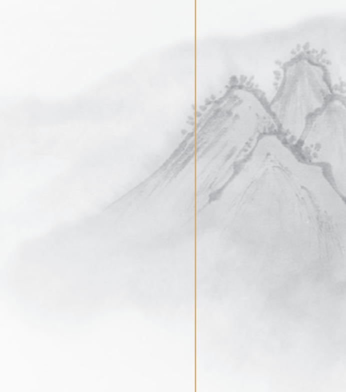
中國東方

China Mandarin

Interim Report 2011



China Mandarin Holdings Limited
中國東方實業集團有限公司

(Incorporated in Bermuda with limited liability)
Stock Code : 00009

Contents

Corporate Information

Board of Directors

Executive Directors:
Mr. Jin Lei *(Chairman)*
Ms. Law Kee, Alice *(Chief Executive Officer)*
Mr. Hui Wai Lee, Willy

Independent Non-executive Directors:
Mr. Tang Ping Sum
Mr. Tsui Pui Hung
Mr. Chu To, Jonathan

Company Secretary

Mr. Chan Chun Fat

Solicitors

Winnie Mak, Chan & Yeung Solicitors
8th Floor, Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Principal Bankers

ICBC (Asia) Limited
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Chong Hing Bank Limited

Audit Committee

Mr. Tang Ping Sum *(Chairman)*
Mr. Tsui Pui Hung
Mr. Chu To, Jonathan

Remuneration Committee

Mr. Chu To, Jonathan *(Chairman)*
Mr. Tang Ping Sum
Mr. Tsui Pui Hung

Principal Share Registrar and Transfer Office

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business in Hong Kong

Room 4101, 41/F
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

The board (the "Board") of directors (the "Directors") of China Mandarin 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 30 June 2011 (the "Period") with the comparative figures as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
		HK$'000	*HK$'000*
	Notes	**(unaudited)**	(unaudited)
Revenue	*4*	**33,179**	21,237
Cost of sales		**(13,214)**	(10,541)
Gross profit		**19,965**	10,696
Other income		**2,692**	2,545
Administrative expenses		**(15,194)**	(10,932)
Finance income		**41**	7
Finance costs	*5*	**(10,000)**	(54)
Share of results of an associate		**(22)**	–
Gain on disposal of subsidiaries	*11*	**–**	29,761
Gain on disposal of property held for sale	*8*	**28,493**	–
Profit before tax	*6*	**25,975**	32,023
Income tax credit (expense)	*7*	**619**	(1,846)
Profit for the period		**26,594**	30,177
Attributable to:			
Owners of the Company		**26,034**	30,097
Non-controlling interests		**560**	80
Total		**26,594**	30,177
Earnings per share attributable to owners of the Company	*10*		
Basic		**HK0.99 cent**	HK1.15 cents
Diluted		**N/A**	N/A

Details of the dividend are disclosed in note 9 to the condensed consolidated financial statements.

The notes on pages 9 to 25 form an integral part of these interim consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period	**26,594**	30,177
Other comprehensive income:		
Exchange difference arising on translation of foreign operations	**15,393**	908
Total comprehensive income for the period	**41,987**	31,085
Attributable to:		
Owners of the Company	**40,770**	30,883
Non-controlling interests	**1,217**	202
	41,987	31,085

The notes on pages 9 to 25 form an integral part of these interim financial statements.

Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	**30 June 2011 *HK$'000* (unaudited)**	31 December 2010 *HK$'000* (audited)
Non-current assets			
Goodwill	*18*	**157,440**	–
Property, plant and equipment		**351,184**	10,810
Investment property		**317,842**	310,223
Interest in an associate		**66,073**	47,095
Deposit paid		**4,051**	161,666
Film rights		**101**	101
Total non-current assets		**896,691**	529,895
Current assets			
Film production in progress		**23,895**	5,339
Inventories		**2,306**	2,005
Property held for sale		**–**	15,600
Property development in progress		**413,289**	–
Trade receivables	*12*	**7,576**	7,644
Other receivables, prepayments and deposits paid		**67,120**	495
Cash and cash equivalents		**50,249**	64,764
Total current assets		**564,435**	95,847
Current liabilities			
Trade payables	*13*	**1,369**	1,604
Other payables, accruals and deposits received		**18,039**	19,256
Interest-bearing bank and other borrowings	*14*	**66,336**	1,789
Tax payable		**1,871**	666
Total current liabilities		**87,615**	23,315
Net current assets		**476,820**	72,532
Total assets less current liabilities		**1,373,511**	602,427

Condensed Consolidated Statement of Financial Position *(continued)*

As at 30 June 2011

	Notes	**30 June 2011** ***HK$'000*** **(unaudited)**	31 December 2010 *HK$'000* (audited)
Non-current liabilities			
Convertible bonds	*15*	**149,950**	–
Deposit received		**1,481**	1,445
Deferred tax liabilities		**224,391**	77,130
Loans from a shareholder	*16*	**60,000**	–
Total non-current liabilities		**435,822**	78,575
Net assets		**937,689**	523,852
Equity			
Equity attributable to owners of the Company			
Issued capital	*17*	**298,933**	209,078
Reserves		**611,327**	288,562
		910,260	497,640
Non-controlling interests		**27,429**	26,212
Total equity		**937,689**	523,852

