



INTERIM REPORT 2006



MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED

東方娛樂控股有限公司

(Incorporated in Bermuda with limited liability) (Stock Code: 0009)

The board of directors (the “Board”) of Mandarin Entertainment (Holdings) Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June, 2006 with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

		Six months ended 30th June,	
		2006	2005
	NOTES	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue		25,350	18,061
Cost of sales		(15,528)	(15,909)
Gross profit		9,822	2,152
Other income		1,362	1,419
Gain on disposal of available-for-sale investments		4,309	–
Administrative expenses		(11,196)	(10,320)
Finance costs		(132)	(358)
Share of results of jointly controlled entities		518	29
Profit (loss) before taxation	4	4,683	(7,078)
Income tax expense	5	(131)	188
Profit (loss) for the period, attributable to equity holders of the Company		4,552	(6,890)
Basic earnings (loss) per share	7	1.38 cents	(2.09) cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2006

	<i>NOTES</i>	30.6.2006 HK\$'000 (unaudited)	31.12.2005 <i>HK\$'000</i> (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		3,208	4,194
Prepaid lease payments		2,541	2,578
Available-for-sale investments		6,196	7,221
Interests in jointly controlled entities	8	20,894	19,871
Pledged bank deposits		–	1,005
Film rights		1,960	3,277
		34,799	38,146
Current assets			
Film production in progress		63,100	51,058
Prepaid lease payments		75	75
Inventories		1,607	2,007
Trade and other receivables and deposits paid	9	14,575	14,426
Amount due from a jointly controlled entity		68	172
Amount due from a related company	10	5,814	5,814
Pledged bank deposits		1,533	506
Bank balances and cash		17,840	10,410
		104,612	84,468

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AT 30TH JUNE, 2006

	<i>NOTES</i>	30.6.2006 <i>HK\$'000</i> (unaudited)	31.12.2005 <i>HK\$'000</i> (audited)
Current liabilities			
Trade and other payables and deposits received	11	57,210	44,352
Bank overdraft		1,080	384
Bank and other borrowings – due within one year	13	20,692	10,117
Taxation payable		649	66
		<u>79,631</u>	<u>54,919</u>
Net current assets		<u>24,981</u>	<u>29,549</u>
Total assets less current liabilities		<u>59,780</u>	<u>67,695</u>
Non-current liabilities			
Bank and other borrowings – due after one year	13	1,255	14,644
Deferred taxation		225	677
		<u>1,480</u>	<u>15,321</u>
NET ASSETS		<u>58,300</u>	<u>52,374</u>
CAPITAL AND RESERVES			
Share capital		33,000	33,000
Reserves		25,300	19,374
TOTAL EQUITY		<u>58,300</u>	<u>52,374</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

	Attributable to equity holders of the Company							
	Share capital	Share premium	Investments revaluation reserve	Special reserve	Accumulated losses	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2005	33,000	34,653	1,028	17,926	(15,707)	70,900	188	71,088
Loss on fair value change of available-for-sale investments recognised directly in equity	-	-	(563)	-	-	(563)	-	(563)
Loss for the period	-	-	-	-	(6,890)	(6,890)	-	(6,890)
Total recognised income and expenses for the period	-	-	(563)	-	(6,890)	(7,453)	-	(7,453)
Acquisition of additional interests in a subsidiary	-	-	-	-	-	-	(188)	(188)
At 30th June, 2005	33,000	34,653	465	17,926	(22,597)	63,447	-	63,447
Gain on fair value change of available-for-sale investments recognised directly in equity	-	-	656	-	-	656	-	656
Loss for the period	-	-	-	-	(11,729)	(11,729)	-	(11,729)
Total recognised income and expenses for the period	-	-	656	-	(11,729)	(11,073)	-	(11,073)
At 31st December, 2005	33,000	34,653	1,121	17,926	(34,326)	52,374	-	52,374
Gain on fair value change of available-for-sale investments recognised directly in equity	-	-	2,169	-	-	2,169	-	2,169
Transferred to profit or loss on sale of available-for-sale investments	-	-	(795)	-	-	(795)	-	(795)
Profit for the period	-	-	-	-	4,552	4,552	-	4,552
Total recognised income and expenses for the period	-	-	1,374	-	4,552	5,926	-	5,926
At 30th June, 2006	33,000	34,653	2,495	17,926	(29,774)	58,300	-	58,300

