

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. Wong Pak Ming (*Chairman*)

Ms. Wong Kit Fong

Ms. Wong Yee Kwan, Alvina

Independent Non-executive Directors:

Mr. Wan Ngar Yin, David

Mr. Lai Voon Wai

Mr. Alan Woo

COMPANY SECRETARY

Mr. Lo Hang Fong L.L.B. (*Bristol*)

SOLICITORS

Stevenson, Wong & Co.

Rooms 2002-2009

20th Floor, Edinburgh Tower

The Landmark

15 Queen's Road Central

Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

26th Floor

Wing On Centre

111 Connaught Road Central

Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Ltd.

Wing Lung Bank Ltd.

The Hongkong and Shanghai

Banking Corporation Ltd.

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

Standard Registrars Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

27th Floor, Chinachem Century Tower

178 Gloucester Road, Wanchai

Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of members of Mandarin Entertainment (Holdings) Limited (the “Company”) will be held at 27th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong on 25th May 2005 (Wednesday) at 3:00 p.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended 31st December, 2004;
2. To elect directors and to authorise the board of directors to fix directors’ remuneration;
3. To appoint auditors and to authorise the board of directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT

- (a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company (“Directors”) during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and otherwise deal with additional shares (“Shares”) in the capital of the Company or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities, and to make, grant, sign or execute offers, agreements or options, deeds and other documents which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and it is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make, grant, sign or execute offers, agreements or options, deeds and other documents which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital which may be allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in this resolution, otherwise than pursuant to:
 - (i) a Rights Issue (as defined below); or
 - (ii) the exercise of rights of subscription or conversion attaching to any warrants of the Company or any securities which are convertible into Shares; or
 - (iii) the exercise of any option under the share option scheme of the Company or any other share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of Shares or rights to acquire Shares of the Company; or

NOTICE OF ANNUAL GENERAL MEETING

(iv) scrip dividends or under similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the bye-laws of the Company in force from time to time; and

(v) a specific authority granted by the shareholders of the Company,

shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the said approval shall be limited accordingly;

(d) for the purpose of this resolution:

“Relevant Period” means the period from (and including) the passing of this resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or by any applicable laws to be held; or

(iii) the date on which the authority set out in this resolution is revoked or varied or renewed by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of Shares or issue of options, warrants or other securities giving the right to subscribe for Shares open for a period fixed by the Directors to the holders of Shares whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer on the relevant register) on a fixed record date in proportion to their then holdings of such Shares or, where appropriate, such other securities as at that date (subject in all cases to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any jurisdiction or territory applicable to the Company).”;

5. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT

(a) subject to paragraphs (b) of this resolution, the exercise by the directors of the Company (“Directors”) during the Relevant Period (as defined below) of all the powers of the Company to purchase shares (“Shares”) in the capital of the Company or securities convertible into Shares on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose

NOTICE OF ANNUAL GENERAL MEETING

(“Recognised Stock Exchange”), subject to and in accordance with the Companies Act 1981 of Bermuda, all other applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or those of any other Recognised Stock Exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;

- (b) the aggregate nominal amount of Shares and securities convertible into Shares which may be purchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the approval pursuant to paragraph (a) of this resolution shall be limited accordingly;
 - (c) for the purpose of this resolution, “Relevant Period” means the period from (and including) the date of the passing of this resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held; or
 - (iii) the date on which the authority set out in this Resolution is revoked or varied or renewed by an ordinary resolution of the shareholders of the Company in general meeting.”; and
6. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“**THAT** subject to the passing of the resolutions numbered 4 and 5 as set out in the notice (the “Notice”) convening this meeting, the general mandate granted to the directors of the Company (“Directors”) to exercise the powers of the Company to allot, issue and otherwise deal with shares (“Shares”) in the capital of the Company pursuant to the resolution numbered 4 as set out in the Notice be and the same is hereby extended (as regards the aggregate nominal amount of share capital thereby limited) by adding thereto of the aggregate nominal amount of the share capital of the Company as purchased by the Company under the authority granted pursuant to the resolution numbered 5 as set out in the Notice provided that such additional amount shall not exceed the 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution.”

By order of the Board
Mandarin Entertainment (Holdings) Limited
WONG Pak Ming
Chairman

Hong Kong, 29th April, 2005

NOTICE OF ANNUAL GENERAL MEETING

Head office and principal place of business in Hong Kong:

27th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

Notes:

- (1) A member of the Company entitled to attend and vote at the aforesaid meeting is entitled to appoint one proxy or (if holding two or more shares) more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- (2) To be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Hong Kong branch share registrars of the Company, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
- (3) Completion and return of the form of proxy will not preclude members from attending and voting at the aforesaid meeting and in such event, the form of proxy shall be deemed to be revoked.
- (4) An explanatory statement containing further details regarding the proposed resolution nos. 4 to 6 above will be sent to shareholders together with the 2004 annual report containing this notice of meeting.
- (5) The period during which members may serve notice (with other relevant documents) to the Company of his intention to propose any person other than a director of the Company for election at the aforesaid meeting in accordance with the Company's bye-laws shall commence from 3rd May 2005 and end on 9th May 2005 (both dates inclusive). The aforesaid notice should be sent to the Company's head office or its Hong Kong branch share registrars, and be accompanied by the requisite information on the nominated person including those information required under rule 13.51(2) of the Listing Rules to be set out in the announcement to be made by the Company for the purpose.
- (6) The Chinese translation of this notice (including the contents of the proposed resolutions set out herein) is for reference only. In case of inconsistency, the English version shall prevail.

BUSINESS REVIEW

In 2004, the existence of pirated VCDs and DVDs, parallel goods, HDVD, BT, illegal downloading from the Internet and video disc rental, among others, which are all factors damaging the box office and the retail market, drove the number of productions in the film industry to a new trough last year. Only 64 films were screened in the whole year, even fewer than the 73 in 2003 with SARS. Because of this, the Group's businesses of film distribution and processing as well as advertising and promotional services were all severely affected. The Group screened the film *Life Express* (生死速遞) in the last year, but due to piracy in the Mainland, its global distribution and box office results were both affected. The Group had already initiated various measures of remedy, but the Group still incurred substantial loss.

The Group formed a joint venture in Beijing in 2002 named “北京東方新青年文化發展有限公司” and signed an agreement with the China National Youth Palace Association to develop a drama training programme. It was suspended by the outbreak of SARS in 2003, but the training was re-launched last year. Because it was re-launched, the response was relatively slow. Being prudent, the Group made appropriate provisions for the investment in the training programme.

PROSPECTS

The Group invested in a major production, *Seven Swords* (七劍), last year, and the filming was completed early this year. It is now in the stage of post production, and is preliminarily scheduled to be screened this summer. Another film, whose scale is to be more substantial, is preliminarily scheduled to start filming in the middle of this year. Also planned to be produced this year are two major television drama serials each with 30 episodes, totalling 60 episodes. The Government is attaching more and more importance to the matter of intellectual property, thus stricter measures to combat piracy are expected from the Government. In view of this, turnover and profit from distribution are expected to surge substantially this year.

