



MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED

東方娛樂控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 0009)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

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, 2007 with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

	NOTES	Six months ended 30th June,	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Revenue		21,503	25,350
Cost of sales		(17,775)	(15,528)
Gross profit		3,728	9,822
Other income		1,472	1,362
Gain on disposal of available-for-sale investments		2,173	4,309
Administrative expenses		(9,758)	(11,196)
Finance costs		(399)	(132)
Share of results of jointly controlled entities		5	518
(Loss) profit before taxation	4	(2,779)	4,683
Income tax expense	5	53	(131)
(Loss) profit for the period, attributable to equity holders of the Company		(2,726)	4,552
(LOSS) EARNINGS PER SHARE	7		
Basic		(0.82) cents	1.38 cents
Diluted		N/A	1.38 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2007

	30.6.2007 <i>HK\$'000</i> (unaudited)	31.12.2006 <i>HK\$'000</i> (audited)
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	2,841	2,936
Prepaid lease payments	2,466	2,503
Available-for-sale investments	–	3,796
Interests in jointly controlled entities	20,825	20,820
	<hr/> 26,132	<hr/> 30,055
Current assets		
Film rights	1,080	1,440
Film production in progress	84,419	38,646
Prepaid lease payments	75	75
Inventories	1,798	1,680
Trade and other receivables and deposits paid	22,371	15,600
Amount due from a jointly controlled entity	2,362	602
Amount due from a related company	–	5,042
Tax recoverable	–	17
Pledged bank deposits	526	1,556
Bank balances and cash	29,447	15,172
	<hr/> 142,078	<hr/> 79,830
Current liabilities		
Trade and other payables and deposits received	59,653	35,360
Tax liabilities	305	–
Bank and other borrowings – due within one year	17,680	5,362
Obligations under a finance lease – due within one year	92	92
	<hr/> 77,730	<hr/> 40,814
Net current assets	<hr/> 64,348	<hr/> 39,016
Total assets less current liabilities	<hr/> 90,480	<hr/> 69,071

AT 30TH JUNE, 2007

	30.6.2007 <i>HK\$'000</i> (unaudited)	31.12.2006 <i>HK\$'000</i> (audited)
Non-current liabilities		
Bank and other borrowings – due after one year	255	13,627
Deferred taxation	96	471
Obligations under a finance lease – due after one year	238	284
	<hr/> 589 <hr/>	<hr/> 14,382 <hr/>
NET ASSETS	<u>89,891</u>	<u>54,689</u>
CAPITAL AND RESERVES		
Share capital	36,000	33,000
Reserves	53,891	21,689
	<hr/> 89,891 <hr/>	<hr/> 54,689 <hr/>
TOTAL EQUITY	<u>89,891</u>	<u>54,689</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

1. BASIS OF PREPARATION

The condensed consolidated 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 with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for properties and certain financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations issued by the HKICPA (hereinafter collectively referred to as the “new HKFRSs”), which are either effective for accounting periods beginning on or after 1st January, 2007.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies ²
HK(IFRIC) – Int 8	Scope of HKFRS 2 ³
HK(IFRIC) – Int 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) – Int 10	Interim financial reporting and impairment ⁵

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

² Effective for annual periods beginning on or after 1st March, 2006

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

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

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

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied all the other new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of the other new HKFRSs will have no material impact on the results and financial position of the Group.

3. SEGMENTAL INFORMATION

Business segments

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. Segmental information about these businesses is presented below.

For the six months ended 30th June, 2007

	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	6,561	12,734	2,208	–	21,503
Inter segment revenue	–	1,544	2,126	(3,670)	–
Total revenue	<u>6,561</u>	<u>14,278</u>	<u>4,334</u>	<u>(3,670)</u>	<u>21,503</u>
SEGMENT RESULT	<u>(1,952)</u>	<u>(1,022)</u>	<u>(2,227)</u>	<u>–</u>	<u>(5,201)</u>
Other income					1,472
Gain on disposal of available-for-sale investments					2,173
Unallocated corporate expenses					(829)
Finance costs					(399)
Share of results of jointly controlled entities					<u>5</u>
Loss before taxation					(2,779)
Income tax expense					<u>53</u>
Loss for the period					<u>(2,726)</u>

For the six months ended 30th June, 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	11,097	11,075	3,178	–	25,350
Inter segment revenue	76	186	1,662	(1,924)	–
Total revenue	<u>11,173</u>	<u>11,261</u>	<u>4,840</u>	<u>(1,924)</u>	<u>25,350</u>
SEGMENT RESULT	<u>(652)</u>	<u>227</u>	<u>(333)</u>	<u>–</u>	(758)
Other income					1,362
Gain on disposal of available-for-sale investments					4,309
Unallocated corporate expenses					(616)
Finance costs					(132)
Share of results of jointly controlled entities					518
Profit before taxation					4,683
Income tax expense					(131)
Profit for the period					<u>4,552</u>

4. (LOSS) PROFIT BEFORE TAXATION

**Six months ended
30th June,
2007 2006
*HK\$'000 HK\$'000***

(Loss) profit before taxation has been arrived at after charging:

Depreciation of property, plant and equipment	812	1,014
Amortisation of prepaid lease payments	37	37
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	–	255
Impairment loss recognised in respect of film production in progress	–	1,319
Impairment on trade and other receivables	–	1,358

and after crediting:

Interest income	170	157
Gain on disposal of property, plant and equipment	4	–

5. INCOME TAX EXPENSE

Six months ended 30th June,	
2007	2006
<i>HK\$'000</i>	<i>HK\$'000</i>

The (credit) charge comprises:

Hong Kong Profits Tax	322	583
Deferred tax credit	(375)	(452)
	<u>(53)</u>	<u>131</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended 30th June, 2007 and 2006.

