

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

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 2012 (the “Period”) with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

		Six months ended 30 June	
		2012	2011
		HK\$'000	HK\$'000
	<i>Notes</i>	(unaudited)	(restated)
		(unaudited)	(unaudited)
Revenue	4	10,977	33,179
Cost of sales		(7,567)	(13,214)
Gross profit		3,410	19,965
Other income		10,205	2,010
Impairment loss on film production		(15,000)	—
Gain on disposal of property held for sale		—	41,593
Administrative expenses		(15,242)	(15,206)
Operating (loss) profit	6	(16,627)	48,362
Finance income		359	723
Finance costs	5	(5,491)	(10,000)
Share of results of an associate		(22)	(22)
(Loss) Profit before tax		(21,781)	39,063
Income tax expense	7	(2,103)	(2,194)
(Loss) Profit for the period		(23,884)	36,869

		Six months ended 30 June	
		2012	2011
		<i>HK\$'000</i>	<i>HK\$'000</i>
			(restated)
<i>Notes</i>		(unaudited)	(unaudited)
Attributable to:			
	Equity holders of the Company	(23,963)	36,309
	Non-controlling interests	<u>79</u>	<u>560</u>
	Total	<u>(23,884)</u>	<u>36,869</u>
(Loss) Earnings per share attributable to equity holders of the Company			
	Basic	<u>9</u> <u>HK(4.89) cents</u>	<u>HK9.79 cents</u>
	Diluted	<u>N/A</u>	<u>HK7.61 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(restated) (unaudited)
(Loss) Profit for the period	(23,884)	36,869
Other comprehensive income:		
Exchange difference arising on translation of foreign operations	<u>1,521</u>	<u>15,393</u>
Total comprehensive (loss) income for the period	<u><u>(22,363)</u></u>	<u><u>52,262</u></u>
Attributable to:		
Equity holders of the Company	(22,442)	51,045
Non-controlling interests	<u>79</u>	<u>1,217</u>
	<u><u>(22,363)</u></u>	<u><u>52,262</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

		30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
	Notes		
Non-current assets			
Goodwill		194,453	194,285
Property, plant and equipment		48,776	41,444
Land use right		322,096	326,055
Investment property		352,130	351,827
Interest in an associate		66,015	66,038
Deposits paid		–	1,786
Film rights		101	101
		<u>983,571</u>	<u>981,536</u>
Total non-current assets			
Current assets			
Film production in progress		9,140	18,957
Property development in progress		434,660	428,867
Inventories		1,284	1,243
Trade receivables	10	5,574	7,043
Other receivables, prepayments and deposits paid		83,985	81,212
Tax recoverables		817	–
Cash and cash equivalents		137,748	48,133
		<u>673,208</u>	<u>585,455</u>
Total current assets			
Current liabilities			
Trade payables	11	6,596	8,618
Other payables, accruals and deposits received		29,555	24,740
Interest-bearing bank and other borrowings	12	63,083	108,721
Obligations under finance leases		1,164	1,034
Loans from a shareholder	14	14,640	14,640
Tax payable		5,985	3,263
		<u>121,023</u>	<u>161,016</u>
Total current liabilities			
Net current assets		<u>552,185</u>	<u>424,439</u>
Total assets less current liabilities		<u>1,535,756</u>	<u>1,405,975</u>