The notes on pages 9 to 25 form an integral part of these interim consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to owners of the Company										
	Issued capital HK$'000	Share premium HK$'000	Contributed surplus** HK$'000	Asset revaluation reserve HK$'000 (restated)	Convertible bond equity reserve HK$'000	Exchange fluctuation reserve HK$'000	Share special reserve*** HK$'000	Retained profits (Accumulated losses) HK$'000 (restated)	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
As at 1 January 2011	209,078	10,827	119,162	14,051	–	9,913	17,926	116,683	497,640	26,212	523,852
Exchange differences arising on transaction of foreign operations	–	–	–	–	–	14,736	–	–	14,736	657	15,393
Profit for the period	–	–	–	–	–	–	–	26,034	26,034	560	26,594
Total comprehensive income for the period	–	–	–	–	–	14,736	–	26,034	40,770	1,217	41,987
Issue of convertible bonds	–	–	–	–	149,228	–	–	–	149,228	–	149,228
Issue of shares *(note 17)*	89,855	222,571	–	–	(89,804)	–	–	–	222,622	–	222,622
Disposal of property held for sale	–	–	–	(9,974)	–	–	–	9,974	–	–	–
As at 30 June 2011	298,933	233,398*	119,162*	4,077*	59,424*	24,649*	17,926*	152,691*	910,260	27,429	937,689
As at 1 January 2010, as previously reported	261,348	224,095	–	–	–	2,998	17,926	(279,125)	227,242	23,734	250,976
Effect of changes in accounting policy	–	–	–	9,727	–	–	–	866	10,593	–	10,593
As at 1 January 2010 (restated)	261,348	224,095	–	9,727	–	2,998	17,926	(278,259)	237,835	23,734	261,569
Exchange differences arising on transaction of foreign operations	–	–	–	–	–	786	–	–	786	122	908
Profit for the period	–	–	–	–	–	–	–	30,097	30,097	80	30,177
Total comprehensive income for the period	–	–	–	–	–	786	–	30,097	30,883	202	31,085
As at 30 June 2010	261,348	224,095*	–*	9,727*	–*	3,784*	17,926*	(248,162)*	268,718	23,936	292,654

* *These reserve accounts comprise the consolidated reserves of HK$611,327,000 (30 June 2010: HK$7,370,000) in the condensed consolidated statement of financial position.*

** *The contributed surplus of the Group was arising from the Company's capital reorganisation on 6 September 2010 (note 17(a)).*

*** *The special reserve of the Group mainly represents the sum of the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the group reorganisation in 2001 of HK$10,420,000 and the consideration for the acquisition of additional interests in jointly-controlled entities which became wholly-owned subsidiaries by the substantial shareholder of the Company prior to the group reorganisation of HK$7,506,000.*

The notes on pages 9 to 25 form an integral part of these interim consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash flows from (used in):		
Operating activities	**(57,400)**	(2,334)
Investing activities	**45,104**	27,457
Financing activities	**(2,453)**	(238)
Net (decrease) increase in cash and cash equivalents	**(14,749)**	24,885
Cash and cash equivalents at 1 January	**64,764**	32,892
Effect of foreign exchange rate changes, net	**234**	(85)
Cash and cash equivalents at 30 June	**50,249**	57,692
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents as stated in the consolidated statement of financial position:		
Cash and bank balances	**50,249**	57,692

The notes on pages 9 to 25 form an integral part of these interim consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

1. Corporate information

The Company was incorporated in Bermuda on 9 May 2001 as an exempted company with limited liability and its issued shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The head office of the Company is located at Room 4101, 41st Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

The Company acts as an investment holding company. The Group continues its principal activities which consist of film production and related business, film processing, rental of property and property development.

This condensed consolidated financial information has not been audited but has been reviewed by the Company's audit committee.

2. 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 (the "Listing Rules") on the Stock Exchange and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

3. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost convention except for leasehold land and buildings and an investment property, which have been measured at fair values.

Notes to Condensed Consolidated Financial Statements *(continued)*

3. Principal accounting policies *(continued)*

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except for the new adoption of Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs as disclosed below.

(A) The following amended and revised HKFRSs are mandatory for the Group's accounting period beginning on 1 January 2011 and are relevant to the Group's operations:

HKAS 1 (Amendment)	Presentation of Financial Statements
HKAS 34 (Amendment)	Interim Financial Reporting

The impacts of the adoption of these amended and revised HKFRSs on these condensed consolidated interim financial statements are as follows:

(a) HKAS 1 (Amendment) "Presentation of Financial Statements". This amendment confirms that entities may present an analysis of the components of other comprehensive income by item either in the statement of changes in equity or within the notes. The adoption of this amendment does not have any impact on the presentation of the Group's condensed consolidated interim financial statements.

(b) HKAS 34 (Amendment) "Interim Financial Reporting". This amendment provides guidance on the application of disclosure principles and adds disclosure requirements around (i) the circumstances likely to affect fair values of financial instruments and their classification; (ii) transfers of financial instruments between different levels of the fair value hierarchy; (iii) changes in classification of financial assets; and (iv) changes in contingent liabilities and assets. The adoption of this amendment does not have any impact on the presentation of the Group's condensed consolidated interim financial statements.