The Group prepared the establishment of “東方橫店影視後期製作有限公司” with the Hengdian Group of Zhejiang last year. All the relevant pre-operation procedures have been completed, and the relevant approval was issued early this year. This is the first licence granted to a foreign enterprise to form a film processing joint venture in the Mainland. According to statistics, the number of film productions in the Mainland jumped from 100 in the year 2003 to over 200 in the year 2004, which is a 100% increase. This creates even more room for development for the Group's film processing business as well as an optimistic future.

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2004, the Group employed 77 staff members, including approximately 55 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.

CHAIRMAN'S STATEMENT

ACKNOWLEDGEMENT

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

Wong Pak Ming
Chairman

19th April 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

In the year under review, the Group recorded a turnover of HK\$53.2 million. Film distribution and licensing, film processing and advertising and promotional services contributed to 42.4%, 38.7% and 19.0% respectively of the Group's revenue. The decrease in revenue compared with the prior year is mainly due to the general market slump in Hong Kong's film industry.

The Group, reported a net loss of HK\$56 million compared to a net profit of HK\$0.6 million last year. Loss per share is 17.05 HK\$ cents, calculated on the 330,000,000 shares in issue in the 2004 compared with 0.17 HK\$ cents profit per share of the prior year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2004, the Group gross assets stood at HK\$113.5 million. The net tangible assets of the Group is HK\$69.9 million or 21 HK\$ cents per share. The cash and cash equivalent is HK\$10.1 million.

BORROWINGS AND BANKING FACILITIES

As at 31st December, 2004, the Group had outstanding short-term bank borrowings of approximately HK\$9.5 million (represented by current portion of property mortgage loan). The main purpose of the bank loan is to finance the daily operation of the Group.

As at 31st December, 2004, the aggregate banking facilities of the Group was approximately HK\$23.7 million. The utilization rate of banking facilities was about 57.4%. These banking facilities were secured by certain land and buildings of the Group.

The bank borrowings are made in Hong Kong Dollars.

As at 31st December, 2004, the gearing ratio of the Group, calculated at total borrowings divided by shareholders' funds, was 31.3%.

NET CURRENT ASSETS AND WORKING CAPITAL

As at 31st December, 2004 the Group's total current assets and current liabilities were approximately HK\$82.2 million and HK\$38.5 million respectively. The Group services its debts primarily through cash generated from its operations. After considering the financial resources available to the Group including internally generated funds, the available unutilized banking facilities in 2004, the Directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure and debt repayment requirement.

INVESTMENT

During the year, the Group has made certain equity investments in HK stock market.

STAFF COST, DIRECTOR BONUSES AND SHARE OPTION SCHEME

Staff cost for the year ended 31st December, 2004 was \$14.6 million representing an decrease of 6.1%. The Group had a workforce of about 77 staff at the end 2004. Salaries of employees are maintained at competitive levels while bonuses are 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 full-time 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.

FUTURE PLAN

In the coming year the Group will continue to focus on the business opportunities in the PRC market. Following the establishment of 東方橫店影視後期製作有限公司 which is a sino-foreign joint venture in the PRC early this year, this will create even more room for development for the Group's film processing business in PRC.

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its jointly controlled entities and subsidiaries are set out in notes 15 and 33 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 21 of the annual report.

The directors do not recommend the payment of any dividend for the year ended 31st December, 2004.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$353,000 on additions of plant, machinery and equipment.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 23 to the financial statements.

During the year under review, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 25 to the financial statements and the consolidated statement of changes in equity of the Group on page 24 of the annual report respectively.

DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Wong Pak Ming (*Chairman*)
Ms. Wong Kit Fong
Ms. Wong Yee Kwan, Alvina

Non-executive directors:

Mr. Wan Ngar Yin, David (*Deputy Chairman*) (re-designated as Independent non-executive director on 10th September 2004)

Independent non-executive directors:

Mr. Lai Voon Wai
Mr. Wan Ngar Yin, David (re-designated on 10th September, 2004)
Mr. Alan Woo (appointed on 1st November, 2004)
Mr. Hou Lee Tsun, Laurence (resigned on 1st November, 2004)

In accordance with Article 87(1) of the Company's Bye-laws, Mr. Wan Ngar Yin, David will retire by rotation and in accordance with Article 86(2) Mr. Alan Woo will retire at the forthcoming annual general meeting and, they being eligible, offer themselves for re-election.

The term of office of each of the independent non-executive directors is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

Each of the executive directors has entered into a service contract with the Company for an initial term of two years which commenced on 1st September, 2001 except for Ms. Wong Yee Kwan, Alvina which commenced on 1st September, 2003 and all of which continue thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

As at 31st December, 2004, the interests and short positions of each director and chief executive and their associates 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 pursuant to Section 352 of SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (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

Name of director	Capacity	Number of issued ordinary shares held (<i>Note 1</i>)	Approximate percentage of shareholding of the issued share capital of the Company
Mr. WONG Pak Ming ("Mr. Wong")	Held by controlled corporations (<i>Note 2</i>)	152,200,000 (long position)	46.1%
	Beneficial owner	1,332,000 (long position)	0.4%
	Held by spouse	1,200,000 (long position)	0.4%
		154,732,000 (long position)	46.9%
Mr. WAN Ngar Yin, David	Beneficial owner	3,292,000 (long position)	1.0%
Ms. WONG Kit Fong	Beneficial owner	7,232,000 (long position)	2.2%
Ms. WONG Yee Kwan, Alvina	Beneficial owner	2,606,000 (long position)	0.8%

Notes:

- Share of HK\$0.10 each in the capital of the Company.
- These 154,732,000 shares are held as to 30,000,000 shares by Capeland Holdings Limited and 122,200,000 shares by Idea Storm Holdings Limited, both companies are incorporated in the British Virgin Islands and are wholly-owned by Mr. Wong, and as to 1,332,000 shares held by Mr. Wong personally, and as to the remaining 1,200,000 shares held by Mr. Wong's wife in which Mr. Wong is also deemed to be interested.

Save as disclosed above, as at 31st December, 2004, 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 any of its associated corporations as defined in SFO as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the heading "Share Options", at no time during the year was the Company, or any of its 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 year.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 24 to the financial statements.

No share options were granted during the year and no share options were outstanding as at 31st December, 2004.

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

As at 31st December, 2004, the register of substantial shareholders maintained by the Company under Section 336 of SFO showed that the following persons had interest 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.

Long positions

Name	Capacity	Number of issued ordinary shares held (<i>Note 1</i>)	Approximate percentage of shareholding of the issued share capital of the Company
Mr. Wong	Held by controlled corporations (<i>Note 2</i>)	152,200,000 (Long position)	46.1%
	Beneficial owner	1,332,000 (Long position)	0.4%
	Held by spouse (<i>Note 3</i>)	1,200,000 (Long position)	0.4%
		<u>154,732,000 (Long position)</u>	<u>46.9%</u>
Mr. ZHANG Xun	Beneficial owner	<u>34,936,000 (Long position)</u>	<u>10.6%</u>

Notes:

1. Share of HK\$0.10 each in the capital of the Company.
2. These 154,732,000 shares are held as to 30,000,000 shares by Capeland Holdings Limited and 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, and as to 1,332,000 shares held by Mr. Wong personally, and as to the remaining 1,200,000 shares held by Mr. Wong's wife 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 the shares held by Mr. Wong or in which he is interested.