		30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
	<i>Notes</i>		
Non-current liabilities			
Convertible bonds	13	40,679	39,304
Deposit received		3,067	1,514
Deferred tax liabilities		265,405	265,788
Obligations under finance leases		4,311	4,398
		<hr/>	<hr/>
Total non-current liabilities		313,462	311,004
		<hr/>	<hr/>
Net assets		1,222,294	1,094,971
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Equity attributable to equity holders of the Company			
Issued capital	15	6,866	343,318
Reserves		1,215,428	721,226
		<hr/>	<hr/>
		1,222,294	1,064,544
		<hr/>	<hr/>
Non-controlling interests		–	30,427
		<hr/>	<hr/>
Total equity		1,222,294	1,094,971
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to equity holders of the Company										
	Issued capital	Share premium	Contributed surplus**	Asset revaluation reserve	Equitable component of the convertible bonds	Exchange reserve	Special reserve***	Retained profits	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2012	343,318	347,213	119,162	-	15,064	50,298	17,926	171,563	1,064,544	30,427	1,094,971
Exchange differences arising on transaction of foreign operations	-	-	-	-	-	1,521	-	-	1,521	-	1,521
Loss for the period	-	-	-	-	-	-	-	(23,963)	(23,963)	79	(23,884)
Total comprehensive income for the period	-	-	-	-	-	1,521	-	(23,963)	(22,442)	79	(22,363)
Capital reorganisation	(339,885)	-	339,885	-	-	-	-	-	-	-	-
Issue of shares (note 15)	3,433	181,272	-	-	-	-	-	-	184,705	-	184,705
Share issue expenses	-	(5,019)	-	-	-	-	-	-	(5,019)	-	(5,019)
Acquisition of non-controlling interests	-	-	-	-	-	-	-	506	506	(30,506)	(30,000)
At 30 June 2012	6,866	523,466*	459,047*	-	15,064*	51,819*	17,926*	148,106*	1,222,294	-	1,222,294
As at 1 January 2011, as previously reported	209,078	10,827	119,162	14,051	-	9,913	17,926	116,683	497,640	26,212	523,852
Effect of change in accounting policies	-	-	-	(14,051)	-	-	-	(94)	(14,145)	-	(14,145)
At 1 January 2011 (restated)	209,078	10,827	119,162	-	-	9,913	17,926	116,589	483,495	26,212	509,707
Exchange differences arising on transaction of foreign operations	-	-	-	-	-	14,736	-	-	14,736	657	15,393
Profit for the period (restated)	-	-	-	-	-	-	-	36,309	36,309	560	36,869
Total comprehensive income for the period	-	-	-	-	-	14,736	-	36,309	51,045	1,217	52,262
Issue of convertible bonds	-	-	-	-	149,228	-	-	-	149,228	-	149,228
Issue of shares	89,855	222,571	-	-	(89,804)	-	-	-	222,622	-	222,622
At 30 June 2011 (restated)	298,933	233,398*	119,162*	-	59,424*	24,649*	17,926*	152,898*	906,390	27,429	933,819

* These reserve accounts comprise the consolidated reserves of HK\$1,215,428,000 (30 June 2011 (restated)): HK\$607,457,000) in the condensed consolidated statement of financial position.

** Contributed surplus of the Group arising in this period was from the Company's capital reorganisation on 24 May 2012 (note 15(b)).

*** 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Net cash flows from (used in):		
Operating activities	(7,464)	(57,400)
Investing activities	(32,231)	45,104
Financing activities	128,535	(2,453)
Net increase (decrease) in cash and cash equivalents	88,840	(14,749)
Cash and cash equivalents at 1 January	48,133	64,764
Effect of foreign exchange rate changes, net	775	234
Cash and cash equivalents at 30 June	137,748	50,249
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents as stated		
in the consolidated statement of financial position	137,748	50,249

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 an investment property, which have been measured at fair value.

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 2011 except for the new adoption of Hong Kong Financial Reporting Standards (“HKFRSs”) and HKASs as disclosed below.

- (a) Amended standards that have been issued and are effective for periods commencing on 1 January 2012:

HKFRS 7 (Amendment)	Disclosures – Transfers of financial assets
HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first time adopters

The adoption of these revised standards had no significant financial effect on these unaudited condensed consolidated financial statements.

HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets
---------------------	---

In December 2010, the HKICPA amended HKAS 12 “Income taxes” to introduce an exception to the principle for the measurement of deferred tax assets and liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely through sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012.

For an investment property amounting to HK\$352,130,000, held by a subsidiary with a business model to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. For this investment property, the presumption is rebutted and related deferred tax is not remeasured.