(B) The following new, amended and revised HKFRSs are mandatory for the Group's accounting period beginning on 1 January 2011, but are not currently relevant to the Group's operations:

HKAS 19 (Amendment)	Employee Benefits
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates
HKAS 24 (Revised)	Related Party Disclosures
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements
HKAS 28 (Amendment)	Investments in Associates
HKAS 31 (Amendment)	Interests in Joint Ventures
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters
HKFRS 1 (Amendment)	First-time Adoption of HKFRSs
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Amendment)	Financial Instruments: Disclosures
HKFRS 8 (Amendment)	Disclosure of Information about Major Customers
HK(IFRIC) – Int 13 (Amendment)	Customer Loyalty Programmes
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Notes to Condensed Consolidated Financial Statements *(continued)*

3. Principal accounting policies *(continued)*

(C) The following new, and amended HKFRSs have been issued, but are not effective for the Group's accounting period beginning on 1 January 2011 and have not been early adopted:

HKAS 1 (Revised) (Amendment)	Presentation of Financial Statements
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendment)	Financial Instruments: Disclosure – Transfers of Financial Assets
HKFRS 9	Financial Instruments
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement

The Group has commenced an assessment of the impact of these new, and amended HKFRSs but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

Notes to Condensed Consolidated Financial Statements *(continued)*

4. Revenue and segmental information

Operating segments

The Group is organised into four operating divisions – property rental, film distribution and licensing, film processing and property development. These divisions are the basis on which the Group reports its primary segment information. Segmental information about the revenue and the results of these businesses is presented below.

For the six months ended 30 June 2011

	Property rental *HK$'000*	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Property development *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Segment revenue:						
External revenue	8,297	12,873	12,009	–	–	33,179
Intersegment revenue	–	–	165	–	(165)	–
Total revenue	8,297	12,873	12,174	–	(165)	33,179
Segment results	5,593	4,991	2,342	(1,435)	–	11,491
Other income						112
Unallocated corporate expenses						(4,162)
Finance income						41
Finance costs						(10,000)
Gain on disposal of property held for sale						28,493
Profit before tax						25,975
Income tax credit						619
Profit for the period						26,594

Notes to Condensed Consolidated Financial Statements *(continued)*

4. Revenue and segmental information *(continued)*

Operating segments (continued)

For the six months ended 30 June 2010

	Property rental *HK$'000*	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Property development *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Segment revenue:						
External revenue	7,183	3,079	10,975	–	–	21,237
Intersegment revenue	–	–	2,489	–	(2,489)	–
Total revenue	7,183	3,079	13,464	–	(2,489)	21,237
Segment results	4,660	(3,386)	3,279	–	–	4,553
Other income						34
Unallocated corporate expenses						(2,278)
Finance income						7
Finance costs						(54)
Gain on disposal of subsidiaries						29,761
Profit before tax						32,023
Income tax expense						(1,846)
Profit for the period						30,177

Notes to Condensed Consolidated Financial Statements *(continued)*

4. Revenue and segmental information *(continued)*

***Operating segments** (continued)*

The following table presents segment assets of the Group's operating segments as at 30 June 2011 and 31 December 2010:

As at 30 June 2011

	Property rental *HK$'000*	**Film distribution and licensing** *HK$'000*	**Film processing** *HK$'000*	**Property development** *HK$'000*	**Total** *HK$'000*
Segment assets	**319,613**	**27,935**	**16,356**	**979,556**	**1,343,460**
Unallocated corporate assets					**117,666**
Total assets					**1,461,126**

As at 31 December 2010

	Property rental *HK$'000*	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Property development *HK$'000*	Total *HK$'000*
Segment assets	312,231	57,022	31,035	160,000	560,288
Unallocated corporate assets					65,454
Total assets					625,742

5. Finance costs

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on bank loans and other borrowings wholly repayable within five years	**2,481**	36
Interest on convertible bonds	**7,337**	–
Interest on loans from a shareholder	**182**	–
Interest on finance lease	**–**	18
Total interest	**10,000**	54

Notes to Condensed Consolidated Financial Statements *(continued)*

6. Profit before tax

The Group's profit before tax has been arrived at after charging (crediting):

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Cost of inventories recognised as expenses*	**8,243**	5,932
Write-back of impairment of trade receivables	**(560)**	(1,514)
Minimum lease payments under operating lease	**2,719**	1,747
Depreciation	**1,505**	860
Gain on disposal of property held for sale	**(28,493)**	–

* *The cost of inventories recognised as expenses for the period are included in "cost of sales" on the face of the condensed consolidated income statement.*

7. Income tax credit (expense)

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Period (2010: 16.5%). The People's Republic of China ("PRC") income tax rate has been unified to 25% for all enterprises.

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Group:		
Current – Hong Kong	**(1,794)**	(578)
Current – PRC	**(400)**	(1,268)
Deferred	**2,813**	–
Total tax credit (charge) for the period	**619**	(1,846)

Notes to Condensed Consolidated Financial Statements *(continued)*

8. Disposal of property held for sale

The Group entered into an agreement with Hayson Development Limited, an independent third party, on 11 January 2011 pursuant to which the Group agreed to dispose of the property held for sale, previously and currently used by the Group for film processing, for a consideration of HK$44,093,000. The transaction was completed in March 2011.

	Six months ended 30 June 2011 *HK$'000* (unaudited)
Sale proceeds	**44,093**
Carrying value	**(15,600)**
Gain on disposal	**28,493**

9. Dividend

No dividend was paid or proposed during the Period (2010: Nil).

