

Interim Report 2010

China Mandarin

China Mandarin Holdings Limited

2010



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

(Incorporated in Bermuda with limited liability)

Stock Code : 00009

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Corporate Information

Board of Directors

Executive Directors:

Ms. Lai Pik Chi, Peggy (*Chairman*)
Ms. Law Kee, Alice (*Chief Executive Officer*)
Mr. Hui Wai Lee, Willy

Independent Non-executive Directors:

Mr. Choy Sze Chung, Jojo
Mr. Tsui Pui Hung
Mr. Chan Tung Tak, Alain

Company Secretary

Mr. Chan Chun Fat

Solicitors

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

Auditors

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, 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. Choy Sze Chung, Jojo (*Chairman*)
Mr. Tsui Pui Hung
Mr. Chan Tung Tak, Alain

Remuneration Committee

Mr. Chan Tung Tak, Alain (*Chairman*)
Mr. Choy Sze Chung, Jojo
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 of directors (the “Board”) 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 2010 with the comparative figures as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Continuing Operations			
Revenue	4	21,237	85,601
Cost of sales		(10,541)	(70,568)
Gross profit		10,696	15,033
Other income		2,545	1,342
Administrative expenses		(10,932)	(15,001)
Finance income		7	20
Finance costs	5	(54)	(3,527)
Share of results of jointly-controlled entities		–	(2,158)
Gain on disposal of subsidiaries	11	29,761	198
Fair value loss on derivative component of convertible bonds		–	(17,776)
Gain on disposal of items of property, plant and equipment		–	39
Profit (Loss) before tax from continuing operations	6	32,023	(21,830)
Income tax expense	7	(1,846)	(770)
Profit (Loss) for the period from continuing operations		30,177	(22,600)
Discontinued Operation			
Loss for the period from a discontinued operation	8	–	(211)
Profit (Loss) for the period		30,177	(22,811)
Attributable to:			
Owners of the Company		30,097	(23,040)
Non-controlling interests		80	229
Total		30,177	(22,811)
Earnings (Loss) per share attributable to owners of the Company			
Basic	10		
– For profit (loss) for the period		HK1.15 cents	HK(1.05) cents
– For profit (loss) from continuing operations		HK1.15 cents	HK(1.05) cents
Diluted			
– For profit (loss) for the period		N/A	N/A
– For profit (loss) from continuing operations		N/A	N/A

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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit (Loss) for the period	30,177	(22,811)
Other comprehensive income (loss):		
Exchange difference arising on translation of foreign operations	908	(27)
Total comprehensive income (loss) for the period	31,085	(22,838)
Attributable to:		
Owners of the Company	30,883	(23,064)
Non-controlling interests	202	226
	31,085	(22,838)

Condensed Consolidated Statement of Financial Position

As at 30 June 2010

	<i>Notes</i>	As at 30 June 2010 HK\$'000 (unaudited)	As at 31 December 2009 HK\$'000 (as restated)
Non-current Assets			
Property, plant and equipment		7,922	4,957
Investment property		285,095	283,801
Interest in an associate		4	–
Deposit paid		1,666	1,666
Film rights		1	–
Total non-current assets		294,688	290,424
Current Assets			
Film rights		–	1
Film production in progress		61,590	55,767
Inventories		1,981	2,237
Trade receivables	12	7,310	7,320
Other receivables, prepayments and deposits paid		5,340	1,786
Cash and cash equivalents		57,692	32,892
		133,913	100,003
Assets of a disposal group classified as held for sale		–	686
Total current assets		133,913	100,689
Current Liabilities			
Trade payables	13	1,490	1,027
Other payables, accruals and deposits received		74,634	70,365
Amount due to an associate		4	–
Obligations under a finance lease		–	92
Interest-bearing bank and other borrowings	14	173	169
Tax payable		994	1
		77,295	71,654
Liabilities directly associated with the assets classified as held for sale		–	134
Total current liabilities		77,295	71,788
Net Current Assets		56,618	28,901
Total Assets Less Current Liabilities		351,306	319,325