- (b) The following new, and amended HKFRSs have been issued, but are not effective for the Group’s accounting period beginning on 1 January 2012 and have not been early adopted:

HKAS 1 (Amendment)	Presentation of items of other comprehensive income ¹
HKAS 19 (2011)	Employee benefits ²
HKAS 27 (2011)	Separate financial statements ²
HKAS 28 (2011)	Investments in associates and joint ventures ²
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities ³
HKFRS 7 (Amendment)	Disclosure – Offsetting financial assets and financial liabilities ²
HKFRS 9	Financial instruments ⁴
HKFRS 10	Consolidated financial statements ²
HKFRS 11	Joint arrangements ²
HKFRS 12	Disclosure of interests in other entities ²
HKFRS 13	Fair value measurement ²

¹ Effective for annual periods beginning on 1 July 2012

² Effective for annual periods beginning on 1 January 2013

³ Effective for annual periods beginning on 1 January 2014

⁴ Effective for annual periods beginning on 1 January 2015

The Group is in the process of making an assessment of the impact of adoption of the above new standards, amendments and interpretations that have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted, but is not yet in a position to state whether these new standards or amendments would have a significant impact on its results of operations and financial position.

- (c) Change in accounting policy

The Group has changed its accounting policy for measurement of land and buildings in the financial year ended 31 December 2011 from revaluation model to cost model such that land and buildings are now stated at cost less accumulated depreciation and impairment provision.

This change in accounting policy has been accounted for retrospectively and the comparative figures for the prior period has been restated.

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 2012

	Property rental <i>HK\$'000</i>	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Property and hotel development <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:						
External revenue	4,065	1,663	5,249	–	–	10,977
Intersegment revenue	–	–	123	–	(123)	–
Total revenue	<u>4,065</u>	<u>1,663</u>	<u>5,372</u>	<u>–</u>	<u>(123)</u>	<u>10,977</u>
Segment results	<u>9,188</u>	<u>(20,511)</u>	<u>(1,680)</u>	<u>(2,121)</u>	<u>(123)</u>	<u>(15,247)</u>
Unallocated other income						1,000
Unallocated corporate expenses						(2,402)
Finance income						359
Finance costs						<u>(5,491)</u>
Loss before tax						(21,781)
Income tax expense						<u>(2,103)</u>
Loss for the period						<u><u>(23,884)</u></u>

For the six months ended 30 June 2011 (restated)

	Property rental <i>HK\$'000</i>	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Property and hotel development <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:						
External revenue	8,297	12,873	12,009	–	–	33,179
Intersegment revenue	–	–	165	–	(165)	–
Total revenue	<u>8,297</u>	<u>12,873</u>	<u>12,174</u>	<u>–</u>	<u>(165)</u>	<u>33,179</u>
Segment results	<u>5,593</u>	<u>4,991</u>	<u>2,330</u>	<u>(1,435)</u>	<u>–</u>	11,479
Unallocated other income						112
Unallocated corporate expenses						(4,844)
Finance income						723
Finance costs						(10,000)
Gain on disposal of property held for sale						<u>41,593</u>
Profit before tax						39,063
Income tax expense						<u>(2,194)</u>
Profit for the period						<u>36,869</u>

The following table presents segment assets of the Group's operating segments as at 30 June 2012 and 31 December 2011:

As at 30 June 2012

	Property rental <i>HK\$'000</i>	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Property and hotel development <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	354,770	80,249	9,564	1,067,526	1,512,109
Unallocated corporate assets					<u>144,670</u>
Total assets					<u>1,656,779</u>

As at 31 December 2011

	Property rental <i>HK\$'000</i>	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Property and hotel development <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	354,531	88,570	10,557	1,057,049	1,510,707
Unallocated corporate assets					<u>56,284</u>
Total assets					<u><u>1,566,991</u></u>

5. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interest on bank loans and other borrowings wholly repayable within five years	9,910	2,481
Interest on convertible bonds	1,504	7,337
Interest on loans from a shareholder	73	182
Interest on finance leases	118	–
Less: Amounts capitalised on qualifying assets	<u>(6,114)</u>	<u>–</u>
Total finance costs	<u><u>5,491</u></u>	<u><u>10,000</u></u>

6. OPERATING (LOSS) PROFIT

The Group's operating (loss) profit has been arrived at after charging (crediting):