10. Earnings per share attributable to owners of the Company

The calculation of basic earnings per share amount is based on the profit for the period of HK$26,034,000 (2010: HK$30,097,000) attributable to owners of the Company, and the weighted average number of 2,628,105,000 (2010: 2,613,480,000) ordinary shares in issue during the period.

No adjustment has been made to the basic earnings per share for the period ended 30 June 2011 in respect of a dilution as the convertible bonds outstanding has an anti-dilutive effect on the basic earnings per share for the period.

No adjustment has been made to the basic earnings per share for the period ended 30 June 2010, as there were no dilutive potential ordinary shares in existence during the previous period.

11. Disposal of subsidiaries

On 17 December 2009, Grimston Limited ("Grimston"), a wholly-owned subsidiary of the Company, and Pegasus Motion Pictures Limited ("Pegasus"), a company owned by Mr. Wong Chi Woon, Edmond ("Mr. Edmond Wong"), the son of Mr. Wong Pak Ming ("Mr. Wong") and a former Director, entered into a sale and purchase agreement (the "Sale and Purchase Agreement"). Pursuant to the Sale and Purchase Agreement, Grimston would dispose of and Pegasus would acquire the entire issued and fully-paid ordinary shares of Elite Films Limited, Motion Picture Limited and Pioneer Films Limited (collectively known as the "Disposal Group") at a cash consideration of HK$29,000,000 together with the balance of payment from the sale of film rights which were signed before the date of disposal and were remained to be performed in whole or in part, a tax indemnity of HK$1,000,000 and the inter-companies balances with Grimston. The Sale and Purchase Agreement constituted a connected transaction.

Notes to Condensed Consolidated Financial Statements *(continued)*

11. Disposal of subsidiaries *(continued)*

On 3 March 2010, the Sale and Purchase Agreement was completed, details in respect of the disposal are as follows:

	Six months ended 30 June 2010 *HK$'000* (unaudited)
Net assets disposed of:	
Film rights	62
Film production in progress	624
Other payables and accruals	(134)
Amount due to Grimston	(93,148)
	(92,596)
Gain on the disposal	29,761
	(62,835)
Satisfied by:	
Cash	29,000
Net income received from customers	2,313
Tax indemnity	(1,000)
Amount due to Grimston	(93,148)
	(62,835)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the Disposal Group is as follows:

Cash consideration	29,000
Net income received from customers	2,313
Net inflow of cash and cash equivalents in respect of the disposal of the Disposal Group	31,313

12. Trade receivables

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	As at 30 June 2011 *HK$'000* **(unaudited)**	As at 31 December 2010 *HK$'000* (audited)
0 – 90 days	**4,729**	5,460
91 – 180 days	**1,477**	617
181 – 365 days	**608**	831
Over 1 year	**762**	736
	7,576	7,644

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 days to 120 days. Before accepting any new customer, the Group uses an internal credit assessment process to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

13. Trade payables

An aged analysis of the trade payables as at end of the reporting period, based on the invoice dates, is as follows:

	As at 30 June 2011 *HK$'000* **(unaudited)**	As at 31 December 2010 *HK$'000* (audited)
0 – 90 days	**1,364**	1,604
91 – 180 days	**5**	–
	1,369	1,604

14. Interest-bearing bank and other borrowings

	Effective interest rate *(%)*	Maturity	**As at 30 June 2011** *HK$'000* **(unaudited)**	As at 31 December 2010 *HK$'000* (audited)
Current				
Bank loans – secured	3.75	On demand	**1,702**	1,789
Other borrowings	10	2012	**64,634**	–
			66,336	1,789

The Group's bank borrowings were secured by the leasehold land and buildings with a carrying value of HK$5,426,000.

Notes to Condensed Consolidated Financial Statements *(continued)*

15. Convertible bonds

As part of the consideration for the acquisition of 湖南九華國際新城開發建設有限公司 (Hunan Jiuhua International City Development Construction Company Limited) ("Jiuhua"), the Company issued the convertible bonds carrying a coupon interest rate of 0.5% per annum up to an aggregate principal amount of HK$515,128,000. The bonds are convertible at the option of the bondholders into fully paid ordinary shares with a par value of HK$0.10 each of the Company at any time from the date of the issue of the bonds up to and including 26 January 2016 at an initial conversion price of HK$0.345. The Company may redeem at 100% of the principal amount in cash by giving the bondholders 10 working days' prior written notice. Any convertible bonds not converted will be redeemed on 26 January 2016 at 100% of their principal amount.

The fair value of the liability component included in other long-term borrowings was calculated using a market interest rate for an equivalent non-convertible bond. The liability component is subsequently stated at amortised cost until extinguished on conversion or maturity of the bonds. The residual amount, representing the value of the equity conversion component, is accounted for as a conversion option reserve included in reserves.

The convertible bonds recognised in the consolidated statement of financial position is calculated as follows:

	HK$'000
Nominal value of the convertible bonds issued during the period	**515,128**
Equity component	**(149,228)**
Liability component at the date of issuance	**365,900**
Conversion of convertible bonds during the period	**(222,622)**
Interest expense	**7,337**
Interest payable	**(665)**
Carrying amount as at 30 June 2011	**149,950**

Interest expense on the liability component of the convertible bond is calculated using the effective interest method, applying the effective interest rate of 7.698% per annum to the liability component.