The special reserve of the Group mainly represents 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 (31.12.2005: 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 (31.12.2005: HK\$7,506,000).

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

	Six months ended	
	30th June,	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Net cash from operating activities	3,134	2,805
Net cash from (used in) investing activities		
Proceeds from disposal of available-for-sale investments	8,822	–
Other investing cash flows	107	(134)
Repayment from (advance to) a jointly controlled entity	104	(995)
Cash paid for the acquisition of available-for-sale investments	(2,114)	–
Capital contributions to a jointly controlled entity	(505)	(3,500)
	6,414	(4,629)
Net cash used in financing activities	(2,814)	(249)
Net increase (decrease) in cash and cash equivalents	6,734	(2,073)
Cash and cash equivalents at 1st January	10,026	8,663
Cash and cash equivalents at 30th June	16,760	6,590
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents, being		
Bank balances and cash	17,840	9,671
Bank overdrafts	(1,080)	(3,081)
	16,760	6,590

NOTES TO THE CONDENSED FINANCIAL STATEMENTS*FOR THE SIX MONTHS ENDED 30TH JUNE, 2006***1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the “new HKFRSs”), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

3. SEGMENTAL INFORMATION

Business segments

The Group is currently organised into three operating divisions – film distribution and licensing, film processing and advertising and promotional services. These divisions are the basis on which the Group reports its primary segment information. Segmental information about these businesses is presented below.

For the six months ended 30th June, 2006

	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Advertising and promotional services <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE					
External revenue	11,097	11,075	3,178	–	25,350
Inter segment revenue	76	186	1,662	(1,924)	–
Total revenue	<u>11,173</u>	<u>11,261</u>	<u>4,840</u>	<u>(1,924)</u>	<u>25,350</u>
SEGMENT RESULT	<u>(652)</u>	<u>227</u>	<u>(333)</u>	<u>–</u>	<u>(758)</u>
Other income					1,362
Gain on disposal of available-for-sale investments					4,309
Unallocated corporate expenses					(616)
Finance costs					(132)
Share of results of jointly controlled entities					518
Profit before taxation					4,683
Income tax expense					(131)
Profit for the period					<u>4,552</u>

3. SEGMENTAL INFORMATION (Continued)**Business segments** (Continued)

For the six months ended 30th June, 2005

	Film distribution and licensing HK\$'000	Film processing HK\$'000	Advertising and promotional services HK\$'000	Elimination HK\$'000	Total HK\$'000
REVENUE					
External revenue	3,713	9,392	4,956	–	18,061
Inter segment revenue	178	60	284	(522)	–
Total revenue	<u>3,891</u>	<u>9,452</u>	<u>5,240</u>	<u>(522)</u>	<u>18,061</u>
SEGMENT RESULT	<u>(6,683)</u>	<u>(937)</u>	<u>(124)</u>	<u>–</u>	<u>(7,744)</u>
Other income					1,419
Unallocated corporate expenses					(424)
Finance costs					(358)
Share of results of jointly controlled entities					29
Loss before taxation					(7,078)
Income tax expense					188
Loss for the period					<u>(6,890)</u>

4. PROFIT (LOSS) BEFORE TAXATION

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000

Profit (loss) before taxation has been arrived at after charging:

Depreciation of property, plant and equipment	1,014	1,091
Amortisation of prepaid lease payments	37	37
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	255	14
Impairment loss recognised in respect of film production in progress	1,319	2,479
Impairment on trade and other receivables	1,358	1,358

and after crediting:

Interest income	<u>157</u>	<u>23</u>
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5. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax	583	209
Deferred tax credit	<u>(452)</u>	<u>(397)</u>
	<u>131</u>	<u>(188)</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended 30th June, 2006 and 2005.

