MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED
東方娛樂控股有限公司*

(proposed to be renamed as China Mandarin Holdings Limited)
(Incorporated in Bermuda with limited liability)
(Stock Code: 0009)

ANNUAL RESULTS
FOR YEAR ENDED 31 December 2008

The board of directors (the "Board") of Mandarin Entertainment (Holdings) Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2008, together with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	NOTES	**2008** *HK$'000*	2007 *HK$'000*
REVENUE	6	**63,229**	76,718
Cost of sales		**(79,942)**	(88,847)
Gross loss		**(16,713)**	(12,129)
Other income and gains	6	**2,187**	4,616
Fair value gain on derivative component of convertible bonds		**14,176**	–
Gain on disposal of available-for-sale investments		**–**	2,173
Fair value loss on investments held for trading, net		**(2,898)**	(1,711)
Fair value loss on investment property		**(165,654)**	–
Impairment of goodwill		**(69,034)**	–
Impairment of interests in jointly-controlled entities		**–**	(3,500)
Administrative expenses		**(26,483)**	(26,362)
Finance costs	7	**(2,598)**	(939)
Share of results of jointly-controlled entities		**(2,992)**	(2,341)
LOSS BEFORE TAX	8	**(270,009)**	(40,193)
Tax	9	**41,327**	126

	NOTES	2008 HK$'000	2007 HK$'000
LOSS FOR THE YEAR		**(228,682)**	(40,067)
Attributable to:			
Equity holders of the Company		**(216,317)**	(40,067)
Minority interests		**(12,365)**	–
		(228,682)	(40,067)
DIVIDEND	10	**–**	–
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
– Basic		**HK(18.53) cents**	HK(8.86) cents

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,355**	3,765
Investment property		**283,640**	–
Prepaid land lease payments		**2,353**	2,428
Interests in jointly-controlled entities		**13,672**	16,664
Total non-current assets		**303,020**	22,857
CURRENT ASSETS			
Film rights		**62**	720
Film production in progress		**63,325**	53,202
Prepaid land lease payments		**75**	75
Inventories		**2,007**	1,853
Properties held for sale		**–**	4,561
Investments held for trading		**1**	16,350
Trade receivables	12	**5,487**	2,997
Other receivables, prepayment and deposits paid		**1,351**	8,511
Loan receivable		**–**	5,500
Due from a minority shareholder		**12,372**	–
Due from a jointly-controlled entity		**–**	1,349
Tax recoverable		**–**	297
Pledged deposits		**536**	533
Cash and cash equivalents		**15,961**	100,358
Total current assets		**101,177**	196,306
CURRENT LIABILITIES			
Trade payables	13	**4,081**	3,514
Other payables, accruals and deposits received		**50,493**	31,706
Loan from shareholders		**13,036**	13,036
Due to directors		**104**	–
Due to a shareholder		**6,991**	–
Interest-bearing bank and other borrowings		**12,445**	6,846
Obligations under a finance lease		**92**	92
Tax payable		**142**	83
Total current liabilities		**87,384**	55,277
NET CURRENT ASSETS		**13,793**	141,029
TOTAL ASSETS LESS CURRENT LIABILITIES		**316,813**	163,886

	2008	2007
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Convertible bonds	**51,538**	–
Interest-bearing bank and other borrowings	**166**	537
Loan from shareholders	**20,000**	–
Deferred tax liabilities	**64,060**	508
Obligations under a finance lease	**100**	192
Total non-current liabilities	**135,864**	1,237
NET ASSETS	**180,949**	162,649
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	**217,790**	57,600
Reserves	**(59,642)**	105,049
	158,148	162,649
Minority interests	**22,801**	–
TOTAL EQUITY	**180,949**	162,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. GENERAL

The Company was incorporated in Bermuda on 9 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 consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an investment property, buildings, investments held for trading and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of adopting these new interpretations and amendments to HKFRSs are as follows:

(a) Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions

As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 Service Concession Arrangements

No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Improving Disclosure[1]
HKFRS 8	Operating Segments [1]
HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items [2]
HKFRS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives [2]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives [2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [1]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate [1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation [1]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners [2]
HK(IFRIC)-Int 18	Transfers of Assets from Customers [2]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the accounting periods on or after 1 January, 2010, other amendments are effective for accounting periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for accounting periods beginning on or after 1 January 2009

[2] Effective for accounting periods beginning on or after 1 January 2010

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

5. SEGMENT INFORMATION

Business Segments

For management purposes, the Group is currently organised into four operating divisions – film distribution and licensing, film processing, advertising and promotional services and property investment. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Year ended 31 December 2008

