1,790	2,191
– finance lease	85	–
Release of prepaid lease payments	75	75
Impairment on trade and other receivables	2,716	3,713
Impairment loss recognised in respect of film production in progress (included in cost of sales)	2,621	7,795
Cost of inventories recognised as expenses	46,815	27,092
Share of tax of jointly controlled entities (included in share of (loss) profit of jointly controlled entities)	50	43
Loss on disposal of property, plant and equipment	4	–

and after crediting:

Interest income	325	100
Gain on disposal of available-for-sale investments	5,040	–
Net foreign exchange gain (loss)	<u>43</u>	<u>(2)</u>

5. TAXATION

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong Profits Tax		
– provision for current year	164	143
– overprovision in prior years	<u>(847)</u>	<u>(1,177)</u>
	(683)	(1,034)
Deferred tax credit	<u>(206)</u>	<u>(210)</u>
Taxation attributable to the Company and its subsidiaries	<u><u>(889)</u></u>	<u><u>(1,244)</u></u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for both years.

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

6. DIVIDENDS

No dividends were paid or proposed during the year ended 31st December, 2006 and 2005, nor has any dividend been proposed since the balance sheet date.

7. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	<u>1,673</u>	<u>(18,619)</u>
Number of shares		
	2006	2005
Number of ordinary shares for the purposes of basic earnings (loss) per share	330,000,000	330,000,000
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	<u>399,000</u>	<u>–</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u><u>330,399,000</u></u>	<u><u>330,000,000</u></u>

Diluted earnings per share is not presented for 2005 as the share options granted to directors and employees on 23rd June, 2006 are anti dilutive in terms of HKAS33 “Earnings per share”.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In the year under review, the Group recorded a revenue of HK\$77.2 million. Film distribution and licensing, film processing and advertising and promotional services contributed to 61.7%, 29.1% and 9.2% respectively of the Group's revenue. The increase in revenue compared with the prior year is mainly due to the increase in film distribution and licensing revenue of the Group resulting from the successful execution of the CEPA (Closer Economic Partnership Arrangement) Model by the Group.

During the period, the Group has disposed of 15,976,000 shares in Jade Dynasty Group Limited, whose shares are listed on the Stock Exchange of Hong Kong and were held by the Group as available-for-sale investments as at 31st December, 2005, for an aggregate consideration of approximately HK\$10.7 million resulting in a profit of approximately HK\$5.04 million.

The Group reported a profit of HK\$1.7 million compared to a loss of HK\$18.6 million last year. Earnings per share is 0.51 HKcents, calculated on the 330,000,000 shares in issue in 2006 compared with loss of 5.64 HKcents per share of the prior year.

As at 31st December, 2006, the Group's gross assets stood at HK\$109.9 million. The net tangible assets of the Group is HK\$54.7 million or 16.57 HKcents per share. The cash and cash equivalents is HK\$16.7 million. The Group has bank borrowings of HK\$5.9 million for the year under review. Current ratio and gearing ratio as at 31st December 2006 is 1.96 times and 34.7% respectively.

BUSINESS REVIEW AND OUTLOOK

Business review

As previously stated in the 2005 Annual Report, with the implementation of CEPA (Closer Economic Partnership Arrangement), the films jointly produced by Hong Kong and Mainland China have been classified as films locally made in China, and as a result, were permitted to be distributed and released throughout the PRC, thus allowing the Group to reach out to the enormous market with a population of 1.3 billion people. Despite of a number of unfavorable factors, such as pirating, parallel goods, illegal downloading and uploading from the Internet and videodisc rental etc. yet to be resolved, respective authorities in Hong Kong and Mainland China have taken active measures to solve these problems. It is expected that positive effect will materialize in the foreseeable future.

Taking advantage of the opportunities offered by CEPA, the Group co-invested in the joint production of two major movies, namely *Seven Swords* 「七劍」 and *Dragon Tiger Gate* 「龍虎門」 which have both achieved satisfactory results. As such, the Group will continue to explore new development opportunities under CEPA in the coming year.

Prospects

With improved market condition, the Group will produce more films in 2007. The films under production include, among the others, *Flash Point* 「導火綫」 starred by Donnie Yen and Louis Koo and produced by the same team in the production of *Dragon Tiger Gate* 「龍虎門」, a comedy film *Dancing Lion* 「醒獅」 directed and starred by Francis Ng, a female genre film *Wonder Woman* 「女人本色」 directed by Wong Chun Chun and a suspense film *Missing* 「尋人」 directed by Hark Tsui. The films under preparation include, among others, *The Sword Searcher* 「神兵」 which is adapted from Wong Yuk Long's animation, and TV series *The Phantom Lover* 「大劇院」 which is adapted from the film *The Phantom Lover* 「夜半歌聲」.

With the increase in the number of films and TV series produced by the Group, the directors believe that the Group's results should improve in the coming years.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2006, the Group employed 76 staff members, including approximately 51 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

During the financial year ended 31st December 2006, the Company has complied with all code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for Code Provision A.2 as the Company has no such title as the chief executive officer and Mr. Wong Pak Ming ("Mr. Wong") is the chairman of the board of Directors and the daily operation and management of the Company is oversight by Mr. Wong with the assistance of the executive directors as well as the senior management. The Board

considers that Mr. Wong, 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 Board also consider that this structure will not impair the balance of power and authority between the Board and the management as the board of Directors, which comprises experienced and high caliber individuals, meets regularly to discuss issue affecting the operations of the Group.

Further information is set out in the Corporate Governance Report contained in the annual report for 2006.

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 audited financial statements for the year ended 31st December 2006, 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, 20th April, 2007

** For identification purpose only*

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