6. DIVIDENDS

No dividends were paid or proposed during the period.

7. BASIC EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share attributable to the ordinary equity holders of the Company is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$4,552,000 (2005: loss of HK\$6,890,000) and on 330,000,000 (2005: 330,000,000) ordinary shares in issue during the period.

Diluted earnings per share is not presented as the 2,624,000 share options granted to directors and employees on 23rd June, 2006 are anti dilutive in terms of HKAS 33 "Earnings per share".

8. INTERESTS IN JOINTLY CONTROLLED ENTITIES

At 30th June, 2006, the Group had interests in the following jointly controlled entities:

Name of entity	Place of incorporation/ operations	Proportion of nominal value of issued share capital/ registered capital held indirectly by the Company %	Nature of business
Prosper China Limited	British Virgin Islands ("BVI")/Hong Kong	40	Investment holding
北京東方新青年文化發展有限公司	The People's Republic of China ("PRC")/PRC	40	Provision of cultural education courses
浙江東方國際發展有限公司	PRC/PRC	37.5	Hotel operations
東方橫店影視後期制作有限公司	PRC/PRC	49	Provision of film processing and post production services for films and television series but not yet commenced operation
Dong Tian Motion Picture Investment Limited	BVI/PRC	50	Investment holding

9. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing credit periods to its trade customers normally ranging from 90 days to 120 days. Included in trade and other receivables are trade receivables of HK\$7,285,000 (31.12.2005: HK\$5,598,000) and their aged analysis is as follows:

	30.6.2006 HK\$'000	31.12.2005 HK\$'000
0 – 90 days	5,011	3,690
91- 180 days	1,862	821
181 – 365 days	412	362
Over 1 year	–	725
	<u>7,285</u>	<u>5,598</u>

10. AMOUNT DUE FROM A RELATED COMPANY

The related company, 廣州東影影視出品有限公司 (“Tung Ying”) is beneficially owned by a brother of Mr. Wong Pak Ming, a director of the Company. The amount is unsecured, non-interest bearing and is repayable on demand.

11. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

Included in trade and other payables are trade payables of HK\$3,335,000 (31.12.2005: HK\$2,204,000) and their aged analysis is as follows:

	30.6.2006	31.12.2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	2,641	1,690
91- 180 days	466	514
181 – 365 days	228	–
	<u>3,335</u>	<u>2,204</u>

12. PLEDGE OF ASSETS

At the balance sheet date, the Group’s bank facilities are secured by the following:

- (1) an unlimited corporate guarantee given by the Company;
- (2) the personal guarantee given by a director of the Company;
- (3) the legal charge over the copyright of one film “Dragon Tiger Gate” with a carrying value of HK\$47,076,000, included in film production in progress, at 30th June, 2006 (31.12.2005: HK\$33,175,000);
- (4) the assignment of income receivables to be derived from the licensing of the film “Dragon Tiger Gate” in all territories throughout the world; and
- (5) certain of the Group’s prepaid lease payments and buildings with a carrying value of HK\$3,644,000 (31.12.2005: HK\$3,730,000) and certain of the Group’s plant, machinery and equipment with a carrying value of HK\$864,000 (31.12.2005: HK\$1,292,000).

13. BANK AND OTHER BORROWINGS

During the period, the Group obtained and renewed bank and other loans amounting to HK\$4,054,000 and repaid bank loans amounting to HK\$6,867,000. The loans bear interest at 1% to 8.5% (31.12.2005: 1% to 8%) per annum and are repayable in one to five years. The proceeds were used for general working capital purposes.