Condensed Consolidated Statement of Financial Position *(continued)*

As at 30 June 2010

	<i>Notes</i>	As at 30 June 2010 HK\$'000 (unaudited)	As at 31 December 2009 HK\$'000 (as restated)
Non-current Liabilities			
Interest-bearing bank and other borrowings	<i>14</i>	1,701	1,789
Deposit received		913	1,078
Deferred tax liabilities		66,631	65,474
Obligations under a finance lease		–	8
		<hr/> 69,245 <hr/>	68,349
Total non-current liabilities			
		69,245	68,349
Net assets		<hr/> 282,061 <hr/>	250,976
Equity			
Equity Attributable to Owners of the Company			
Issued capital	<i>15</i>	261,348	261,348
Reserves		(3,223)	(34,106)
		<hr/> 258,125 <hr/>	227,242
Non-controlling Interests		23,936	23,734
		<hr/> 23,936 <hr/>	23,734
Total equity		<hr/> 282,061 <hr/>	250,976

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Attributable to owners of the Company						Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Issued capital HK\$'000	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Special reserve HK\$'000	Share options reserve HK\$'000	Accumulated losses HK\$'000			
At 1 January 2010	261,348	224,095	2,998	17,926	-	(279,125)	227,242	23,734	250,976
Profit for the period	-	-	-	-	-	30,097	30,097	80	30,177
Exchange difference arising on translation of foreign operations	-	-	786	-	-	-	786	122	908
Total comprehensive income for the period	-	-	786	-	-	30,097	30,883	202	31,085
At 30 June 2010	261,348	224,095*	3,784*	17,926*	-*	(249,028)*	258,125	23,936	282,061
At 1 January 2009	217,790	205,370	2,881	17,926	1,674	(287,493)	158,148	22,801	180,949
Profit (Loss) for the period	-	-	-	-	-	(23,040)	(23,040)	229	(22,811)
Exchange difference arising on translation of foreign operations	-	-	(24)	-	-	-	(24)	(3)	(27)
Total comprehensive income (loss) for the period	-	-	(24)	-	-	(23,040)	(23,064)	226	(22,838)
Contribution from non-controlling interests	-	-	-	-	-	-	-	335	335
Transferred to accumulated losses on forfeiture of share options	-	-	-	-	(692)	692	-	-	-
At 30 June 2009	217,790	205,370*	2,857*	17,926*	982*	(309,841)*	135,084	23,362	158,446

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 approximately 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.

* These reserve accounts comprise the consolidated reserves of HK\$3,223,000 (30 June 2009: HK\$82,706,000).

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net Cash Flows From (Used in):		
Operating activities	(2,334)	14,583
Investing activities	27,457	589
Financing activities	(238)	6,197
	<hr/>	<hr/>
Net increase in cash and cash equivalents	24,885	21,369
Cash and cash equivalents at 1 January	32,892	9,356
Effect of foreign exchange rate changes, net	(85)	–
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	57,692	30,725
	<hr/>	<hr/>
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	57,692	30,725
	<hr/>	<hr/>

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”).

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 on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

3. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost convention except for an investment property and derivative component of the convertible bonds, which have been measured at fair values.

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 2009 except for the new adoption of Hong Kong Financial Reporting Standards (“HKFRSs”) and HKASs as disclosed below.

In the current period, the Group has applied, for the first time, the following new and revised standards, amendment and interpretations (the “new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2010:-

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
Amendments to HKFRS 5 included Improvement to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary
HK Interpretation 4 (Revised in December 2009)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs

Notes to Condensed Consolidated Financial Statements (*continued*)

3. Principal accounting policies (*continued*)

Apart from the effects as stated below, the adoption of these new HKFRSs has no significant impact on the Group's condensed consolidated financial statements.

Classification of leases of land

The amendments to HKAS 17 "Leases" are effective for the Group with effect from 1 January 2010. Amendments to HKAS 17 require that the classification of leases is based on the extent to which the risks and rewards incidental to ownership of an asset lie with the lessor or the lessee. In particular, the amendments deleted the specific guidance in the standard which previously required that the land element in a lease is normally classified as an operating lease unless title to the land is expected to be passed to the lessee by the end of the lease term. Under the amended HKAS 17, a lease of land is classified as finance lease if the lease transfers substantially all the risks and rewards incidental to ownership of the leasehold land to the lessee. The amendments to HKAS 17 are required to be applied retrospectively. Comparative information has been restated to reflect this change in accounting policy. The effect of the adoption of this change in accounting policy is a reclassification of the prepaid land lease payments to property, plant and equipment in the statement of financial position, as follows:

	30 June 2010 <i>HK\$'000</i>	31 December 2009 <i>HK\$'000</i>	1 January 2009 <i>HK\$'000</i>
Decrease in prepaid land lease payments	(2,316)	(2,353)	(2,428)
Increase in property, plant and equipment	2,316	2,353	2,428
	—	—	—