6. DIVIDENDS

No dividends were paid or proposed during the period.

7. (LOSS) EARNINGS PER SHARE

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

Six months ended 30th June,	
2007	2006
<i>HK\$'000</i>	<i>HK\$'000</i>

(Loss) earnings attributable to equity holders of the Company for the purposes of basic and diluted (loss) earnings per share	<u>(2,726)</u>	<u>4,552</u>
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Six months ended 30th June,	
2007	2006
Number of shares	Number of shares

Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<u>334,475,138</u>	330,000,000
Effect of dilutive potential ordinary shares: Share options	<u>—</u>	<u>2,658</u>
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<u>334,475,138</u>	<u>330,002,658</u>

No diluted loss per share for the six months ended 30th June, 2007 was presented as the exercise of the share options would result in a decrease in loss per share for the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospect

The unaudited consolidated turnover and loss attributable to equity holders of the company in the first half of year amounted to HK\$21.5 million and HK\$2.7 million respectively.

For the period under review, the Group recorded a decrease in turnover by approximately 15% to approximately HK\$21.5 million. Such decrease was mainly due to the decrease in film distribution and licensing revenue of the Group in the first half of the year. The Group believes that, with the filming income generated from the movies namely ‘Wonder Woman’, ‘Dancing Lion’ and ‘Flash Point’ in the second half of the year, the revenue of the Group will increase accordingly.

During the period, the Company has disposed of 5,581,575 shares in Jade Dynasty Group Limited (“Jade Dynasty”), whose shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and were held by the Group as available-for-sale investments as at 15th May 2007, for an aggregate consideration of approximately HK\$4.7 million resulting in a profit of approximately HK\$2.17 million. After the disposal, the Group does not have any shareholding in Jade Dynasty.

In the first half of the year, losses of HK\$1.9 million, HK\$1.0 million and HK\$2.2 million were recorded in the Group’s film distribution and licensing business, film processing business and advertising business respectively and we believe the market condition will improve in the second half of the year.

Liquidity and financial resources

As at 30th June, 2007, the Group retained total cash and bank balances of HK\$29.9 million, most of which were in Hong Kong dollars – the exposure of 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\$4.9 million. Part of the loans were secured by leasehold land and buildings in Hong Kong held by one of the Group’s subsidiary with an aggregate carrying value of HK\$3.5 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\$4.6 million which were repayable within one year. On the same date, the current ratio and the gearing ratio of the Group were 1.8 times and 20% respectively (31st December, 2006: 1.9 times and 35%).

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

Contingent Liabilities

In April 2006, 上海華芮文化傳播有限公司 (“Shanghai City Glory”), one of the investors of “Seven Swords”, initiated legal proceedings regarding a joint venture agreement against Mandarin Films Distribution Co., Ltd. (“Mandarin Film Distribution”), a wholly owned subsidiary of the Company in respect of claim for payment of investment proceeds amounting to approximately US\$732,036 (equivalent to HK\$5,680,233) arising from the filming of “Seven Swords”. Upon mediation from the officers of the Shanghai No. 2 Intermediate People’s Court

(上海市第二中級人民法院), Shanghai City Glory and Mandarin Film Distribution entered into a settlement agreement on 2 August 2007, pursuant to which, Shanghai City Glory withdrew its claim against Mandarin Film Distribution after Mandarin Film Distribution paying a sum of RMB3,777,002 into the court account by the end of August 2007, and both parties will continue to perform their obligations pursuant to the joint venture agreement and Shanghai City Glory retains its rights against Mandarin Film Distribution pursuant to agreement(s) that the parties entered into.

Employee and remuneration policies

As at 30th June, 2007, the Group employed 79 staff members, including approximately 52 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, 2007, 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, 2007.

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

Corporate Governance

During the six months ended 30th June, 2007, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

Further Information About Chairman and Chief Executive Officer

Mr. Wong Pak Ming ("Mr. Wong") is both the chairman and founder of the Company. The Company has no such title as the chief executive officer and therefore 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 decision promptly and efficiently which is beneficial to the business prospects of the Group. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management as the Board, comprises experienced and high caliber individuals, meets regularly to discuss issues affecting the operation of the Group.

Compliance with Model Code for securities transactions by directors of listed issuers (“Model Code”) of the Listing Rules

For the six months period to 30th June, 2007, 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 six months ended 30th June 2007, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Audit committee, comprises three independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Group with management and has discussed internal controls and financial reporting matters, including a review of the unaudited condensed consolidated financial statements for the six months ended 30th June, 2007 with the directors.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.capitalfp.com.hk/eng/index.jsp?co=9>).

The interim report will be dispatched to the shareholders and will be made available on the aforesaid websites 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 support and our customers for their patronage.

By Order of the Board
WONG Pak Ming
Chairman

Hong Kong, 24 September 2007

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Wong Pak Ming (Chairman), Ms. Wong Kit Fong, Ms. Wong Yee Kwan, Alvina and Mr. Ko Tin Chow, and three independent non-executive directors namely Mr. Tang Kai Kui, Terence, Mr. Choy Sze Chung, Jojo and Mr. Tsui Pui Hung.

* *For the purpose of identification only*