The fair value of the liability component of the convertible bonds as at 30 June 2011 amounted to HK$150,912,000. The fair value is calculated using the market price of the convertible bonds on the reporting date (or the nearest day of trading).

16. Loans from a shareholder

As at 30 June 2011, the Group had loan balances of HK$55,000,000 and HK$5,000,000 respectively from Mr. Cheng Keung Fai ("Mr. Cheng"), a substantial shareholder of the Company, which were unsecured, borne interest at 1.5% per annum and were repayable on or before 18 April 2013 and 20 April 2013 respectively.

Notes to Condensed Consolidated Financial Statements *(continued)*

17. Share capital

	Notes	**As at 30 June 2011** ***HK$'000*** **(unaudited)**	As at 31 December 2010 *HK$'000* (audited)
Authorised:			
10,000,000,000 (2010: 10,000,000,000) ordinary shares of HK$0.10 each		**1,000,000**	1,000,000
Issued and fully paid:			
2,989,334,723 (2010: 2,090,784,000) ordinary shares of HK$0.10 each	*(d)*	**298,933**	209,078

A summary of the transactions during the current and prior periods with reference to the movements in the Company's issued ordinary share capital is as follows:

		No of shares	Amount *HK$'000*
As at 1 January 2010		2,613,480,000	261,348
Capital reorganisation	*(a)*	–	(235,213)
Open offer	*(b)*	18,294,360,000	182,943
Share consolidation	*(c)*	(18,817,056,000)	–
As at 31 December 2010 and 1 January 2011		2,090,784,000	209,078
Issued shares	*(d)*	898,550,723	89,855
As at 30 June 2011		2,989,334,723	298,933

(a) On 6 September 2010, the Company reduced the issued share capital by cancelling the paid up capital to the extent of HK$0.09 on each share such that the nominal value of all issued shares was reduced from HK$0.10 each to HK$0.01 each and the share capital of the Company was reduced by HK$235,213,000. On the same date, the share premium account of the Company of HK$224,095,000 was reduced to zero.

The credits arising in the books of accounts of the Company from the reduction in the issued share capital and the share premium account have been transferred to the contributed surplus account of the Company and an amount of HK$340,146,000 has been applied in setting off the accumulated losses of the Company of HK$340,146,000.

Notes to Condensed Consolidated Financial Statements *(continued)*

17. Share capital *(continued)*

(b) On 29 September 2010, the Company completed the open offer by issuing 18,294,360,000 shares ("Open Share(s)") on the basis of seven Open Shares for every existing share, at a subscription price at HK$0.0109 each per share, resulting in the cash consideration of HK$199,408,000, of which HK$182,943,000 was credited to the share capital and the balance of HK$16,465,000 was credited to the share premium.

(c) On 28 December 2010, every ten issued and unissued shares of HK$0.01 each in the share capital of the Company were consolidated into one consolidated share of HK$0.10 each in the share capital of the Company.

(d) During the period ended 30 June 2011, convertible bonds with principal amount of HK$310,000,000 were converted into 898,550,723 shares at HK$0.345.

18. Business combination

On 26 January 2011, the Group acquired 100% interest in Jiuhua which is a wholly-foreign-owned enterprise established in the PRC. The scope of business of Jiuhua is property development, property management and hotel management. The acquisition is aimed at diversifying the existing business.

The purchase consideration for the acquisition amounted to HK$700,000,000 which was satisfied by:

(i) as to HK$160,000,000 by cash as initial refundable deposit payable on 16 November 2010;

(ii) as to RMB21,276,150 (equivalent to approximately HK$24,872,000) to set off the shareholder's loan;

(iii) as to the remaining HK$515,128,000 by the issue of the convertible bond.

The goodwill arises from a number of factors. Most significant amongst these is synergies expected to arise after the acquisition of Jiuhua on the equity interests in the subsidiaries stated above. None of the goodwill recognised is expected to be deductible for income tax purposes.

Notes to Condensed Consolidated Financial Statements *(continued)*

18. Business combination *(continued)*

The fair values of the identifiable assets and liabilities of Jiuhua as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Note	**Fair value recognised on acquisition** *HK$'000* **(unaudited)**
Property, plant and equipment		**1,254**
Property development in progress		**721,627**
Other receivables		**136**
Prepayments and deposit paid		**1,129**
Shareholder's loan		**25,161**
Bank balances & cash		**1,710**
Accruals		**(19)**
Other loans		**(63,193)**
Deferred taxation		**(145,245)**
		542,560
Goodwill		**157,440**
		700,000
Satisfied by:		
Cash		**160,000**
Convertible bonds	*15*	**515,128**
Shareholder's loan		**24,872**
		700,000

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition is as follows:

Cash consideration	**160,000**
Cash and bank balance acquired	**(1,710)**
Net outflow of cash and cash equivalents in respect of the acquisition	**158,290**

Notes to Condensed Consolidated Financial Statements *(continued)*

18. Business combination *(continued)*

(a) Acquired receivables

The fair value of trade and other receivables is approximately HK$136,000 and do not include any trade receivables. No trade and other receivables are expected to the un-collectible.

(b) Revenue and profit contribution

The acquired business did not contribute any consolidated revenue but a consolidated loss of approximately HK$3,926,000 to the Group for the period from 27 January 2011 to 30 June 2011. If the acquisition had occurred on 1 January 2011, no consolidated revenue would be contributed but the consolidated loss for the Period would have been approximately HK$4,602,000.