Save as disclosed above, the Company had not been notified of any other interests representing 5%, a more of the nominal value of the issued ordinary shares of the Company that carry right to vote in all circumstances at general meetings of the Company.

DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, certain transactions that have been entered into by the Group constituted connected transactions under the Listing Rules. Details are set out below:

During the year, the Group paid consultancy services fee and agency fees of HK\$270,000 and HK\$163,000 respectively to 廣州東影影視出品有限公司 (“Tung Ying”) in which a brother of Mr. Wong has a beneficial interest. The agency fees are charged by Tung Ying at the agreed terms of 5-10% of the distribution income generated by Tung Ying on behalf of the Group, in which it acted as an agent to generate that income.

The independent non-executive directors confirm that the transactions were conducted on normal commercial terms and in accordance with the terms of the agreements governing such transactions that are in the interests of the shareholders of the Company as a whole.

The auditors of the Company have confirmed that the transactions have been approved by the board of directors and are entered into in accordance with the agreements governing such transactions and did not exceed the cap stated in the relevant announcements.

At 31st December, 2004, the Group maintained a loan from Mr. Zhang Xun, a substantial shareholder in the amount of HK\$8,290,000 (2003: HK\$10,000,000). The loan bears interest at 1% per annum and will be repayable on or before 12th December, 2005. Subsequent to 31st December, 2004, the loan was further extended and will be repayable on or before 1st January, 2007.

Save as disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

PROFORMA COMBINED BALANCE SHEET OF AFFILIATED COMPANY

As at the balance sheet date, the advances made to a jointly controlled entity in the amount of HK\$10,927,000, represents approximately 8.8% of the total asset value of the Group before the respective allowance. Pursuant to Rule 13.16 of the Listing Rules, a proforma combined balance sheet of the affiliated company as at 31st December, 2004 is presented below:

	HK\$'000
Non-current assets	274
Current assets	1,587
Current liabilities	(702)
Net current assets	885
Shareholders' funds	1,159

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three existing independent non-executive directors of the Company, namely Mr. Wan Ngar Yin, David, Mr. Lai Voon Wai and Mr. Alan Woo.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to January 2005.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding securities transactions by directors. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code during the year under review.

The Company confirmed that it has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 and the Company still considers the independent non-executive directors to be independent.

EMOLUMENT POLICY

The Group remunerates its employees including the directors, based on their performance, experience and prevailing market rate. Other employee benefits included insurance and medical cover, subsidized training programme as well as share option scheme.

The determination of emoluments of the directors of the Company had taken into consideration of their expertise and job specifications.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for 13% and 36% respectively of the Group's total purchases for the year.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in the Group's five largest customers and suppliers.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the percentage of the ordinary shares in public exceed 25% as at 19th April, 2005, being the latest practicable date to ascertain such information prior to the issue of this annual report.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Wong Pak Ming
CHAIRMAN

Hong Kong, 19th April, 2005

EXECUTIVE DIRECTORS

Mr. WONG Pak Ming, aged 59, is the Chairman of the Company and founder of the Group. Mr. WONG co-founded Cinema City Company Limited and Cinema City (Film Production) Company Limited, both film production companies in Hong Kong, and has over 22 years of experience in the film industry as director, script writer and actor. He has been the Chairman of Movie Producers and Distributors Association of Hong Kong Limited since 1997, an association established in Hong Kong representing the interests of the local film industry.

Ms. WONG Kit Fong, aged 57, is a sister of Mr. Wong Pak Ming. She joined the Group in 1993. Prior to joining the Group, she worked as an accountant in trading companies in Hong Kong for over 10 years. She is responsible for financial planning and administrative functions of the Group. She is also a director of a number of subsidiaries of the Company and oversees their overall operations.

Ms. WONG Yee Kwan, Alvina, aged 29, is a daughter of Mr. Wong Pak Ming, was appointed as executive director of the Company on 1st September, 2003. Ms. Wong holds a Bachelor Degree in arts from University of Toronto and attained a certificate in marketing management issued by The George Brown College of Applied Arts and Technology. Prior to her appointment as executive director of the Company, she has been appointed a director of Chili Advertising & Promotions Limited (“Chili”) since 20th August, 2000, the Company’s subsidiary which is engaged in provision of promotional services for films. Ms. Wong now supervises Chili’s overall operation and is also responsible for coordinating with media reporters and other promotional events organized by Chili.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WAN Ngar Yin, David, aged 44, was re-designated as independent non-executive director of the Company on 10th September 2004. He graduated with a bachelor’s degree in social sciences from the University of Hong Kong and obtained a master degree in business administration from the University of Sydney. Mr. Wan is a member of the Australian Society of Certified Practising Accountants and an associate member of the Hong Kong Society of Accountants.

Mr. LAI Voon Wai, aged 34, was appointed as independent non-executive director of the Company on 1st September, 2003. Mr. Lai graduated from Queen Mary & Westfield College with a bachelor’s degree in electronic engineering and also attained an LLB (Hons) degree from the University of Buckingham, United Kingdom. He has over eight years of experience in investment banking and was involved in the listing and mergers and acquisitions of a number of listed companies in Hong Kong. Mr. Lai was also the Chief of Corporate Development of E-Life International (stock code: 370), a listed company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), for over one and a half year. He is now a director of the investment banking division of a securities company in Hong Kong.

Mr. Alan WOO, aged 25, was appointed as independent non-executive director of the Company since 1st November, 2004. Mr. Woo graduated with a bachelor degree of Arts in International Relations from the University of Southern California. He also obtained a bachelor degree in Laws and a Postgraduate Certificate in Laws from the University of Hong Kong. In 1999, Mr. Woo was invited to become a member of the Los Angels World Affairs Council. Mr. Woo has his own business in a joint venture for operating a petrol filling station in Macau.

OTHER SENIOR MANAGEMENT

Mr. KO Tin Chow, aged 55, is the senior manager responsible for supervising the film processing business of the Group. Mr. Ko has over 32 years of experience in the film processing industry. Prior to joining the Group in 1995, he was the general manager of Hong Kong Color Movielab Limited, a film processing company in Hong Kong. He is the Chairman of the Hong Kong & Kowloon Film Laboratory Merchants' Association Limited.

Mr. KWOK Chi Keung, Andy, aged 37, is the qualified accountant of the Company and was appointed as chief financial officer of the Group on 30th September, 2004. Mr. Kwok has over 12 years experience in auditing, accounting, financial management and corporate finance. He is a Certified Public Accountant (Practising) in Hong Kong and a fellow member of The Association of Chartered Certified Accountants.

Mr. CHOW Ming Sang, aged 56, is the production manager responsible for the operation of the printing division of the film processing business of the Group. Mr. Chow joined the Group since its establishment and has over 34 years of experience in the film processing industry.