The Group has not early applied the new and revised HKFRSs, that have been issued but are not yet effective in these condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements (continued)

4. Revenue and segmental information

Operating segments

The Group is organised into three operating divisions – film distribution and licensing, film processing, and property investment. 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 2010

	Continuing operations				Total HK\$'000
	Film distribution and licensing HK\$'000	Film processing HK\$'000	Property investment HK\$'000	Elimination HK\$'000	
Segment revenue:					
External revenue	3,079	10,975	7,183	–	21,237
Intersegment revenue	–	2,489	–	(2,489)	–
Total revenue	3,079	13,464	7,183	(2,489)	21,237
Segment results	(3,386)	3,279	4,660	–	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)

For the six months ended 30 June 2009

	Continuing operations				Discontinued operation		Total HK\$'000
	Film distribution and licensing HK\$'000	Film processing HK\$'000	Property investment HK\$'000	Elimination HK\$'000	Advertising and promotional services HK\$'000	Total HK\$'000	
Segment revenue:							
External revenue	72,148	7,845	5,608	–	85,601	1,505	87,106
Intersegment revenue	2,081	1,235	–	(3,316)	–	–	–
Total revenue	74,229	9,080	5,608	(3,316)	85,601	1,505	87,106
Segment results	3,126	356	2,822	–	6,304	(210)	6,094
Other income					65	–	65
Unallocated corporate expenses					(4,995)	–	(4,995)
Finance income					20	–	20
Finance costs					(3,527)	(1)	(3,528)
Share of results of jointly-controlled entities					(2,158)	–	(2,158)
Gain on disposal of a subsidiary					198	–	198
Fair value loss on derivative component of convertible bonds					(17,776)	–	(17,776)
Gain on disposal of items of property, plant and equipment					39	–	39
Loss before tax					(21,830)	(211)	(22,041)
Income tax expense					(770)	–	(770)
Loss for the period					(22,600)	(211)	(22,811)

Notes to Condensed Consolidated Financial Statements *(continued)*

5. Finance costs

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	36	141
Interest on convertible bonds	–	2,820
Interest on loans from former shareholders	–	560
Interest on finance lease	18	6
	<hr/>	<hr/>
Total interest	54	3,527

6. Profit (Loss) before tax from continuing operations

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

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventories recognised as expenses*	5,932	66,924
Write-back of impairment of trade receivables	1,514	274
Minimum lease payments under operating lease	1,747	1,540
Depreciation	860	651
Gain on disposal of items of property, plant and equipment	–	(39)

* *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.*

Notes to Condensed Consolidated Financial Statements *(continued)*

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 (2009: Nil). The People's Republic of China ("PRC") income tax rate is unified to 25% for all enterprises.

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<hr/>		
Group:		
Current – Hong Kong	578	–
Current – PRC	1,268	770
	<hr/>	
Total tax charge for the period	1,846	770
	<hr/>	

8. Discontinued operation

On 27 March 2009, a share purchase agreement (the "Share Purchase Agreement") was entered into between Grimston Limited ("Grimston"), a wholly-owned subsidiary of the Company, and an independent third party to dispose of Chili Advertising & Promotions Limited ("Chili"). Chili was engaged in the provision of advertising and promotional services and was a separate business segment. In view of the global economic downturn and Chili was operating at a loss, the Group believed that the demand for film advertising and promotional services from the Group and other film companies would decrease and the performance of Chili would be even worst. The transaction was completed on 31 March 2009.

Financial information relating to the discontinued advertising and promotional services operation for the period is set out below. The income statement distinguishes discontinued operation from continuing operations.

Notes to Condensed Consolidated Financial Statements (continued)

8. Discontinued operation (continued)

The results of Chili up to the completion of its disposal at 31 March 2009 contributed to the Group during the period are presented below:

	Three months ended 31 March 2009 HK\$'000 (audited)
Revenue	1,505
Cost of sales	<u>(697)</u>
Gross profit	808
Administrative expenses	(1,018)
Finance costs	<u>(1)</u>
Loss before tax from the discontinued operation	(211)
Income tax expense	<u>–</u>
Loss for the period from the discontinued operation	<u><u>(211)</u></u>

The net cash flows incurred by Chili are as follows:

	Three months ended 31 March 2009 HK\$'000 (audited)
Operating activities	(1,282)
Investing activities	534
Financing activities	<u>(1)</u>
Net cash outflow	<u><u>(749)</u></u>

9. Dividend

No dividend was paid or proposed during the period (2009: Nil).