19. Commitments

a) Capital commitments

As at 30 June 2011, the Group contracted for capital commitments in respect of a subsidiary in the PRC amounting to HK$35,000,000.

b) Operating lease commitments

i) As lessor

The Group leases its investment property under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 30 June 2011 *HK$'000* **(unaudited)**	As at 31 December 2010 *HK$'000* (audited)
Within one year	**18,963**	16,687
In the second to fifth years, inclusive	**79,186**	68,066
Over five years	**57,685**	57,854
	155,834	142,607

Notes to Condensed Consolidated Financial Statements *(continued)*

19. Commitments *(continued)*

b) *Operating lease commitments (continued)*

ii) *As lessee*

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 3 years.

As at the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2011 *HK$'000* **(unaudited)**	As at 31 December 2010 *HK$'000* (audited)
Within one year	**5,633**	4,491
In the second to fifth years, inclusive	**3,412**	4,963
	9,045	9,454

c) *Other commitments*

As at the end of the reporting period, the Group had the commitments for the following expenditure in respect of:

	As at 30 June 2011 *HK$'000* **(unaudited)**	As at 31 December 2010 *HK$'000* (audited)
Contracted, but not provided for:		
Production of film	**813**	18,130
Motor vehicles	**8,271**	–
Properties under development	**156,029**	–
Loans to an associate	**5,923**	24,923
	171,036	43,053
Authorised, but not contracted for:		
Properties under development	**207,498**	–
	378,534	43,053

Notes to Condensed Consolidated Financial Statements *(continued)*

20. Related party transactions

(i) Related party transactions and connected transactions

In addition to the transactions detailed elsewhere in these condensed consolidated financial statements, the Group had the following material transactions with related parties during the Period:

(a) No agency fees were charged by 廣州東影影視出品有限公司 (2010: HK$115,000) and Prime Moon International Limited (2010: HK$5,000), in which a brother and a sister of Mr. Wong have beneficial interest respectively.

(b) No production expenses (2010: HK$200,000) were paid to Mr. Wong for his service as executive producer provided to the Group in accordance with the service agreements entered into on 26 May 2009 between the Group and Pure Project Limited, of which the shareholdings are beneficially owned by Mr. Wong.

(c) No provision of shooting and editing service fee (2010: HK$151,000) were paid to Pegasus, a company in which Mr. Edmond Wong, a former Director and the son of Mr. Wong, has beneficial interest.

(d) Interest of HK$182,000 (2010: Nil) is paid to Mr. Cheng for the loans of HK$60,000,000.

(e) Service fee of HK$110,000 (2010: Nil) is paid to Mr. Cheng Ka Sing, the son of Mr. Cheng.

(f) Accountancy service fee of HK$60,000 (2010: Nil) was received from Talent Films Limited, an associate of the Company.

(ii) Compensation of key management personnel

The remunerations of the Directors during the Period are the short-term benefits of HK$1,197,000 (2010: HK$975,000). It is determined by reference to market terms, individual responsibilities and performance.

21. Approval of the condensed consolidated financial statements

The condensed consolidated financial statements were approved and authorised for issue by the Board on 29 August 2011.

Management Discussion and Analysis

We are pleased to announce the Group's interim results for the six months ended 30 June 2011 ("the Period"). Riding on our satisfactory results achieved in 2010, the Group has successfully facilitated further growth in its business during the Period, by continuing to focus on two major business segments (i) property development and rental; and (ii) film production and related businesses.

Financial highlights

For the six months ended 30 June 2011, the Group recorded a total turnover of HK$33,179,000 (2010: HK$21,237,000), representing an increase of 56.2% over the same period of last year. Gross profit also grew by 86.7% to HK$19,965,000 (2010: HK$10,696,000). The strong growth in our turnover was mainly attributable to the increase in property rental and film distribution and licensing businesses. Turnover from film production, distribution and licensing businesses, which accounted for 38.8% of the total turnover, continued to be the key growth driver to the Group's business. Meanwhile, turnover from property rental and film processing amounted to HK$8,297,000 and HK$12,009,000 respectively. Profit attributable to shareholders were HK$26,034,000 (2010: HK$30,097,000). The gain on disposal of property contributed HK$28,493,000 profit to the Group. Basic earnings per share were 0.99 HK cent (2010: 1.15 HK cents). The Board did not recommend dividend payout for the six months ended 30 June 2011 (2010: Nil). As at 30 June 2011, cash on hand was approximately HK$50,249,000 (2010: HK$57,692,000).

During the Period, the Group made a commitment for property development of approximately HK$364,000,000.

The Group incurred interest expenses of HK$2,448,000 (2010: Nil) derived from the 10%-interest RMB50,000,000 loan from acquiring a property development subsidiary, HK$7,337,000 from the convertible bonds and HK$182,000 from the 1.5%-interest shareholder's loan.

Business review

The Group is principally engaged in property development and rental in the PRC as well as film production and related businesses.

Since 2008, the Group has gradually diversified its investment to the property market of the PRC. To reflect the Group's determination to enter the property development industry, the Group appointed a new executive Director and chairman, Mr. Jin Lei, to take the leadership role in mapping out the development plan of the Group.