14. CAPITAL COMMITMENT

At 30th June, 2006, the Group had commitments of HK\$20,058,000 (31.12.2005: HK\$20,058,000) which is contracted for the investment in a joint venture in the PRC.

15. CONTINGENT LIABILITIES

In April 2006, 上海華芮文化傳播有限公司 (“Shanghai City Glory”), one of the investors of “Seven Swords”, initiated legal proceedings against Mandarin Films Distribution Co., Ltd. (“Mandarin Films Distribution”), an indirect wholly owned subsidiary of the Company in respect of claim for payment of income amounting to approximately US\$1,020,000 (equivalent to HK\$7,956,000) arising from the filming of “Seven Swords”.

Mandarin Films Distribution has vigorously defended the claims and the proceedings are still ongoing. The Directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group as the profit to be shared by Shanghai City Glory has been properly accounted for in accordance with the cooperation agreement entered on 25th June, 2004 and the supplementary agreement dated 4th March, 2005.

16. RELATED PARTY TRANSACTIONS

During the period ended 30th June, 2006, the Group entered into the following material transactions with related parties:

- (a) Agency fee amounting to HK\$29,000 (six months ended 30th June, 2005: HK\$100,000) was paid to Tung Ying for the distribution income generated by Tung Ying on behalf of the Group, in which it acted as an agent to generate that income.
- (b) Consultancy service fee of HK\$10,000 (six months ended 30th June, 2005: nil) was paid to a brother of Mr. Wong Pak Ming.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospect

The unaudited consolidated turnover and profit attributable to equity holders of the company in the first half of year amounted to HK\$25.4 million and HK\$4.6 million respectively.

For the period under review, the Group recorded an increase in turnover by approximately 40% to approximately HK\$25.4 million. Such increase was mainly attributable to the increase in film distribution and licensing revenue of the Group resulting from the successful execution of the CEPA (Closer Economic Partnership Arrangement) model by the Group. The Group believes that, with the new opportunities provided by the implementation of CEPA and the experiences gained from the joint-shooting of films such as 'Seven Swords' and 'Dragon Tiger Gate', the Group will be able to further enhance its ability to produce future internationally recognized films.

During the period, the Group has disposed of 13,296,000 shares in Jade Dynasty Group Limited, whose shares are listed on the Stock Exchange of Hong Kong and were held by the Group as available-for-sale investments as at 31st December, 2005, for an aggregate consideration of approximately HK\$8.8 million resulting in a profit of approximately HK\$4.3 million.

In the first half of the year, losses of HK\$333,000 was recorded in the Group's advertising business, which is comparable with that of last year. As for the Group's film processing business, a profit of HK\$227,000 was recorded, while a loss of HK\$937,000 was recorded in the corresponding period of last year. The vast improvement in the performance of the film processing business is mainly due to better cost control as well as improvement in revenue.

Liquidity and financial resources

As at 30th June, 2006, the Group retained total cash and bank balances of HK\$19.4 million, most of which were in Hong Kong dollars – the exposure of foreign exchange fluctuation has been minimal. Therefore, the use of financial instruments for hedging purpose was not considered necessary. On the same date, the Group had bank borrowings of HK\$9.9 million. Part of the loans were secured by leasehold land and buildings, and certain plant, machinery and equipment in Hong Kong held by one of the Group's subsidiary with an aggregate carrying value of HK\$4.5 million. Interest rates on these bank borrowings were at prevailing bank lending rates.

As at the financial period ended date, the Group had bank borrowings of HK\$8.7 million which were repayable within one year. On the same date, the current ratio and the gearing ratio of the Group were 1.3 times and 39% respectively (31st December, 2005: 1.5 times and 48%).

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

Contingent Liabilities

In April 2006, 上海華芮文化傳播有限公司 (“Shanghai City Glory”), one of the investors of “Seven Swords”, initiated legal proceedings against Mandarin Films Distribution Co., Ltd. (“Mandarin Films Distribution”), an indirect wholly owned subsidiary of the Company in respect of claim for payment of income amounting to approximately US\$1,020,000 (equivalent to HK\$7,956,000) arising from the filming of “Seven Swords”.