Notes to Condensed Consolidated Financial Statements *(continued)*

10. Earnings (Loss) per share attributable to owners of the Company

The calculation of basic earnings (loss) per share amount is based on the profit (loss) for the period and profit for the period from continuing operations of HK\$30,097,000 (2009: loss of HK\$23,040,000) and HK\$30,097,000 (2009: loss of HK\$22,829,000) attributable to owners of the Company, and the weighted average number of 2,613,480,000 (2009: 2,177,900,000) ordinary shares in issue during the period.

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

No adjustment had been made to the basic loss per share for the period ended 30 June 2009 in respect of a dilution as the convertible bonds and share options outstanding during the last period had an anti-dilutive effect on the basic loss per share.

11. Disposal of subsidiaries

- (a) On 17 December 2009, Grimston 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 of the Company, 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 (formerly known as “Mandarin Films Limited”), Motion Picture Limited (formerly known as “Mandarin Motion Picture Limited”) and Pioneer Films Limited (formerly known as “Mandarin Films Distribution Company Limited (BVI)”) (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 of the Company.

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

	2010 HK\$’000 (unaudited)
Net assets disposed of:	
Films right	62
Film production in progress	624
Other payables and accruals	(134)
Amount due to Grimston	<u>(93,148)</u>
	(92,596)
Gain on the disposal	<u>29,761</u>
	<u>(62,835)</u>

Notes to Condensed Consolidated Financial Statements *(continued)*

11. Disposal of subsidiaries *(continued)*

(a) *(continued)*

	2010 HK\$'000 (unaudited)
<hr/>	
Satisfied by:	
Cash	29,000
Net income received from customers	2,313
Tax indemnity	(1,000)
Amount due to Grimston	<u>(93,148)</u>
	<u>(62,835)</u>

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

	2010 HK\$'000 (unaudited)
<hr/>	
Cash consideration	29,000
Net income received from customers	<u>2,313</u>
Net inflow of cash and cash equivalents in respect of the disposal of the Disposal Group	<u>31,313</u>

Notes to Condensed Consolidated Financial Statements *(continued)*

11. Disposal of subsidiaries *(continued)*

- (b) Last year, the Group entered into the Share Purchase Agreement with an independent third party to dispose of Chili at a total consideration of HK\$2,363,000 which was settled by a cash consideration of HK\$500,000 and the remaining was offset by the loan outstanding from Grimston, the immediate holding company of Chili, amounted to HK\$1,863,000. Details in respect of the disposal of Chili during the period are as follows:

	2009 HK\$'000 (audited)
<hr/>	
Net assets disposed of:	
Property, plant and equipment	293
Trade receivables	244
Other receivables, prepayments and deposits paid	82
Amount due from Grimston	1,863
Trade payables	(112)
Other payables and accruals	(173)
Amount due to a former director	(11)
Bank overdraft	(21)
	<hr/>
	2,165
Gain on the disposal	198
	<hr/>
	2,363
	<hr/>
Satisfied by:	
Cash	500
Amount due from Grimston	1,863
	<hr/>
	2,363
	<hr/>

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

	2009 HK\$'000 (audited)
<hr/>	
Cash consideration	500
Bank overdraft disposed of	21
	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of Chili	521
	<hr/>

Notes to Condensed Consolidated Financial Statements (continued)

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 2010 HK\$'000 (unaudited)	As at 31 December 2009 HK\$'000 (audited)
0 – 90 days	4,362	5,687
91 – 180 days	2,203	1,168
181 – 365 days	727	458
Over 1 year	18	7
	7,310	7,320

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

	As at 30 June 2010 HK\$'000 (unaudited)	As at 31 December 2009 HK\$'000 (audited)
0 – 90 days	1,489	993
91 – 180 days	1	34
	1,490	1,027

14. Interest-bearing bank and other borrowings

	Effective interest rate (%)	Maturity	As at 30 June 2010 HK\$'000 (unaudited)	As at 31 December 2009 HK\$'000 (audited)
Current				
Bank loans – secured	3.75	2011	173	169
Non-current				
Bank loans – secured	3.75	2019	1,701	1,789
			1,874	1,958

The Group's bank borrowings were secured by the leasehold land and buildings with a carrying value of HK\$2,976,000.