	Six months ended 30 June	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(restated) (unaudited)
Auditor's remuneration	825	755
Cost of inventories recognised as expenses*	3,637	8,243
Write-back of impairment of trade receivables	(1,025)	(560)
Net compensation received relating to termination of a tenancy agreement	(7,219)	–
Minimum lease payments under operating lease	2,842	2,719
Depreciation	2,003	1,517
Professional fees	1,700	1,829
Impairment loss on film production**	15,000	–
Gain on disposal of property held for sale	<u>–</u>	<u>(41,593)</u>

- * *Cost of inventories recognised as expenses for the period are included in “cost of sales” on the face of the condensed consolidated income statement.*
- ** *Impairment loss of HK\$15,000,000 relates to the write down of the production costs incurred in the movie of “Floating City”, with the recoverable amount being the fair value less costs to sell.*

7. INCOME TAX 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 (2011: 16.5%). Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the PRC income tax rate is unified to 25% for all enterprises. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
		(restated)
	(unaudited)	(unaudited)
Group:		
Current – Hong Kong	(1)	1,794
Current – PRC	2,716	–
Deferred	(612)	400
	<hr/>	<hr/>
Total tax charge for the period	<u>2,103</u>	<u>2,194</u>

8. DIVIDEND

No dividend was paid or proposed during the Period (2011: Nil).

9. LOSS/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss/earnings per share amount is based on the loss for the Period of HK\$23,963,000 (2011 (restated): profit of HK\$36,309,000) attributable to owners of the Company, and the weighted average number of 490,104,000 (2011 (restated): 370,925,000) ordinary shares in issue during the Period.

No adjustment has been made to the basic loss per share for the Period in respect of a dilution as the convertible bonds outstanding has an anti-dilutive effect on the basic loss per share for the Period.

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 and the bonus element of the open offer made during the period has a dilutive effect on the basic earnings per share during the previous period.

10. 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 2012 <i>HK\$'000</i> (unaudited)	As at 31 December 2011 <i>HK\$'000</i> (audited)
0 – 90 days	2,021	4,076
91 – 180 days	1,070	1,554
181 – 365 days	1,614	685
Over 1 year	869	728
	<u>5,574</u>	<u>7,043</u>

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.

11. 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 2012 <i>HK\$'000</i> (unaudited)	As at 31 December 2011 <i>HK\$'000</i> (audited)
0 – 90 days	<u>6,596</u>	<u>8,618</u>

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

			As at 30 June 2012 HK\$'000 (unaudited)	As at 31 December 2011 HK\$'000 (audited)
	Effective interest rate (%)	Maturity		
Current				
Bank loans – secured	3.75	On demand	1,522	1,613
Other borrowings – secured	15	September 2012	–	45,600
Other borrowings – unsecured	15	April 2013	61,561	61,508
			63,083	108,721

At 30 June 2012, the Group's bank borrowings were secured by the leasehold land and buildings with a net carrying value of HK\$795,000.

13. 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 bond carrying a coupon interest rate of 0.5% per annum up to an aggregate principal amount of HK\$515,128,000. The bond is 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 bond up to and including 26 January 2016 at an initial conversion price of HK\$0.345. According to the terms and conditions of the convertible bond, the conversion price of the convertible bond has been adjusted from the initial conversion price of HK\$0.345 per conversion share to HK\$3.45 per conversion share following completion of the capital reorganisation, and then to HK\$2.425 per conversion share as a result of the completion of the open offer on 26 June 2012. 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 bond. 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 in 2011	515,128
Equity component	<u>(149,228)</u>
Liability component at the date of issuance	365,900
Conversion of convertible bonds in 2011	(336,462)
Interest expense accrued from issuance to 30 June 2012	12,363
Interest payable as at 30 June 2012	<u>(1,122)</u>
Carrying amount as at 30 June 2012	<u><u>40,679</u></u>

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.

14. LOANS FROM A SHAREHOLDER

As at 30 June 2012, the Group had loan balances of HK\$14,640,000 (31 December 2011: HK\$14,640,000) from Mr. Cheng Keung Fai ("Mr. Cheng"), a substantial shareholder of the Company, which were unsecured, borne interest at 1% per annum and were repayable on or before April 2013, but contain a repayment on demand clause.