Property investments

Property Development

The Group acquired the entire interest of 湖南九華國際新城開發建設有限公司 (Hunan Jiuhua International City Development Construction Company Limited) ("Jiuhua") at a consideration of HK$700,000,000 in January 2011. Jiuhua engages in property development and management as well as hotel management. It owns a piece of land with a gross area of approximately 325,989 square meters. The land is situated in the Jiuhua Economic Zone, Xiangtan, Hunan Province, the PRC to be developed into low-density residential units and condominiums and townhouses, under the project name of "Oriental Venice".

Jiuhua has become the property development arm of the Group. In April 2011, Jiuhua entered into a letter of intent with Xiangtan City Land Resources Bureau to acquire a piece of land with site area of approximately 333,000 square meters (500 mu) in the Jiuhua Economic Zone, for a future phase of development of "Oriental Venice". The Group plans to fund the development project via various channels including internal resources, bank facilities and etc.

Located near Chang-Zhu-Tan City Cluster, Xiangtan City enjoys a convenient transportation system. Three highways including Changsha-Xiangtan Highway, State Highway 107 (Beijing to Shenzhen) and State Highway 320 (Shanghai to Kunming) run through the city. Changsha Huanghua International Airport, 60km from Xingtan's downtown area, offers regular flights to 50 cities. Furthermore, the PRC government is determined to improve the infrastructure in Chang-Zhu-Tan City Cluster and build it into an important engine to drive the economic development in Hunan. With favourable policy support, excellent geographical location and convenient transportation system, the "Oriental Venice" project has demonstrated its huge potential to deliver substantial profits in the coming years.

In view of the cumulative increase in the property price in Hong Kong, in January 2011, the Group disposed of the entire 3rd Floor and the roof floor of an industrial building known as Cheung Fai Industrial Building (the "Property") at the price of HK$44,093,000. The Property is located at Nos. 131-133 Wai Yip Street, Kowloon, Hong Kong with a total gross floor area of approximately 22,046 square feet. The sale of the Property was completed on 11 March 2011. To avoid unnecessary interruption to the Group's business, the Group has leased back the Property, which will continue to be occupied for its film processing business.

Property Rental

For the period ended 30 June 2011, the property rental business was operated at a profit before tax of HK$5,593,000 (2010: HK$4,660,000).

The rental income grew by 15.5% to HK$8,297,000 (2010: HK$7,183,000) during the Period, which was contributed by the commercial property in Chengdu, the PRC. The Group signed another 5-year lease with a karaoke operator. The property rental business is intended not only to provide secure income and stable cash inflow to the Group but also to preserve management cost for the maintenance of the investment property in the coming years.

Film production business

No new film was released for the period ended 30 June 2011.

During the Period, the Group continued the production of two new films, namely, the 3D film titled "The Monkey King" and a literary film titled "Hundred Years of a Floating City". Donnie Yen, the main actor in "Ip Man", together with Aaron Kwok and Chow Yun Fat will take leading roles in "The Monkey King". Based on a popular Chinese story "Journey to the West", "The Monkey King" is undergoing post-production work and is expected to be released in the Summer of 2012. In view of the flourishing 3D film market, the Group believes that the film will draw wide attention and hit the box office record again.

Meanwhile, "Hundred Years of a Floating City", directed by Yim Ho, is also in the stage of post-production. Aaron Kwok will star in the film which is expected to be released in February 2012. The Group is confident that both films will be well-received by audience and capture huge box office in the coming years. The receipts to be generated from "The Monkey King" and "Hundred Years of a Floating City" will be reflected in 2012.

Film processing

During the period under review, the local film processing industry experienced a low season due to the lack of mega film made, rising material cost, coupled with the impact of increased number of digital cinema. The Group's film processing business nevertheless managed to increase by 9.4% in turnover to HK$12,009,000 (2010: HK$10,975,000). Operating profit decreased by 28.6% to HK$2,342,000 (2010: HK$3,279,000). The Group has a market share of more than 60% among the three film processing factories in Hong Kong.

With over 40 years experience in the film processing business, the Group provides excellent services including sound recording, sound mixing and visual and subtitle, consolidating its leading film laboratory position in Hong Kong and South East Asia.

Future development

Prospect

The long-term prospects of the property market of the PRC is expected to remain positive. As Renminbi is expected to appreciate further, it will continue to boost the property price. With the fast urbanisation in the PRC, the Group will strive to grasp every opportunity to invest in the property market of the PRC.

We believe that the property market of Xiangtan, Hunan Province will continue to boom in the coming years due to the eminent housing demand from the locals, and the recent Government's tightening measures to cool down the property market are unlikely to put a halt.

The blueprint for the development of "Oriental Venice" has been finalised. It comprises residential units and a five-star hotel. To begin with, the Group plans to build the five-star hotel in order to capture the imminent demand for hotel rooms in the region.

The Group will stick to its twin-line business strategy: property and film. According to statistics from the State Administration of Radio Film and Television, the box office in the PRC hit another historical high to RMB5,698,000,000, up 17.7% comparing with 2010. Turnover from domestic films amounted to RMB2,932,000,000 and accounted for 51.45% of the total turnover. The rapid growth shows enormous development opportunities of the film market in the PRC.

"The Monkey King" and "Hundred Years of a Floating City" are expected to go on screen in 2012 and start to contribute at that time. The Group will continue to produce more high quality films that suit the demand in the market.