Notes to Condensed Consolidated Financial Statements *(continued)*

15. Share capital

	Number of shares	Amount HK\$'000
Authorised:		
10,000,000,000 (31 December 2009: 10,000,000,000) ordinary shares of HK\$0.10 each	10,000,000,000	1,000,000
Issued and fully paid:		
As at 30 June 2010 and 31 December 2009	2,613,480,000	261,348

16. Commitments

a) Capital commitments

As at 30 June 2010, the Group had contracted for capital commitments in respect of a newly set up joint venture in Hong Kong with an independent third party amounting to HK\$72,100,000.

As at 31 December 2009, the Group had contracted for capital commitments in respect of a sino-foreign joint venture enterprise in the PRC amounting to HK\$3,000,000.

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 2010 HK\$'000 (unaudited)	As at 31 December 2009 HK\$'000 (audited)
Within one year	14,968	14,831
In the second to fifth years, inclusive	64,443	63,966
Over five years	64,318	72,064
	143,729	150,861

Notes to Condensed Consolidated Financial Statements *(continued)*

16. 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 2010 HK\$'000 (unaudited)	As at 31 December 2009 HK\$'000 (audited)
Within one year	4,873	810
In the second to fifth years, inclusive	7,099	237
	11,972	1,047

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 2010 HK\$'000 (unaudited)	As at 31 December 2009 HK\$'000 (audited)
Contracted, but not provided for:		
Production of film	–	710
Plant and machinery	–	829
	–	1,539
Authorised, but not contracted for:		
Production of film	–	7,850
	–	9,389

Notes to Condensed Consolidated Financial Statements (*continued*)

17. 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 six-month period ended 30 June 2010:

- (a) No rental expenses (six months ended 30 June 2009: HK\$391,000) for certain office premises were paid to Pure Project Limited (“Pure Project”), a related company in which Mr. Wong, a former director of the Company has beneficial interest.
- (b) The agency fees of HK\$114,838 (six months ended 30 June 2009: HK\$6,000) and HK\$5,200 (six months ended 30 June 2009: HK\$14,000) were charged by 廣州東影影視出品有限公司 (“Tung Ying”) and Prime Moon International Limited (“Prime Moon”), in which a brother and a sister of Mr. Wong have beneficial interest, respectively, for the distribution income generated by Tung Ying and Prime Moon on behalf of the Group, in which they acted as the agents to generate that income.
- (c) No management fee (six months ended 30 June 2009: HK\$46,000) was paid to Tung Ying for handling the daily operation the advertising business in Guangzhou.
- (d) The production expenses of nil and HK\$200,000 (six months ended 30 June 2009: HK\$1,500,000 and HK\$2,000,000) were paid to Mr. Wong for his service as executive producer provided to the Group in accordance with the service agreements entered into on 20 November 2008 between the Group and Big Bright Investment Limited and on 26 May 2009 between the Group and Pure Project, respectively, of which the shareholdings are beneficially owned by Mr. Wong.
- (e) No script writing fee (six months ended 30 June 2009: HK\$126,000) and provision of shooting and editing service fee of HK\$151,000 (six months ended 30 June 2009: HK\$100,600) were paid to Pegasus, a related company in which Mr. Edmond Wong, a former director of the Company and the son of Mr. Wong, has beneficial interest.
- (f) No management fee (six months ended 30 June 2009: HK\$476,000) was paid to 四川黃河商業有限責任公司, a related company in which Mr. Cheng Keung Fai, a substantial shareholder of the Company, has beneficial interest.

(ii) *Compensation of key management personnel*

The remunerations of the directors during the period are the short-term benefits of approximately HK\$975,000 (six months ended 30 June 2009: HK\$1,909,000). It is determined by reference to market terms, individual responsibilities and performance.

18. Approval of the condensed consolidated financial statements

The condensed consolidated financial statements were approved and authorised for issue by the Board on 27 August 2010.

Management Discussion and Analysis

We are pleased to report that the Company completed the interim period for the six months ended 30 June 2010 with renewed momentum. We entered 2010 with many reasons to be confident. Riding on the success of “Ip Man”, the Group successfully created another talk of the town by releasing “Ip Man 2”, the highest grossing Hong Kong movie for the first-half of 2010, with a gross box office of more than HK\$43,313,000 in Hong Kong as at todate. This will be reflected in our book in the second half of this year.