Mr. FUNG Hon Wah, aged 53, is the production manager responsible for the operation of the special effects division of the film processing business of the Group. Mr. Fung joined the Group since its establishment and has over 30 years of experience in the film processing industry.

Mr. LAU Siu Sun, aged 57, is the production manager supervising the quality control division of the film processing business of the Group. Mr. Lau joined the Group since its establishment and has over 30 years of experience in the film processing industry.

Mr. WONG Tung Ming, aged 58, is the production manager who has overall responsibilities for film processing and film subtitling. Mr. Wong joined the Group since its establishment and has over 34 years of experience in the film processing industry.

Ms. HO Yuen Man, Janice, aged 37, is the finance manager responsible for the financial and accounting functions of the film processing unit of the Group. Miss Ho holds a diploma in accountancy awarded by Vocational Training Council in Hong Kong. She also holds a certificate accredited by The Hong Kong Association of Accounting Technicians as an "Accounting Technician (H.K.A.T.)".



TO THE SHAREHOLDERS OF MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 21 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong 19th April 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	4	53,192	58,535
Cost of sales		(72,812)	(37,559)
Gross (loss) profit		(19,620)	20,976
Other operating income		2,227	2,982
Impairment loss recognised in respect of investment securities		–	(4,000)
Administrative expenses		(23,744)	(18,685)
(Loss) profit from operations	6	(41,137)	1,273
Finance costs	7	(751)	(513)
Allowance on loan to a jointly controlled entity		(10,927)	–
Amortisation on goodwill of investment in jointly controlled entity		(300)	(300)
Impairment on goodwill of investment in jointly controlled entity		(2,400)	–
Share of results of jointly controlled entities		(321)	1,084
(Loss) profit before taxation		(55,836)	1,544
Income tax expense	9	(507)	(1,011)
(Loss) profit before minority interests		(56,343)	533
Minority interests		74	18
Net (loss) profit for the year		(56,269)	551
Dividends	10	–	–
(Loss) earnings per share – basic	11	(17.05 cents)	0.17 cent

CONSOLIDATED BALANCE SHEET

At 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	8,930	10,878
Investment securities	14	6,100	3,000
Interests in jointly controlled entities	15	16,284	27,261
		<u>31,314</u>	<u>41,139</u>
CURRENT ASSETS			
Film rights		6,837	4,572
Film production in progress		29,029	72,115
Inventories, at cost	16	1,949	2,624
Trade and other receivables	17	27,827	31,717
Amount due from a related company	18	6,147	6,385
Amount due from a minority shareholder of a subsidiary	19	280	325
Taxation recoverable		–	269
Bank balances and cash		10,146	15,439
		<u>82,215</u>	<u>133,446</u>
CURRENT LIABILITIES			
Trade and other payables	20	19,806	22,822
Bank and other loans – due within one year	21	17,777	14,996
Taxation payable		919	–
		<u>38,502</u>	<u>37,818</u>
NET CURRENT ASSETS		<u>43,713</u>	<u>95,628</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>75,027</u>	<u>136,767</u>
MINORITY INTERESTS		<u>188</u>	<u>262</u>
NON-CURRENT LIABILITIES			
Bank and other loans – due after one year	21	4,080	9,404
Deferred taxation	22	887	960
		<u>4,967</u>	<u>10,364</u>
NET ASSETS		<u>69,872</u>	<u>126,141</u>
CAPITAL AND RESERVES			
Share capital	23	33,000	33,000
Reserves		36,872	93,141
		<u>69,872</u>	<u>126,141</u>
SHAREHOLDERS' FUNDS		<u>69,872</u>	<u>126,141</u>

The financial statements on pages 21 to 55 were approved and authorised for issue by the Board of Directors on 19th April, 2005 and are signed on its behalf by:

Wong Pak Ming
DIRECTOR

Wong Kit Fong
DIRECTOR

BALANCE SHEET

At 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSET			
Interests in subsidiaries	13	<u>63,160</u>	<u>110,817</u>
CURRENT ASSET			
Bank balances and cash		55	92
CURRENT LIABILITY			
Accrued charge		<u>108</u>	<u>70</u>
NET CURRENT (LIABILITIES) ASSETS			
		<u>(53)</u>	<u>22</u>
NET ASSETS			
		<u><u>63,107</u></u>	<u><u>110,839</u></u>
CAPITAL AND RESERVES			
Share capital	23	<u>33,000</u>	<u>33,000</u>
Reserves	25	<u>30,107</u>	<u>77,839</u>
SHAREHOLDERS' FUNDS			
		<u><u>63,107</u></u>	<u><u>110,839</u></u>

Wong Pak Ming
DIRECTOR

Wong Kit Fong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2004

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Goodwill reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
THE GROUP						
At 1st January, 2003	33,000	34,653	17,926	1,720	38,291	125,590
Net profit for the year	—	—	—	—	551	551
At 31st December, 2003	33,000	34,653	17,926	1,720	38,842	126,141
Net loss for the year	—	—	—	—	(56,269)	(56,269)
At 31st December, 2004	<u>33,000</u>	<u>34,653</u>	<u>17,926</u>	<u>1,720</u>	<u>(17,427)</u>	<u>69,872</u>

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 (2003: 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 approximately HK\$7,506,000 (2003: HK\$7,506,000).

The accumulated losses of the Group include loss of approximately HK\$716,000 (2003: HK\$354,000) attributable to its jointly controlled entities.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2004

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
(Loss) profit from operations	(41,137)	1,273
Adjustments for:		
Interest income	(36)	(36)
Depreciation	2,301	2,274
Amortisation of film rights	720	–
Impairment loss recognised in respect of film production in progress	6,981	3,000
Impairment loss recognised in respect of investment securities	–	4,000
Operating cash flows before movements in working capital	(31,171)	10,511
Decrease (increase) in film rights and production in progress	33,120	(16,997)
Decrease (increase) in inventories	675	(928)
Decrease (increase) in trade and other receivables	3,890	(4,069)
Decrease (increase) in amount due from a related company	238	(515)
(Decrease) increase in trade and other payables	(3,016)	12,170
Cash generated from operations	3,736	172
Hong Kong Profits Tax paid	(300)	(35)
Hong Kong Profits Tax refunded	949	485
NET CASH GENERATED FROM OPERATING ACTIVITIES	4,385	622
INVESTING ACTIVITIES		
Purchase of investment securities	(3,100)	(6,000)
Advance to a jointly controlled entity	(3,012)	(1,218)
Purchase of property, plant and equipment	(353)	(780)
Decrease (increase) in amount due from a minority shareholder of a subsidiary	45	(45)
Interest received	36	36
Investment in a jointly controlled entity	–	(15,000)
NET CASH USED IN INVESTING ACTIVITIES	(6,384)	(23,007)
FINANCING ACTIVITIES		
Repayment of bank and other loans	(7,561)	(1,075)
Interest paid	(751)	(513)
Bank and other loans raised	3,610	24,220
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(4,702)	22,632
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,701)	247
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	15,364	15,117
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	8,663	15,364
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	10,146	15,439
Bank overdrafts	(1,483)	(75)
	8,663	15,364

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

1. GENERAL

The Company was incorporated in Bermuda on 9th May, 2001 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The principal activities of its subsidiaries and jointly controlled entities are set out in notes 33 and 15 respectively.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of leasehold land and buildings, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiary acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-group transactions and balances have been eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company’s balance sheet at cost less any identified impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill in so far as it has not already been amortised, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Revenue recognition

Income from the production and distribution of films is recognised when the production is completed, released and the amount can be measured reliably, which is generally when the cinema circuit confirms to the Group its share of box office receipts.