Mandarin Films Distribution has vigorously defended the claims and the proceedings are still ongoing. The Directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group as the profit to be shared by Shanghai City Glory has been properly accounted for in accordance with the cooperation agreement entered on 25th June, 2004 and the supplementary agreement dated 4th March, 2005.

Employee and remuneration policies

As at 30th June, 2006, the Group employed 79 staff members, including approximately 53 staff in the processing and development department.

Apart from basic salaries, discretionary bonus and contribution to the mandatory provident fund for staff in Hong Kong, share options may also be granted to staff with reference to the individual’s performance.

PURCHASE, REDEMPTION AND SALE OF SHARES

During the six months ended 30th June, 2006, the Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries purchased, or sold any of the Company’s shares.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30th June, 2006.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30th June, 2006, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)), as recorded in the register maintained by the Company under Section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Interests in shares			Total interests in shares	Interests in underlying shares subject to share options	Aggregate interests in shares and underlying shares	Approximate percentage of total issued share capital
	Personal	Corporate (Note 1)	Family (Note 2)				
Mr. WONG Pak Ming ("Mr. WONG")	-	152,200,000	114,000	152,314,000	328,000	152,642,000	46.26%
Ms. WONG Kit Fong	3,232,000	-	-	3,232,000	328,000	3,560,000	1.08%
Mr. WAN Ngar Yin, David	2,668,000	-	-	2,668,000	328,000	2,996,000	0.91%
Ms. WONG Yee Kwan, Alvina	2,106,000	-	-	2,106,000	328,000	2,434,000	0.74%
Mr. KO Tin Chow	-	-	-	-	328,000	328,000	0.10%
Mr. TANG Kai Kui, Terence	-	-	-	-	328,000	328,000	0.10%

Note:

- These shares are held as to 30,000,000 shares by Capeland Holdings Limited and as to 122,200,000 shares by Idea Storm Holdings Limited, both of which are incorporated in the British Virgin Islands and are wholly-owned by Mr. WONG.
- These shares are held by Mr. WONG's spouse in which Mr. WONG is also deemed to be interested.

Details of the Directors' interests in underlying shares subject to share options granted by the Company are set out under the heading “Share Options”.

Save as disclosed above, as at 30th June, 2006, none of the directors, the chief executive or their associates had any interests or short positions in any shares or underlying shares in, or debentures of, the Company or its associated corporation as defined in SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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 of the Company 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 21st August, 2001 (the “Adoption Date”) and pursuant to the shareholders’ resolutions passed on 27th May, 2004, the board of directors may grant options to eligible employees, including directors of the Company and its subsidiaries and other eligible persons as defined in the Scheme, to subscribe for shares of the Company, up to a maximum of 33,000,000 shares (subject to renewal with shareholders’ prior approval) 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.

During the six months ended 30 June 2006, a total of 2,624,000 options have been granted to certain directors and employees of the Group. Details of the outstanding options which have been granted under the Scheme during the period are as follows:

Category and name of participant	Date of grant (Note)	Exercise price per share HK\$	Exercise period	Balance as at 1 January 2006	Granted during the period	Number of options		Lapsed during the period	Balance as at 30 June 2006
						Exercised during the period	Cancelled during the period		
Directors									
Mr. WONG	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	328,000	-	-	-	328,000
Ms. WONG Kit Fong	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	328,000	-	-	-	328,000
Ms. WONG Yee Kwan, Alvina	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	328,000	-	-	-	328,000
Mr. KO Tin Chow	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	328,000	-	-	-	328,000
Mr. WAN Ngar Yin, David	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	328,000	-	-	-	328,000
Mr. TANG Kai Kui, Terence	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	328,000	-	-	-	328,000
Employees of the Group	23 June 2006	0.938	24 December 2006 to 20 August 2011	-	656,000	-	-	-	656,000
				-	2,624,000	-	-	-	2,624,000

Note:

The closing price of the shares of the Company on 23rd June 2006, immediately before the grant of the above options was HK\$0.93 per share.