In order to enhance our corporate image, we relocated our headquarters to the heart of business and shopping centres, i.e. Room 4101, 41/F, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

We believe that film business is an art of managing story concept, talents and finance. Backed by populous nations with growing audience and spending powers, coupled with the new guideline issued by the State Council of China to boost the country’s film industry in February 2010, the film industry has become increasingly important in driving the economic growth of China. Against this backdrop, we grasp the business opportunities by forming a 35:65 joint venture company (the “JV Company”) with Filmko International Limited (“Filmko”) for the development, production and promotion, and distribution of the Group’s new film project, “The Monkey King” (the “Film”), so as to further expand in the China Market.

Financial Highlights

For the six months ended 30 June 2010, the Group’s turnover decreased by 76% to HK\$21,237,000 (2009: HK\$87,106,000) while gross profit dropped to HK\$10,696,000 (2009: HK\$15,841,000). Various business arms contributed to the Group’s revenue with HK\$3,079,000 from film production, distribution and licensing, HK\$10,975,000 from film processing and HK\$7,183,000 from property investment. Profit attributable to owners of the Company made a turnaround recording HK\$30,097,000 (2009: loss of HK\$23,040,000). The Group’s basic earnings per share was 1.15 HK cents (2009: loss per share: 1.05 HK cents). The Board of Directors did not recommend dividend payout for the six months ended 30 June 2010 (2009: Nil). As at 30 June 2010, cash on hand was about HK\$57,692,000.

Turnover dropped mainly due to the fact that no income from new film released by the Group was recognised in the first half of 2010 but the same period last year where income from “Ip Man” and “All’s Well End’s Well 2009” was booked. The turnaround was due to the disposal gain of HK\$29,761,000 of the Disposal Group; the operating gain on film processing and property investment business for the period under review.

Business Review

The Group is principally engaged in film production and related businesses and property investments in China.

Film production business

For the six months ended 30 June 2010, turnover from film production business decreased by 96% to HK\$3,079,000 (2009: HK\$72,148,000). The receipts of “Ip Man 2” will be reflected in our book in the second half of this year.

On 21 June 2010, Grimson, a wholly-owned subsidiary of the Company entered into an agreement with Filmko to form the JV Company with Filmko for the development, production and promotion, and dealing with matters concerning copyrights and distribution of the Film (the “JV Agreement”). The total investment cost would amount to HK\$206,000,000, of which the Group shares HK\$72,100,000.

According to the JV Agreement, Filmko will be mainly responsible for obtaining relevant licences, permits and approvals in relation to the filming, production, distribution, and promotion of the Film in China and/or other countries. It will also assist the JV Company in relation to the filming and production of the Film. Grimston will be mainly responsible for the placement of suitable personnel to supervise and manage the accounting matters of the JV Company. Under the JV Agreement, Filmko will engage Filmko Entertainment Limited for the Film’s production and production administration, and will engage Filmko Films Distribution Limited for the Film’s promotion and distribution. The Board is confident that through the cooperation with Filmko, the Company would be able to benefit from the resources, expertise and business connections of Filmko in the film industry in Hong Kong which in turn would benefit the business of the Group.

Film processing

During the period under review, film processing business generated a turnover of HK\$10,975,000 comparing to HK\$7,845,000 for the same period last year. Operating profit increased by 8 times to HK\$3,279,000 (2009: HK\$356,000). The Group has a market share of more than 40% among the three film processing factories in Hong Kong.

The increase in contribution was the result of increasing film output for the period under review, coupled with the drop of film output last year due to the Beijing Olympic Games.

In June 2010, the Group installed an advanced and brand-new digital sound recorder in order to expand its services to sound mixing on top of visual and subtitle. The recorder is now under the testing stage. This service is expected to be well received by the industry as the filmmakers in Hong Kong will have one more option to mix sound in Hong Kong. Currently, most of them mix sound in Thailand. The Group expects growing contribution from this operation thereafter.

Property investments

For the period ended 30 June 2010, the property investments business was operated at a profit before tax of HK\$4,660,000 (2009: HK\$2,822,000).

The rental income of HK\$7,183,000 was recorded in the financial period of 2010 and majority of the income came from the 10-year tenancy agreement starting from April 2009 signed with a department store in Chengdu. This would provide secure income and stable cash inflow to the Group and save the management cost of maintaining the investment property in the coming years.