Income from the licensing of the distribution and broadcasting rights over films and television series is recognised when the Company's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon delivery of the film negatives to the customers.

Amounts received for pre-sales of the distribution and broadcasting rights over films and television series before completion of production are accounted for as receipts in advance and grouped under trade and other payables in the balance sheet.

Income from the provision of film processing services is recognised when the services are provided.

Advertising and promotional service income is recognised when the services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary and a jointly controlled entity at the date of acquisition.

Goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1st January, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of the jointly controlled entities is included within the carrying amount of the relevant jointly controlled entities.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

The leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of leasehold land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	2.5%
Furniture and fixtures	20%
Leasehold improvements	20%
Motor vehicles	20% – 30%
Plant, machinery and equipment	20%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Investment securities

Investment in securities are recognised on trade-date basis and are initially measured at cost.

Investment securities are held for an identified long-term strategic purpose, and are subsequently measured at cost as reduced by any impairment loss that is other than temporary.

Operating leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Film rights and production in progress

Film rights generated by the Group or perpetual rights acquired by the Group are stated at lower of cost less accumulated amortisation and impairment losses, and net realisable value. Costs of film rights, represent the carrying value transferred from film production in progress upon completion or the purchase price of the perpetual film rights, and are amortised over the period of two to twenty years.

Film production in progress represents films and television series under production and is stated at production costs incurred to date, less foreseeable losses. Such production costs are carried forward as production in progress and are transferred to film rights upon completion.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amounts, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Statement of Standard Accounting Practice ("SSAP"), in which case the impairment loss is treated as a revaluation decrease under that SSAP.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

Retirement benefits costs

Payments to defined contribution retirement benefit plans and Mandatory Provident Fund Scheme are charged as expense as they fall due.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's operations which are denominated in foreign currencies are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. TURNOVER

	2004	2003
	HK\$'000	HK\$'000
<hr/>		
An analysis of turnover is as follows:		
Film distribution and licensing income	20,152	24,907
Film processing income	22,529	24,708
Advertising and promotional service income	10,511	8,920
	<hr/>	<hr/>
	53,192	58,535
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENT INFORMATION

BUSINESS SEGMENTS

For management purposes, 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.

Segment information about these businesses is presented below.

2004

	Film distribution and licensing HK\$'000	Film processing HK\$'000	Advertising and promotional services HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Total HK\$'000
REVENUE						
External revenue	23,473	21,426	10,520	-	-	55,419
Inter segment revenue	1,930	1,551	523	216	(4,220)	-
Total revenue	<u>25,403</u>	<u>22,977</u>	<u>11,043</u>	<u>216</u>	<u>(4,220)</u>	<u>55,419</u>
RESULT						
Segment result	<u>(38,592)</u>	<u>(775)</u>	<u>18</u>	<u>(1,788)</u>	<u>-</u>	(41,137)
Finance costs						(751)
Allowance on loan to a jointly controlled entity				(10,927)		(10,927)
Amortisation on goodwill of investment in jointly controlled entity				(300)		(300)
Impairment on goodwill of investment in jointly controlled entity				(2,400)		(2,400)
Share of results of jointly controlled entities				(321)		<u>(321)</u>
Loss before taxation						(55,836)
Income tax expense						<u>(507)</u>
Loss before minority interests						<u>(56,343)</u>

Inter segment revenue is charged at prevailing market rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2004

BALANCE SHEET

	Film distribution and licensing HK\$'000	Film processing HK\$'000	Advertising and promotional services HK\$'000	Others operations HK\$'000	Total HK\$'000
ASSETS					
Segment assets	60,862	24,679	4,508	–	90,049
Interests in jointly controlled entities				16,284	16,284
Unallocated corporate assets					7,196
Consolidated total assets					<u>113,529</u>
LIABILITIES					
Segment liabilities	14,035	2,603	3,040	–	19,678
Unallocated corporate liabilities					23,791
Consolidated total liabilities					<u>43,469</u>
OTHER INFORMATION					
Capital expenditure	199	112	42	–	353
Depreciation and amortisation					
– property, plant and equipment	1,940	249	78	34	2,301
– goodwill	–	–	–	300	300
– film rights	720	–	–	–	720
Impairment loss recognised in respect of film production in progress	6,981	–	–	–	6,981

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2003

	Film distribution and licensing HK\$'000	Film processing HK\$'000	Advertising and promotional services HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Total HK\$'000
REVENUE						
External revenue	26,103	26,211	8,922	281	–	61,517
Inter segment revenue	2,383	2,508	684	216	(5,791)	–
Total revenue	<u>28,486</u>	<u>28,719</u>	<u>9,606</u>	<u>497</u>	<u>(5,791)</u>	<u>61,517</u>
RESULT						
Segment result	<u>8,183</u>	<u>(1,699)</u>	<u>(31)</u>	<u>(1,180)</u>	<u>–</u>	5,273
Impairment loss recognised in respect of investment securities						<u>(4,000)</u>
Profit from operations						1,273
Finance costs						(513)
Amortisation on goodwill of investment in jointly controlled entity				(300)		(300)
Share of results of jointly controlled entities				1,084		<u>1,084</u>
Profit before taxation						1,544
Income tax expense						<u>(1,011)</u>
Profit before minority interests						<u>533</u>

Inter segment revenue is charged at prevailing market rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2003

BALANCE SHEET

	Film distribution and licensing HK\$'000	Film processing HK\$'000	Advertising and promotional services HK\$'000	Others operations HK\$'000	Total HK\$'000
ASSETS					
Segment assets	107,230	31,208	3,514	–	141,952
Interests in jointly controlled entities	–	–	–	27,261	27,261
Unallocated corporate assets					5,372
					<u>174,585</u>
LIABILITIES					
Segment liabilities	15,148	6,261	1,292	–	22,701
Unallocated corporate liabilities					25,481
					<u>48,182</u>
OTHER INFORMATION					
Capital expenditure	57	689	34	–	780
Depreciation and amortisation					
– property, plant and equipment	270	1,933	71	–	2,274
– goodwill	–	–	–	300	300
Impairment loss recognised in respect of film production in progress	3,000	–	–	–	3,000
Impairment loss recognised in respect of investment securities	–	–	–	4,000	4,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENT INFORMATION (continued)

GEOGRAPHICAL SEGMENTS

The Group's customers are located in Hong Kong, the People's Republic of China, other than Hong Kong (the "PRC"), Taiwan, Malaysia, Europe and other parts of Asia. Film distribution and licensing business is carried out in Hong Kong and the PRC. The Group's advertising and promotional and film processing divisions are located in Hong Kong.