15. SHARE CAPITAL

	As at 30 June 2012 HK\$'000 (unaudited)	As at 31 December 2011 HK\$'000 (audited)
Authorised:		
100,000,000,000 (2011: 10,000,000,000) ordinary shares of HK\$0.01 (2011: HK\$0.10) each	<u><u>1,000,000</u></u>	<u><u>1,000,000</u></u>
Issued and fully paid:		
686,637,000(2011:3,433,184,000) ordinary shares of HK\$0.01 (2011: HK\$0.10) each	<u><u>6,866</u></u>	<u><u>343,318</u></u>

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
At 1 January 2011		2,090,784,000	209,078
Issue of shares		<u>1,342,400,000</u>	<u>132,240</u>
31 December 2011 and 1 January 2012		3,433,184,000	343,318
Share consolidation	(a)	(3,089,865,000)	–
Capital reorganisation	(b)	–	(339,885)
Open offer	(c)	<u>343,318,000</u>	<u>3,433</u>
At 30 June 2012		<u>686,637,000</u>	<u>6,866</u>

- (a) On 24 May 2012, every ten issued and unissued shares of HK\$0.1 each in the share capital of the Company were consolidated into one consolidated share of HK1.0 each in the share capital of the Company.
- (b) On 24 May 2012, the Company reduced the issued share capital by cancelling the paid up capital to the extent of HK0.99 on each consolidated share such that the nominal value of all issued shares was reduced from HK\$1.0 each to HK0.01 each and the share capital of the Company was reduced by approximately HK\$339,885,000 and the credit arising was transferred to the contributed surplus of the Company.
- (c) On 26 June 2012, the Company completed the open offer by issuing approximately 343,318,000 shares ("offer shares") on the basis of 1 offer share for every existing share, at a subscription price of HK\$0.538 per offer share, resulting in the cash consideration of HK\$184,705,000, of which HK\$3,433,000 was credited to the share capital and the balance of HK\$181,272,000 was credited to the share premium.

16. COMMITMENTS

a) 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 15 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the 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 2012 HK\$'000 (unaudited)	As at 31 December 2011 HK\$'000 (audited)
Within one year	15,931	19,413
In the second to fifth years, inclusive	67,433	81,469
Over five years	215,704	48,659
	<u>299,068</u>	<u>149,541</u>

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 2012 HK\$'000 (unaudited)	As at 31 December 2011 HK\$'000 (audited)
Within one year	3,522	5,412
In the second to fifth years, inclusive	509	996
	<u>4,031</u>	<u>6,408</u>

b) 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 2012 HK\$'000 (unaudited)	As at 31 December 2011 HK\$'000 (audited)
Contracted, but not provided for:		
Production of film	–	986
Motor vehicles	–	696
Properties under development	170,936	150,466
Loans to an associate	5,923	5,923
	176,859	158,071
Authorised, but not contracted for:		
Properties under development	1,530,355	1,592,185
	1,707,214	1,750,256

17. LITIGATION

On 9 July 2012, a summons was served on 成都中發黃河實業有限公司 (Chengdu Zhongfa Real Estate Development Co. Ltd.) (the “PRC Subsidiary”), an indirect wholly-owned subsidiary of the Company, as one of the defendants in a civil complaint issued by 四川民族飯店 (the “Plaintiff”). The Plaintiff alleged that 中國中小企業投資有限公司, 成都弘易地產有限責任公司 and the PRC Subsidiary (together the “Defendants”) colluded with each other to cheat the Plaintiff of its land use rights of certain land(s) in the PRC by way of certain contracts made in 1995, 1997 and 2003. The Plaintiff petitioned the Higher People’s Court of Sichuan Province (the “Court”) to declare all those contracts void, to return the land use rights of the land(s) to the Plaintiff and to award damages and costs in favour of the Plaintiff. The Directors have appointed a PRC lawyer to provide legal advice and handle this matter. According to the summons issued by the Court, the Defendants are required to appear before the Court on 20 September 2012. Because of the uncertainty of the outcome of this matter, the Directors are of the opinion that no provision in the legal and compensation costs would be made. The Plaintiff’s claims had not been substantiated up to the date of approval of these condensed consolidated financial statements.