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

As at 30th June, 2006, the register of substantial shareholders maintained by the Company under Section 336 of SFO showed that the following person had interests in 5% or more of the nominal value of the issued ordinary shares of the Company that carry a right to vote in all circumstances at 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. WONG	Corporate (<i>Note 1 and 3</i>)	152,200,000 (Long position)	46.12%
	Family (<i>Note 2</i>)	114,000 (Long position)	0.04%
	Other (Share options)	328,000 (Long position)	0.10%
	Total:	152,642,000 (Long position)	46.26%
Mr. ZHANG Xun	Personal	34,936,000 (Long position)	10.6%
Mr. FANG Shu An	Personal	13,000,000 (Long position)	3.94%
	Family (<i>Note 4</i>)	12,000,000 (Long position)	3.64%
	Total:	25,000,000 (Long position)	7.58%

Note:

1. These shares are held as to 30,000,000 shares by Capeland Holdings Limited and as to 122,200,000 shares by Idea Storm Holdings Limited, both of which are incorporated in the British Virgin Islands and are wholly-owned by Mr. WONG.
2. These shares are held by Mr. WONG's spouse in which Mr. WONG is also deemed to be interested.
3. Accordance to SFO, Mr. WONG's spouse is also deemed to be interested in these 152,200,000 shares of the Company.
4. These shares are held by Mr. FANG Shu An's spouse in which Mr. FANG Shu An is also deemed to be interested in.

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

CORPORATE GOVERNANCE

During the six months ended 30th June, 2006, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Subsequent to the publication of the Corporate Governance Report in the 2005 annual report of the Company, a new set of bye-laws has been adopted in the annual general meeting of the Company on 26th May, 2006 in order to comply with the Code, especially the director retirement requirements under the Code.

FURTHER INFORMATION ABOUT CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Wong Pak Ming (“Mr. Wong”) is both the chairman and founder of the Company. The Company has no such title as the chief executive officer and therefore the daily operation and management of the Company is oversight by Mr. Wong with the assistance of the executive directors as well as the senior management.

The Board considers that Mr. Wong, being the founder of the Group, possesses in-depth knowledge of the Group and has developed extensive and valuable network in the film production industry and therefore can enable the Group to make and implement decision promptly and efficiently which is beneficial to the business prospects of the Group. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management as the Board, comprises experienced and high caliber individuals, meets regularly to discuss issues affecting the operation of the Group.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (“MODEL CODE”) OF LISTING RULES

For the six months period to 30th June, 2006, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30th June 2006, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Company has set up an audit committee, comprised of three independent non-executive directors of the Company, namely Mr. TANG Kai Kui, Terence, Mr. LAI Voon Wai and Mr. WAN Ngar Yin, David. The audit committee has reviewed the accounting principles and practices adopted by the Group with management and has discussed internal controls and financial reporting matters, including a review of the unaudited condensed consolidated financial statements for the six months ended 30th June, 2006 with the directors.

LIST OF DIRECTOR OF THE COMPANY

As at the date of this report, the four executive directors of the Company are namely, Mr. WONG Pak Ming, Ms. WONG Kit Fong, Ms. WONG Yee Kwan, Alvina and Mr. KO Tin Chow; and three independent non-executive directors, namely, Mr. WAN Ngar Yin, David, Mr. LAI Voon Wai and Mr. TANG Kai Kui, Terence.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to all our staff for their dedication and contribution to the Group. In addition, I would like to thank all our shareholders and investors for their support and our customers for their patronage.

By Order of the Board
WONG Pak Ming
Chairman

Hong Kong, 21st September, 2006