An analysis of the Group's revenue by geographical market, based on the origin of the services and an analysis of the carrying amount of segment assets and capital additions analysed by the geographical area in which the assets are located, is presented below.

2004

	Hong Kong HK\$'000	The PRC HK\$'000	Others HK\$'000	Total HK\$'000
REVENUE				
Turnover	38,712	7,982	6,498	53,192
Other operating income	2,222	5	–	2,227
Total revenue	<u>40,934</u>	<u>7,987</u>	<u>6,498</u>	<u>55,419</u>
	Hong Kong HK\$'000	The PRC HK\$'000	Others HK\$'000	Total HK\$'000
Carrying amount of segment assets	<u>75,679</u>	<u>23,350</u>	<u>14,500</u>	<u>113,529</u>
Additions to property, plant and equipment	<u>337</u>	<u>16</u>	<u>–</u>	<u>353</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENT INFORMATION (continued)

GEOGRAPHICAL SEGMENTS (continued)

2003

	Hong Kong HK\$'000	The PRC HK\$'000	Others HK\$'000	Total HK\$'000
REVENUE				
Turnover	40,825	3,725	13,985	58,535
Other operating income	2,382	600	–	2,982
Total revenue	43,207	4,325	13,985	61,517
	Hong Kong HK\$'000	The PRC HK\$'000	Others HK\$'000	Total HK\$'000
Carrying amount of segment assets	133,610	35,171	5,804	174,585
Additions to property, plant and equipment	760	20	–	780

6. (LOSS) PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Directors' emoluments (<i>note 8</i>)	3,146	4,274
Other staff costs	11,492	11,318
Total staff costs	14,638	15,592
Auditors' remuneration	878	820
Depreciation and amortisation		
– property, plant and equipment	2,301	2,274
– goodwill	300	300
– film rights	720	–
Impairment loss recognised in respect of film production in progress (included in cost of sales)	6,981	3,000
and after crediting:		
Interest income	36	36

Included in total staff costs is an aggregate amount of approximately HK\$607,000 (2003: HK\$545,000) in respect of contribution to retirement benefit schemes paid or payable by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

7. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank and other borrowing:		
– wholly repayable within five years	732	492
– not wholly repayable within five years	19	21
	<u>751</u>	<u>513</u>

8. DIRECTORS' AND EMPLOYEES EMOLUMENTS

The emoluments of the directors and the five highest paid individuals are summarised as follows:

	2004 HK\$'000	2003 HK\$'000
(a) Directors' emoluments		
Fees		
– Executive directors	–	–
– Independent non-executive directors	480	320
	<u>480</u>	320
Other emoluments		
– Executive directors		
Salaries and allowances	2,630	3,855
Retirement benefits scheme contributions	36	99
	<u>3,146</u>	<u>4,274</u>

The emoluments of the directors were within the following bands:

	2004 Number of Directors	2003 Number of Directors
Nil to HK\$1,000,000	6	8
HK\$1,500,001 to HK\$2,000,000	1	1
	<u>7</u>	<u>9</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

8. DIRECTORS' AND EMPLOYEES EMOLUMENTS (continued)

(a) Directors' remuneration (continued)

No emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office and no directors waived any emoluments in both years.

(b) Employees' emoluments

The five highest paid individuals in the Group included three directors (2003: three directors) of the Company, details of whose emoluments are set out above. The emoluments of the remaining two individuals (2003: two individuals) were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	1,017	1,080
Retirement benefits scheme contributions	50	51
	<u>1,067</u>	<u>1,131</u>

The emoluments of each individual for both years were less than HK\$1,000,000.

9. INCOME TAX EXPENSE

	2004 HK\$'000	2003 HK\$'000
Hong Kong Profits Tax		
– provision for current year	342	160
– underprovision of Hong Kong Profits Tax in prior years	197	–
	<u>539</u>	<u>160</u>
Deferred tax (credit) charge (<i>note 22</i>)		
Current year	(73)	192
Attributable to a change in tax rate	–	68
	<u>(73)</u>	<u>260</u>
Taxation attributable to the Company and its subsidiaries	466	420
Taxation attributable to the jointly controlled entities	41	591
	<u>507</u>	<u>1,011</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated profit for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

9. INCOME TAX EXPENSE (continued)

Tax in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. No provision for tax in other jurisdictions for both years has been made in the financial statements as neither the Company nor any of its subsidiaries had any assessable profit subject to tax in other jurisdictions.

The tax charge for the year can be reconciled to the (loss) profit per the income statement as follows:

	2004 HK\$'000	2003 HK\$'000
(Loss) profit before taxation	<u>(55,836)</u>	<u>1,544</u>
Tax at the domestic income tax rate of 17.5%	(9,771)	270
Tax effect of expenses not deductible for tax purpose	4,047	1,224
Tax effect of income not taxable for tax purpose	(5)	(856)
Underprovision in respect of prior year	197	–
Tax effect of additional tax losses not recognised	5,930	6
Utilisation of tax losses previously not recognised	(33)	(102)
Utilisation of deferred tax assets previously not recognised	(230)	–
Tax effect on share of results of jointly controlled entities	372	401
Increase in opening deferred tax liabilities from an increase in tax rate	–	68
Tax charge for the year	<u>507</u>	<u>1,011</u>

10. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31st December, 2004.

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the year is based on the net loss for the year of HK\$56,269,000 (2003: net profit of HK\$551,000) and on 330,000,000 shares in issue during both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Furniture and fixtures HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Plant, machinery and equipment HK\$'000	Total HK\$'000
THE GROUP						
COST OR VALUATION						
At 1st January, 2004	4,500	5,349	3,068	525	20,371	33,813
Additions	–	40	–	–	313	353
At 31st December, 2004	4,500	5,389	3,068	525	20,684	34,166
Comprising:						
At cost	–	5,389	3,068	525	20,684	29,666
At valuation – 2001	4,500	–	–	–	–	4,500
	<u>4,500</u>	<u>5,389</u>	<u>3,068</u>	<u>525</u>	<u>20,684</u>	<u>34,166</u>
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	428	4,219	2,044	409	15,835	22,935
Provided for the year	171	331	265	35	1,499	2,301
At 31st December, 2004	599	4,550	2,309	444	17,334	25,236
NET BOOK VALUES						
At 31st December, 2004	3,901	839	759	81	3,350	8,930
At 31st December, 2003	4,072	1,130	1,024	116	4,536	10,878

The Group's leasehold land and buildings was revalued at 30th June, 2001 by Vigers Hong Kong Limited, an independent firm of qualified professional valuers, on an open market value basis. In the opinion of directors, the carrying value of the Group's leasehold land and buildings as at 31st December, 2004 is not significantly different to the fair value at 31st December, 2004.

The leasehold land and buildings of the Group are situated in Hong Kong and are held under medium term leases.

At 31st December, 2004, had all of the land and buildings of the Group been carried at historical cost less accumulated depreciation and amortisation, their carrying amount would have been approximately HK\$5,504,000 (2003: HK\$5,675,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares	44,172	44,172
Amounts due from subsidiaries	64,988	66,645
	109,160	110,817
Less: Impairment loss	(46,000)	–
	63,160	110,817

The carrying value of the unlisted shares is based on the directors' estimate of the underlying net assets of Grimston Limited and its subsidiaries at the time these subsidiaries were acquired by the Company pursuant to the Group Reorganisation in 2001.