18. 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) Interest of HK\$73,000 (2011: HK\$182,000) was paid to Mr. Cheng Keung Fai (“Mr. Cheng”), a substantial shareholder of the Company, for the loans of HK\$14,640,000.
- (b) Service fee of HK\$Nil (2011: HK\$110,000) was paid to Mr. Cheng Ka Sing, the son of Mr. Cheng.
- (c) Accountancy service fee of HK\$60,000 (2011: HK\$60,000) was received from Talent Films Limited, an associate of the Company.
- (d) Underwriting commission of HK\$2,367,000 (2011: HK\$Nil) was paid to Mr. Cheng for being the underwriter of the open offer of the Company completed on 26 June 2012.

(ii) Compensation of key management personnel

The remunerations of the Directors during the Period are the short-term benefits of HK\$936,000 (2011: HK\$1,197,000). It is determined by reference to market terms, individual responsibilities and performance.

19. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the Board on 29 August 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

We are pleased to announce the Group's interim results for the six months ended 30 June 2012 ("the Period"). During the period under review, the Group continues its twin-line business by focusing on two major business segments; (i) property development and investment; and (ii) film production and related businesses.

Financial Highlights

For the six months ended 30 June 2012, the Group's turnover and gross profit dropped by 66.9% to HK\$10,977,000 (2011: HK\$33,179,000) and 82.9% to HK\$3,410,000 (2011: HK\$19,965,000) respectively over the same period of last year. Loss for the Group made during the Period is mainly attributable to the following: (i) the impairment loss due to the expected loss from film production and release of the movie "Floating City"; and (ii) the decrease in both revenue and contribution from film processing business due to the advancement in digital technology.

Turnover from film production, distribution and licensing, and film processing businesses, which in aggregate accounted for 63.0% of the total turnover, amounted to approximately HK\$1,663,000 and HK\$5,249,000 respectively, continued to be the major revenue source of the Group. Meanwhile, turnover from property rental remained stable, with contribution amounting to approximately HK\$4,065,000. Loss attributable to shareholders was HK\$23,963,000 (2011: profit of HK\$36,309,000). Basic loss per share was HK\$4.89 cent (2011: earnings of HK\$9.79 cent). The Board does not recommend dividend payout for the six months ended 30 June 2012 (2011: Nil). As at 30 June 2012, cash on hand was approximately HK\$137,748,000 (2011: HK\$50,249,000).

Capital reorganisation and open offer

In February 2012, the Group proposed a capital reorganisation and an open offer to raise approximately HK\$185,000,000, before expenses, by issuing approximately 343,318,000 offer shares to the qualifying shareholders at the subscription price of HK\$0.538 per offer share. The net proceeds of approximately HK\$180,000,000, after reduction of expenses, are to be utilised in three aspects: (1) HK\$75,600,000 to repay a short-term loan due in September 2012 which was repaid in June 2012; (2) approximately HK\$95,000,000 for construction and development costs of the property project in Hunan Province, the PRC; and (3) the remaining amount of approximately HK\$9,400,000 as general working capital of the Group. The capital reorganisation and the open offer were duly passed by the shareholders at the special general meeting of the Company held on 23 May 2012 and the open offer was completed on 26 June 2012.

Business Review

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

Property Development and Investment Business

Property Development

After acquiring the entire interest of Hunan Jiuhua International City Development Construction Company Limited (“Jiuhua”) in 2010, the Group has started to develop a piece of land sized 325,989 square meters. The land was situated in Jiuhua Economic Zone, Xiangtan, Hunan Province, the PRC with plan for the development and construction of “Oriental Venice”. This area is being developed as phase 1 of the “Oriental Venice” project in building low-density residential units and a five-star hotel, both of which are under construction.

The building survey and the installation of water/power supply and pipe network for the project has been completed. The Group has also completed the construction of private circulatory roads and the initial landscape work, and the foundation work for the hotel is in progress. The Group intends to engage a professional hotel management company to manage the hotel under the project. The manager of the hotel will report to the management of the Group.