	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Advertising and promotional services *HK$'000*	Property investment *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*
Segment Revenue:						
External revenue	**33,235**	**18,301**	**10,705**	**988**	**–**	**63,229**
Inter segment revenue	**1,720**	**2,616**	**5,041**	**–**	**(9,377)**	**–**
Total revenue	**34,955**	**20,917**	**15,746**	**988**	**(9,377)**	**63,229**
Segment results	**(33,150)**	**2,628**	**(228)**	**(234,442)**	**(2)**	**(265,194)**
Other income						**1,128**
Excess over the cost of a business combination						**277**
Unallocated corporate expenses						**(11,547)**
Fair value gain on derivative component of convertible bonds						**14,176**
Gain on disposal of properties held for sale						**988**
Fair value loss on investments held for trading, net						**(2,898)**
Impairment of an amount due from a jointly-controlled entity						**(1,349)**
Share of results of jointly-controlled entities						**(2,992)**
Finance costs						**(2,598)**
Loss before tax						**(270,009)**
Tax						**41,327**
Loss for the year						**(228,682)**

	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Advertising and promotional services *HK$'000*	Property investment *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Assets and liabilities:						
Segment assets	**64,223**	**9,989**	**978**	**296,025**	**–**	**371,215**
Interests in jointly-controlled entities						**13,672**
Unallocated corporate assets						**19,310**
Total assets						**404,197**
Segment liabilities	**46,334**	**3,643**	**2,799**	**6,997**	**–**	**59,773**
Unallocated corporate liabilities						**163,475**
Total liabilities						**223,248**
Other segment information:						
Capital expenditure	**7**	**–**	**247**	**445,397**	**338**	**445,989**
Impairment of trade receivables	**–**	**3,801**	**80**	**–**	**–**	**3,881**
Write-back of an impairment loss on trade receivables	**–**	**6,059**	**–**	**–**	**–**	**6,059**
Amortisation of prepaid land lease payments	**–**	**63**	**–**	**–**	**12**	**75**
Depreciation	**259**	**209**	**154**	**22**	**669**	**1,313**
Fair value loss on an investment property	**–**	**–**	**–**	**165,654**	**–**	**165,654**
Impairment of film production in progress	**19,743**	**–**	**–**	**–**	**–**	**19,743**
Fair value loss on investments held for trading, net	**–**	**–**	**–**	**82**	**2,816**	**2,898**
Gain on disposal properties held for sale	**–**	**–**	**–**	**–**	**988**	**988**

Year ended 31 December 2007

	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Advertising and promotional services *HK$'000*	Property investment *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*
Segment revenue:						
External revenue	49,001	19,900	7,817	–	–	76,718
Inter segment revenue	2,810	2,368	4,294	–	(9,472)	–
Total revenue	51,811	22,268	12,111	–	(9,472)	76,718
Segment results	(24,504)	(2,419)	468	–	–	(26,455)
Other income						6,789
Unallocated corporate expenses						(12,036)
Fair value loss on investments held for trading, net						(1,711)
Impairment of interests in jointly-controlled entities						(3,500)
Share of results of jointly-controlled entities						(2,341)
Finance costs						(939)
Loss before tax						(40,193)
Tax						126
Loss for the year						(40,067)

	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Advertising and promotional services *HK$'000*	Property investment *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Assets and liabilities:						
Segment assets	61,186	8,878	39	–	–	70,103
Interests in jointly-controlled entities						16,664
Unallocated corporate assets						132,396
Total assets						219,163
Segment liabilities	29,450	5,204	175	–	–	34,829
Unallocated corporate liabilities						21,685
Total liabilities						56,514
Other segment information:						
Capital expenditure	407	100	262	–	1,554	2,323
Impairment of trade receivables	3,289	–	–	–	–	3,289
Write-back of impairment loss on trade receivables	1,153	–	–	–	–	1,153
Amortisation of prepaid land lease payments	–	63	–	–	12	75
Depreciation	261	879	78	–	76	1,294
Impairment of film production in progress	16,827	–	–	–	–	16,827
Fair value loss on investments held for trading, net	–	–	–	–	1,711	1,711
Impairment of interests in jointly-controlled entities	–	–	–	–	3,500	3,500
Loss on disposal of items of property, plant and equipment	–	200	–	–	–	200

Geographical Segments
2008

	Hong Kong	**People's Republic of China ("PRC")**	**Japan**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Revenue	**36,057**	**13,349**	**397**	**13,426**	**63,229**
Carrying amount of segment assets	**90,860**	**313,337**	**–**	**–**	**404,197**
Capital expenditure	**592**	**445,397**	**–**	**–**	**445,989**

2007

	Hong Kong	PRC	Japan	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	37,493	13,316	14,325	11,584	76,718
Carrying amount of segment assets	98,795	39	–	–	98,834
Capital expenditure	2,317	6	–	–	2,323

6. REVENUE, AND OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and gross rental income received and receivable from its investment property during the year.