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, no part of the amounts are repayable within one year from the balance sheet date and the amounts are therefore shown in the balance sheet as non-current.

During the year, an impairment loss has been recognised in respect of the investment in and advances to subsidiaries to their recoverable amounts.

Details of the Company's subsidiaries at 31st December, 2004 are set out in note 33.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

14. INVESTMENT SECURITIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Equity securities in Hong Kong		
Listed shares, at cost	6,100	–
Unlisted shares, at cost	–	7,000
Less: accumulated impairment loss	–	(4,000)
	<u>6,100</u>	<u>3,000</u>
Market value of listed shares	<u>7,128</u>	<u>–</u>

During the year, the Group exchanges its interests in unlisted shares with a carrying value of HK\$3,000,000 for the interests in listed shares at the same amount.

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	16,284	16,646
Goodwill on acquisition	–	2,700
	<u>16,284</u>	<u>19,346</u>
Loan to a jointly controlled entity	10,927	7,915
Allowance on loan to jointly controlled entity	(10,927)	–
	<u>16,284</u>	<u>27,261</u>

The loan advanced to a jointly controlled entity is unsecured, non-interest bearing and has no fixed repayment terms. In the opinion of the directors, this amount will not be repaid within the next twelve months from the balance sheet date and accordingly, the amount is classified as non-current in the balance sheet.

The goodwill on acquisition of the jointly controlled entities is amortised on a straight line basis over 10 years starting from year of commencement of operation, i.e. 2003 and the amount of HK\$300,000 has been charged in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

As at 31st December, 2004, the Group had interests in the following jointly controlled entities:

Name of entity	Place of incorporation/ operation	Proportion of nominal value of issued capital/ registered capital held indirectly by the Company %	Nature of business
Prosper China Limited ("PCL")	British Virgin Islands ("BVI")/ Hong Kong	40	Investment holding
北京東方新青年文化發展 有限公司 ("Beijing Youth")	PRC	40	Provision of cultural education courses
浙江東方國際發展有限公司 ("浙江東方")	PRC	37.5	Hotel operation

During the year ended 31st December, 2004, an indirect wholly-owned subsidiary of the Company, entered into a conditional agreement with an independent third party to subscribe for a 40% interest in a joint venture established in the PRC, which will be satisfied by assignment of trade receivables arising on the assignment of the interests in a batch of films and television series in 2004. The co-investor agreed to inject a piece of land in the PRC as their capital contribution.

Up to the date of this report, the formation of the joint venture has not yet been completed as the co-investor has not yet injected the piece of land to the joint venture. Accordingly, the Group did not recognise any income from the assignment of the interests in that batch of films and television series and the proposed formation of the joint venture.

16. INVENTORIES, AT COST

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	1,927	2,087
Work in progress	22	537
	<u>1,949</u>	<u>2,624</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

17. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 days to 120 days. Included in trade and other receivables are trade receivables of HK\$9,318,000 (2003: HK\$19,734,000) and their aged analysis is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 – 90 days	5,951	14,190
91 – 180 days	1,890	2,264
181 – 365 days	547	2,874
Over 1 year	930	406
	9,318	19,734

18. AMOUNT DUE FROM A RELATED COMPANY

Details of the amount due from a related company are as follows:

	THE GROUP		
	As at		Maximum amount
	31st December,		outstanding during
	2004	2003	the year ended
	HK\$'000	HK\$'000	31st December,
			2004
	HK\$'000	HK\$'000	HK\$'000
廣州東影影視出品有限公司 ("Tung Ying") (Note)	6,147	6,385	6,385

Note: A brother of Mr. Wong Pak Ming ("Mr. Wong") has a beneficial interest in this company.

The amount is unsecured, non-interest bearing and is repayable on demand.

19. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, non-interest bearing and is repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

20. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$4,475,000 (2003: HK\$5,963,000) and their aged analysis is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 – 90 days	4,222	5,529
91 – 180 days	253	434
	<u>4,475</u>	<u>5,963</u>

21. BANK AND OTHER LOANS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Bank loans	12,084	14,325
Other loan	8,290	10,000
Bank overdrafts	1,483	75
	<u>21,857</u>	<u>24,400</u>
Secured	4,084	6,325
Unsecured	17,773	18,075
	<u>21,857</u>	<u>24,400</u>

The maturity of the bank and other loans is as follows:

On demand or within one year	17,777	14,996
More than one year, but not exceeding two years	3,691	5,922
More than two years, but not exceeding five years	294	3,286
More than five years	95	196
	<u>21,857</u>	<u>24,400</u>
Less: Amount due within one year shown under current liabilities	<u>(17,777)</u>	<u>(14,996)</u>
Amount due after one year	<u>4,080</u>	<u>9,404</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

22. DEFERRED TAXATION

The followings are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior reporting periods.

	THE GROUP		
	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1st January, 2003	(1,200)	500	(700)
Charge (credit) to income statement for the year	193	(385)	(192)
Effect on change in tax rate	(113)	45	(68)
At 31st December, 2003	(1,120)	160	(960)
Credit (charge) to income statement for the year	233	(160)	73
At 31st December, 2004	(887)	–	(887)

At the balance sheet date, the Group has unused tax losses of HK\$27,774,000 (2003: HK\$15,689,000) available for offset against future profits. No deferred tax asset in respect of such losses has been recognised due to the unpredictability of future profit streams.

The Company has no significant provided or unprovided deferred taxation at the balance sheet dates or for the year.

23. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 2003, 31st December, 2003 and 31st December, 2004	1,000,000,000	100,000
Issued and fully paid:		
At 1st January, 2003, 31st December, 2003 and 31st December, 2004	330,000,000	33,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

24. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 21st August, 2001 for the purpose of recognising the contribution of the senior management and full-time employees of the Group. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the issued share capital of the Company for the time being, without prior approval from the Company's shareholders.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$1 per each grant of option(s). Options may generally be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors of the Company may at its discretion determine the specific exercise period and exercise price. The exercise price shall not be less than the highest of (i) the closing price of Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (ii) the average closing price of Company's shares as stated in the daily operations sheet of the Stock Exchange for the five trading days immediately preceding the date of grant.

The Scheme will expire on 20th August, 2011.

No options were granted, exercised, lapsed or cancelled during the year ended 31st December, 2004 and 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

25. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
THE COMPANY				
At 1st January, 2003	34,653	44,072	507	79,232
Net loss for the year	—	—	(1,393)	(1,393)
At 31st December, 2003	34,653	44,072	(886)	77,839
Net loss for the year	—	—	(47,732)	(47,732)
At 31st December, 2004	<u>34,653</u>	<u>44,072</u>	<u>(48,618)</u>	<u>30,107</u>

The contributed surplus of the Company represents the excess of the combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange thereof at the time of the Group Reorganisation in 2001.

Under the laws in Bermuda, the contributed surplus account of a company is available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company did not have any distribution reserve as at 31st December, 2004.