The Group remains optimistic towards the project on the overall and is anticipated to enjoy stable growth amid macroeconomic adjustments. Xiangtan was selected as a developmental zone of a two-oriented society, upholding visions of resource-saving and environmental-friendly under the model of new urbanisation, new industrialisation and agricultural industrialisation. The unique developmental positioning of Jiuhua has attracted buyers proven by salient consumer preference towards the district, amid the modulations in residential sector.

Located near Chang-Zhu-Tan City Cluster, Xiangtan 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 Airport, 60km from Xiangtan’s downtown area, offers regular flights to 50 cities. With favourable policy support, excellent geographical location and convenient transportation system, the project has demonstrated its huge potential to deliver substantial profits in the coming years.

Property Rental

For the period ended 30 June 2012, the property rental business was operated at a profit before tax of HK\$9,188,000 (2011: HK\$5,593,000), up by 64.3%, which was contributed by the commercial property in Chengdu, the PRC. The Group currently holds long-term tenancies and full occupancy is achieved. The property rental business not only provides secure income and stable cash inflow to the Group but also preserves management cost for the maintenance of the investment property in the coming years.

In February 2012, the tenant operating a department store terminated the tenancy agreement and compensated the Group for an amount of RMB6,500,000 which was recorded during the period under review. The Group subsequently signed a 15-year lease with a supermarket and a karaoke operator respectively to fill up the vacant premises.

On 9 July 2012, 成都中發黃河實業有限公司 (Chengdu Zhongfa Real Estate Development Co. Ltd.), an indirect wholly-owned subsidiary of the Company (the “PRC Subsidiary”), received a civil complaint from the Higher People’s Court of Sichuan Province, the PRC (the “Court”). The civil complaint was issued by 四川民族飯店 (the “Plaintiff”) as the plaintiff against (1) 中國中小企業投資有限公司; (2) 成都弘易地產有限責任公司; and (3) the PRC Subsidiary (together, the “Defendants”) as the defendants. The Plaintiff alleged that the Defendants colluded with each other to cheat the Plaintiff of its land use rights of certain land(s) in the PRC by way of certain contracts made in 1995, 1997 and 2003. The Plaintiff petitioned the Court to declare all those contracts void, to return the land use rights of the land(s) to the Plaintiff and to award damages and costs in favour of the Plaintiff. According to the summons issued by the Court, the Defendants are required to appear before the Court on 20 September 2012. The allegations made in the complaint are not fully comprehensible to the Directors and legal advisers have been appointed to handle the matter. Please refer to the Company’s announcement on 10 July 2012 for details.

Film Related Business

Film Production

In May 2012, “Floating City”, directed by Yim Ho and starred by Aaron Kwok and Charlie Young, was released. Having taken into account the expected revenue to be generated from the film, the management considered making an impairment loss of HK\$15,000,000 on this film production during the Period.

During the Period, the Group continued the production of 3D film “The Monkey King”. Donnie Yen, the main actor in “Ip Man”, together with Aaron Kwok and Chow Yun Fat take leading roles in “The Monkey King”. Based on a popular Chinese story “Journey to the West”, post-production of “The Monkey King” is undergoing in the United States of America (the “US”) in order to cater for the international market appetite. It is expected to be launched in the summer of 2013 and kick off the sale of film distribution and licensing rights at the AFM film exhibition in the US. In view of the flourishing 3D film market, the Group believes that the film will be able to draw wide attention and hit the box office record again, especially in the upsurging PRC film market.

Film processing

During the Period, the local film processing industry experienced a low season due to absence of mega film made, rise of material cost, coupled with the impact of increased number of digital cinema. The Group’s film processing business dropped 56.3% in turnover to HK\$5,249,000 (2011: HK\$12,009,000). Operating profit dropped significantly from profit of HK\$2,330,000 in 2011 to a loss of HK\$1,680,000 in 2012. Still, the Group has secured a market share of more than 60% among the three film processing factories in Hong Kong.