Looking ahead, the Group will build on a sound portfolio which generates stable cash inflow and is complemented by selected investments that offer particular potential. The Group will exploit the ups and downs of the market continuously to the benefit of the shareholders in a long run.

Liquidity and financial resources

As at 30 June 2011, the Group's net current assets was HK$476,820,000 (31 December 2010: HK$72,532,000), with current assets of HK$564,435,000 (31 December 2010: HK$95,847,000) and current liabilities of HK$87,615,000 (31 December 2010: HK$23,315,000), representing a current ratio of 6.4 (31 December 2010: 4.1).

As at 30 June 2011, the Group had cash and bank balances of HK$50,249,000 (31 December 2010: HK$64,764,000).

Capital structure

The Group's total equity amounted to HK$937,689,000 as at 30 June 2011 (31 December 2010: HK$523,852,000). The change is mainly due to the profit and the conversion of the convertible bonds during the period.

Borrowing and banking facilities

As at 30 June 2011, the Group's outstanding bank and other borrowings, loan from a shareholder and convertible bonds, were HK$276,286,000 (31 December 2010: HK$1,789,000). The bank loan is secured by the leasehold land and buildings with a carrying value of HK$5,426,000. The gearing ratio based on interest-bearing bank and other borrowings over total equity for the period was 0.295 (31 December 2010: 0.003).

Exposure to foreign exchange

The Group's assets and liabilities are mainly denominated in Hong Kong Dollars, United States Dollars and Renminbi. Income and expenses derived from the operations in the PRC were mainly dominated in Renminbi. There is no significant exposure to the fluctuation of foreign exchange rate, but the Group will closely monitor the market and make appropriate adjustments and measures when necessary.

Commitments and contingent liabilities

Save for those disclosed in Note 19 to the condensed consolidated financial statements, there were no other capital commitments nor contingent liabilities that the Group is aware of.

Staff cost, Directors' remuneration and share option scheme

Staff cost for the Period was HK$6,657,000 (2010: HK$6,714,000), representing a decrease of 0.85%. The Group had a workforce of 84 (2010: 70) staff including 46 (2010: 48) staff in the film processing business as at 30 June 2011. Salaries of employees were maintained at competitive levels while bonuses were granted on a discretionary basis.

The Group has adopted a share option scheme (the "Scheme") under which the Directors may, at their discretion, invite executive Directors and employees of the Group to take up options which entitle them to subscribe for shares representing up to a maximum of 10% of the issued share capital of the Company from time to time. For the Period, no options were granted or exercised.

Purchase, redemption and sale of shares

During the Period, 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 Period.

Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

As at 30 June 2011, none of the Directors and chief executive of the Company have any interests or short positions in the existing shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register maintained by the Company or which are required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules to be notified to the Company and the Stock Exchange.

Directors' rights to acquire shares or debentures

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 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 the Scheme on 21 August 2001 (the "Adoption Date") and the Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date subject to early termination. The Scheme expired on 20 August 2011 accordingly.

As at 30 June 2011, there was no outstanding option held by any Director, employee of the Group or any eligible persons as defined in the Scheme.

Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

As at 30 June 2011, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that the following persons had interests in 5% or more of the nominal value of the issued shares of the Company that carry a right to vote in all circumstances at the general meetings of the Company:

Name	**Type of interest**	**Number of shares**	**Approximate percentage of shareholding of the issued share capital of the Company**
Mr. CHENG Keung Fai	Personal	1,233,436,690 (Long position)	41.26%
Mr. LO Chan Kau ("Mr. Lo")	Personal *(Note 1)*	352,565,360 (Long position)	11.79%
VMS Investment Group Limited ("VMS")	Corporate *(Note 2)*	200,000,000 (Long position)	6.69%

Notes:

1. Apart from 352,565,360 shares beneficially owned by Mr. Lo, Mr. Lo is also the beneficial owner of the convertible bonds amounted to HK$153,128,000 conferring rights to subscribe for shares at a conversion price of HK$0.345 by Ya Tai (China) Investment Limited, a company incorporated in Hong Kong, of which 90% of interest in its shareholding is held by Mr. Lo.

2. Apart from 200,000,000 shares registered under the name of VMS, VMS is also the holder of the convertible bonds amounted to HK$52,000,000 conferring rights to subscribe for shares at a conversion price of HK$0.345. VMS is a company incorporated in the British Virgin Islands and the shares of which is wholly-owned by Ms. Mak Siu Hang Viola.

Corporate governance

During the six months ended 30 June 2011, 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 Listing Rules.

Model code for securities transactions by directors of listed issuers

For the six months period ended 30 June 2011, 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 30 June 2011, and they all confirmed that they had fully complied with the required standard as set out in the Model Code.

Audit Committee

The Audit Committee, comprises three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Group with the 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 30 June 2011.

List of Directors

Ms. Lai Pik Chi, Peggy retired as an executive Director and chairman of the Board on 16 May 2011. Mr. Jin Lei, who was appointed as an executive Director on 8 March 2011, was appointed as the chairman of the Board.

As at the date of this Report, the Board comprises six Directors. The executive Directors are Mr. Jin Lei (Chairman), Ms. Law Kee, Alice (Chief executive officer), and Mr. Hui Wai Lee, Willy; and the independent non-executive Directors are Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chu To, Jonathan.

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
JIN LEI
Chairman

Hong Kong, 29 August 2011