The Company's reserves available for distribution to shareholders as at 31st December, 2003 were represented by its contributed surplus and accumulated losses, totalling approximately HK\$43,186,000.

26. OPERATING LEASE COMMITMENTS

Minimum lease payments paid under operating leases during the year:

	2004 HK\$'000	2003 HK\$'000
Premises	<u>1,427</u>	<u>1,513</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

26. OPERATING LEASE COMMITMENTS (continued)

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Operating leases which expire:		
Within one year	1,058	1,537
In the second to fifth year inclusive	864	200
	<u>1,922</u>	<u>1,737</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years with rental fixed throughout the year.

The Company had no significant operating lease commitments at the balance sheet date.

27. CAPITAL COMMITMENTS

As at 31st December, 2004, the Group had capital commitment of approximately HK\$23,030,000 (2003: nil) which is contracted for the investment in a joint venture in the PRC.

The Company had no capital commitments at the balance sheet dates.

28. OTHER COMMITMENTS

At the balance sheet date, the Group had the commitments for the following expenditure in respect of:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
The production of a film	829	–
Artists' fee	7,506	9,091
	<u>8,335</u>	<u>9,091</u>

The Company had no other commitments at the balance sheet dates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

29. CONTINGENT LIABILITIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Guarantees given to bank in respect of banking facilities utilised by a subsidiary	<u>12,995</u>	<u>12,400</u>

The Group did not have any significant contingent liabilities at the balance sheet dates.

30. BANKING FACILITIES AND PLEDGE OF ASSETS

At 31st December, 2004, the Group's bank facilities are secured by the followings:

- (1) the unlimited corporate guarantee given by the Company;
- (2) the legal charge over the copyright of one film "Dating Death" with a carrying value of approximately HK\$669,000, included in film rights and production in progress, at 31st December, 2004 (2003: HK\$5,543,000);
- (3) the assignment of income receivables to be derived from the licensing of the film "Dating Death" in all territories throughout the world; and
- (4) certain of its leasehold land and buildings with a carrying value of HK\$3,901,000 (2003: HK\$4,072,000) and its plant and machinery of HK\$2,148,000 (2003: HK\$3,004,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

31. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the “ORSO Scheme”) and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee’s basic salary.

The employees of the Group’s subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

32. RELATED PARTY TRANSACTIONS

During year, the Group entered into the following significant transactions with related parties:

Name of related party	Nature of transactions	Notes	2004 HK\$'000	2003 HK\$'000
PCL	Management fee income	(i)	600	600
Tung Ying	Agency fees	(ii)	163	81
	Consultancy services fee paid	(iii)	270	270

Notes:

- (i) The management fee income was charged by reference to the actual cost incurred.
- (ii) The agency fees are charged by Tung Ying at the agreed terms of 5-10% (2003: 10%) of the distribution income generated by Tung Ying on behalf of the Group, in which it acted as an agent to generate that income.
- (iii) The consultancy services fee paid to Tung Ying was determined by reference to the market prices for similar transactions.

33. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries of the Company as at 31st December, 2004 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued share capital/ registered capital held by Company %	Principal activities
Award Media Profits Limited	BVI/ Hong Kong	US\$1 ordinary share	100	Investment holding
Chili Advertising & Promotions Limited	Hong Kong	HK\$10,000 ordinary shares	100	Provision of advertising and promotional services
Film City Enterprises Limited	BVI/ Hong Kong	US\$1 ordinary share	100	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

33. PARTICULARS OF SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued share capital/ registered capital held by Company %	Principal activities
Grimston Limited	BVI/ Hong Kong	US\$10,000 ordinary shares	100	Investment holding
Mandarin Films Distribution Company Limited	Hong Kong	HK\$20 ordinary shares HK\$10,000,000 non-voting deferred shares (note 1)	100	Distribution of films produced or purchased by the Group
Mandarin Films Distribution Co., Ltd. (formerly known as Media Elite Enterprises Limited)	BVI	US\$10,000 ordinary shares	100	Distribution of films produced or purchased by the Group
Mandarin Films Limited	Hong Kong	HK\$100 ordinary shares	100	Production of films
Mandarin Laboratory Limited	Hong Kong	HK\$10,000 ordinary shares	100	Distribution of films produced by third parties
Mandarin Laboratory (International) Limited	Hong Kong	HK\$1,000,000 ordinary shares	100	Film processing and storage of films
Mandarin Motion Picture Limited	Hong Kong	HK\$500,000 ordinary shares	100	Production of films
Walsbo Limited	Hong Kong	HK\$2 ordinary shares HK\$9,800 non-voting deferred shares (note 1)	100	Investment holding
廣州智理廣告有限公司 (note 2)	PRC	RMB1,000,000	70	Provision of advertising and promotional services

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

33. PARTICULARS OF SUBSIDIARIES (continued)

Note:

1. The deferred shares practically carry no rights to dividends or to receive notice to attend or vote at any general meeting of the company or to participate in any distribution on winding up.
2. 廣州智理廣告有限公司 is a sino-foreign equity joint venture.

None of the subsidiaries had issued any debt securities during the year end and at the end of the year.

The Company directly holds the interest in Grimston Limited. All other interests shown above are indirectly held.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the last five financial periods is as follows:

	For the year ended 31st December,				
	2000	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RESULTS					
Turnover	<u>87,939</u>	<u>129,677</u>	<u>83,442</u>	<u>58,535</u>	<u>53,192</u>
Profit (loss) from operations	29,666	44,510	(6,786)	1,273	(41,137)
Finance costs	(587)	(361)	(49)	(513)	(751)
Allowance on loan to a jointly controlled entity	–	–	–	–	(10,927)
Amortisation on goodwill of investment in joint controlled entity	–	–	–	(300)	(300)
Impairment on goodwill of investment in jointly controlled entity	–	–	–	–	(2,400)
Share of results of jointly controlled entities	–	–	(847)	1,084	(321)
Profit (loss) before taxation	29,079	44,149	(7,682)	1,544	(55,836)
Income tax (expense) credit	(3,124)	(3,001)	179	(1,011)	(507)
Net profit (loss) before minority interests	25,955	41,148	(7,503)	533	(56,343)
Minority interests	–	–	–	18	74
Net profit (loss) for the year	<u>25,955</u>	<u>41,148</u>	<u>(7,503)</u>	<u>551</u>	<u>(56,269)</u>
	2000	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
Total assets	70,544	144,825	138,122	174,585	113,529
Total liabilities	(34,602)	(16,952)	(12,532)	(48,182)	(43,469)
Minority interests	–	–	–	(262)	(188)
	<u>35,942</u>	<u>127,873</u>	<u>125,590</u>	<u>126,141</u>	<u>69,872</u>

Note: The Company was incorporated in Bermuda on 9th May, 2001 and became the holding company of the Group with effect from 21st August, 2001 as a result of the Group Reorganisation. The results of the Group for each of the year ended 31st December, 2000 and the assets and liabilities at 31st December, 2000 have been prepared on a combined basis as if the current group structure had been in existence throughout those years and have been extracted from the Company's prospectus dated 30th August, 2001.