The Group has decided to contain the cost structure by downsizing its film processing operation and relocating to a smaller sized factory in September 2012.

Prospects

The long-term prospects of the property market in the PRC is expected to remain positive. As Renminbi is expected to appreciate further, it will continue to boost the property price and hence add a premium onto the Group's return in property investment in the PRC.

In line with the central government's strategic switch to urbanised inland areas, the Group will capitalise the opportunity by investing in Jiuhua. We believe that property market in Xiangtan, Hunan Province will continue to boom in the coming years due to salient housing demand from locals. As shown in the 2011 statistical findings from the Hunan Provincial Bureau of Statistics, property investment from individual buyers recorded a 31.7% growth. Recent tightening measures have already halted the trend of overheat and effectively stabilised the market. We are confident that the development of "Oriental Venice" would be a signature investment project of the Group by drawing huge income stream from the sale of residential units and stable cash inflow from hotel operations.

The Group would continue its twin-line business strategy: property and film. With the central government's support to the cultural sector as stated in the Twelfth Five Year Plan, investment and infrastructural development are expected to boost. This is coupled with the audience's support towards films as proven by annual turnover hitting historic high. All these depict enormous development opportunities of the film market in the PRC. Expected to go on screen in 2013, "The Monkey King" would start to contribute revenue soon. The Group is reviewing film scripts at the moment and 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 flow and is complemented by selected opportunistic investments that offer particular potential. The Group would put tremendous effort in excelling in our every business and maximising shareholder's return.

Liquidity and financial resources

As at 30 June 2012, the Group's net current assets was HK\$552,185,000 (31 December 2011: HK\$424,439,000), with current assets of HK\$673,208,000 (31 December 2011: HK\$585,455,000) and current liabilities of HK\$121,023,000 (31 December 2011: HK\$161,016,000), representing a current ratio of 5.6 (31 December 2011: 3.6).

As at 30 June 2012, the Group had cash and bank balances of HK\$137,748,000 (31 December 2011: HK\$48,133,000).

Capital structure

The Group's total equity amounted to HK\$1,222,294,000 as at 30 June 2012 (31 December 2011: HK\$1,094,971,000).

Borrowing and banking facilities

As at 30 June 2012, the Group's outstanding bank and other borrowings, loans from a shareholder and convertible bonds, were HK\$118,402,000 (31 December 2011: HK\$162,665,000). The bank loan is secured by the leasehold land and buildings with a carrying value of HK\$795,000. The gearing ratio based on interest-bearing bank and other borrowings, loans from a shareholder, the obligations under finance leases and convertible bonds over total equity as at 30 June 2012 was 0.101 (31 December 2011: 0.153).

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 denominated in Renminbi. There is no significant exposure to the fluctuation of foreign exchange rate, however, 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 16 and 17 to the condensed consolidated financial statements, there were no other capital commitments nor contingent liabilities that the Group is aware of.

Employees and remuneration policies

Staff cost for the Period was HK\$7,422,000 (2011: HK\$6,657,000), representing an increase of 11.5%. The Group had a workforce of 83 (2011: 84) staff including 46 (2011: 46) staff in the film processing business as at 30 June 2012. Salaries of employees were maintained at competitive levels while bonuses were granted on a discretionary basis.

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 2012, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2012, 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	431,132,580 (Long position)	62.79%
Mr. LO Chan Kau	Personal	79,641,463 (Long position)	11.60%

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 30 June 2012.

CORPORATE GOVERNANCE

During the period under review, the Company has complied with the code provisions of (i) the former Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during the period from 1 January 2012 to 31 March 2012 and (ii) the revised and renamed Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (the “Code”) for the period from 1 April 2012 to 30 June 2012.

Under the code provision F.1.1 of the Code, the Company engages Mr. Chan Chun Fat as its company secretary. Mr. Chan is a practising solicitor and in performing his duties as the company secretary of the Company, he reports to the Board and maintains contacts with the chief executive officer of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

For the six months period ended 30 June 2012, 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 2012, 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 2012.

LIST OF DIRECTORS

As at the date of this announcement, 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 2012

As at the date of this announcement, 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.

* *For the purpose of identification only*