Future Developments

According to the statistics released by the State Administration for Radio, Film and Television (SARFT), the Chinese box office amounted to RMB6.206 billion in 2009, up 43% from 2008. Overseas sales income was RMB2.77 billion and domestic TV rights sales was RMB1.689 billion. And, 456 films were produced, representing an increase of 12.3% compared to 406 films in 2008. It highlights the potential of the film market in China.

2009 is a year of 3D films. The success of “Avatar” and the latest Hollywood 3D blockbuster “Alice in Wonderland” brought about 3D hits to China, both for 3D film making as well as 3D screens. At the moment, China has about 1,100 3D screens, a third of the total number of cinema screens in China.

Based on the above trends and as 3D films are in vogue, we are pleased to announce that the newly set up JV Company would produce the Film as a 3D film based on the Chinese legend that has been popular over the centuries, “Journey to the West”. Our main actor in “Ip Man”, Donnie Yen, will take the role of main actor again in the Film. The Group plans to engage part of the production team of 3D icon film “Avatar” to work on the Film. In order to make a vivid and impressive film, the Film’s shooting locations will be famous scenery spots such as Zhangjiajie.

Looking ahead, the hit on Kung Fu movie still dominates the market and the Group would continue to put resources in high quality Kung Fu movies and other film genres.

Liquidity and Financial resources

As at 30 June 2010, the Group’s net current assets was HK\$56,618,000 (31 December 2009: HK\$28,901,000), with current assets of HK\$133,913,000 (31 December 2009: HK\$100,689,000) and current liabilities of HK\$77,295,000 (31 December 2009: HK\$71,788,000), representing a current ratio of 1.73 (31 December 2009: 1.40).

As at 30 June 2010, the Group had cash and bank balances of HK\$57,692,000 (31 December 2009: HK\$32,892,000).

Capital Structure

The Group’s total equity amounted to HK\$282,061,000 as at 30 June 2010 (31 December 2009: HK\$250,976,000). The change mainly is due to the profit for the period under review.

Borrowing and Banking Facilities

As at 30 June 2010, the Group’s outstanding bank and borrowings, including loans from shareholders and lease payments, were HK\$1,874,000 (31 December 2009: HK\$2,058,000) secured by the leasehold land and buildings with a carrying value of HK\$2,976,000. The gearing ratio based on interest-bearing bank and other borrowings over total equity for the period was 0.01 (31 December 2009: 0.01).

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 16 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 six months ended 30 June 2010 was HK\$6,714,000 (30 June 2009: HK\$8,936,000) representing a decrease of 25%. The Group had a workforce of 70 (30 June 2009: 77) staff including 48 (30 June 2009: 49) staff in the film processing department as at 30 June 2010. Salaries of employees were maintained at competitive levels while bonuses were granted on a discretionary basis.

The Group has adopted a share option scheme under which the Directors of the Company 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 six months ended 30 June 2010, no options were granted or exercised.

Purchase, Redemption and Sale of Shares

During the six months ended 30 June 2010, the Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries purchased, or sold any of the Company's shares.

Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2010.

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 2010, 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

Other than as disclosed under the heading "Share Options", 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 a share option scheme (the "Scheme") on 21 August 2001 (the "Adoption Date") and pursuant to the shareholders' resolutions passed on 27 May 2004, the Board may grant options to eligible employees, including Directors and its subsidiaries and other eligible persons as defined in the Scheme, to subscribe for shares of the Company, up to 10% of the issued share capital of the Company at the date of approval of the Scheme or 30% of the issued share capital of the Company from time to time, at the subscription price which shall not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of offer, which must be a business day and (ii) the average closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer.

The Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date but subject to the early termination of the Scheme.

As at 30 June 2010, 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 2010, the register of substantial shareholders maintained by the Company under Section 336 of 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	507,500,000 (Long position)	19.42%
Mr. FANG Han Song	Personal	269,500,000 (Long position)	10.31%

Corporate Governance

During the six months ended 30 June 2010, 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 2010, 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 2010, 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 2010 with the Directors.

List of Directors of the Company

As at the date of this report, the three executive Directors are, namely, Ms. Lai Pik Chi, Peggy, Ms. Law Kee, Alice and Mr. Hui Wai Lee, Willy; and the three independent non-executive Directors are, namely, Mr. Choy Sze Chung, Jojo, Mr. Tsui Pui Hung and Mr. Chan Tung Tak, Alain.

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
LAI Pik Chi, Peggy
Chairman

Hong Kong, 27 August 2010