	2008	2007
	HK$'000	*HK$'000*
An analysis of revenue and other income and gains is as follows:		
Revenue		
Film distribution and licensing income	**33,235**	49,001
Film processing income	**18,301**	19,900
Advertising and promotional service income	**10,705**	7,817
Property rental income	**988**	–
	63,229	76,718
Other income and gains		
Bank interest income	**843**	1,303
Dividend income from listed investments held for trading	**239**	–
Foreign exchange differences, net	**(2,203)**	340
Excess over the cost of a business combination	**277**	–
Gain on disposal of properties held for sale	**988**	–
Others	**2,043**	2,973
	2,187	4,616

7. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest on bank and other borrowings wholly repayable within five years	**281**	658
Interest on loans from shareholders	**324**	263
Interest on a finance lease	**18**	18
Interest on convertible bonds	**1,975**	–
	2,598	939

8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging (crediting):

	2008	2007
	HK$'000	*HK$'000*
Cost of sales	**79,942**	88,847
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	**15,898**	12,560
Retirement benefit scheme contributions	**1,029**	596
Equity-settled share option expense	**–**	505
	16,927	13,661
Auditors' remuneration	**1,600**	1,001
Depreciation	**1,313**	1,294
Amortisation of prepaid land lease payments	**75**	75
Impairment of trade receivables	**3,881**	3,289
Impairment of film production in progress#	**19,743**	16,827
Impairment of amount due from a jointly-controlled entity	**1,349**	–
Loss on disposal of items of property, plant and equipment	**–**	200
Minimum lease payments under operating leases	**3,073**	2,335
Foreign exchange differences, net	**2,203**	(340)
Interest income	**(843)**	(1,303)
Dividend income from listed investments held for trading	**(239)**	–
Net rental income	**(939)**	–
Gain on disposal of available-for-sale investments	**–**	(2,173)
Write-back of impairment loss on trade receivables	**(6,059)**	(1,153)

\# The impairment of film production in progress for the year are included in "cost of sales" above.

9. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. Pursuant to the Corporate Income Tax Law (the "New PRC Tax Law") of the PRC being effective on 1 January 2008, the PRC income tax rate is unified to 25% for all enterprises.

	2008	2007
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	**142**	–
Overprovision in prior years	**(26)**	(163)
Deferred	**(41,443)**	37
Total tax credit for the year	**(41,327)**	(126)

10. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2008 and 2007, nor has any dividend been proposed since the balance sheet date.

11. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amounts is based on the loss for the year of HK$216,317,000 (2007: HK$40,067,000) attributable to equity holders of the Company, and the weighted average number of 1,167,196,722 (2007: 452,408,295) ordinary shares in issue during the year, as adjusted to reflect the open offer during the year.

Diluted loss per share amounts for the years ended 31 December 2008 and 2007 have not been disclosed, as the convertible bonds and share options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

12. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provision, is as follows:

	2008	2007
	HK$'000	*HK$'000*
0 - 90 days	**3,527**	2,877
91- 180 days	**882**	12
181 - 365 days	**292**	108
Over 1 year	**786**	–
	5,487	2,997

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 to 120 days.

13. TRADE PAYABLES

An ageing analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	2008	2007
	HK$'000	*HK$'000*
0 - 90 days	**3,544**	2,631
91- 180 days	**457**	320
181 - 365 days	**80**	172
Over 1 year	**–**	391
	4,081	3,514

14. BUSINESS COMBINATION

(a) Acquisition of Profit Source International Limited ("Profit Source")

On 18 April 2008, the Group acquired the entire interest in Profit Source which holds a 90% interest in a PRC subsidiary (the "Profit Source Group") and a shareholder's loan of HK$31,766,000 (the "Acquisition"). The Profit Source Group is engaged in property operation.

The purchase consideration for the Acquisition amounted to approximately HK$240,000,000 which was satisfied by:

(i) the issue of an aggregate of 175,000,000 ordinary shares (the "Consideration Shares") of HK$0.10 each in the share capital of the Company at an issue price of HK$0.40 per share by the Company;

(ii) convertible bonds, with an aggregate principal of HK$70,000,000; and

(iii) cash of HK$100,000,000, with HK$30,000,000 paid on 30 January 2008, HK$40,000,000 paid at the acquisition date and the remaining HK$30,000,000 to be paid on or before 18 April 2009.

The cash consideration has been increased from HK$100,000,000 to HK$106,261,000 while the principal amount of the convertible bonds is reduced to HK$63,739,000. However, the total purchase consideration remains the same.

The fair values of the identifiable assets and liabilities and contingent liabilities of the Profit Source Group as at the date of Acquisition and the corresponding carrying amounts immediately before the Acquisition were as follows:

	Fair value recognised on Acquisition	**Previous carrying amount**
	HK$'000	*HK$'000*
Property, plant and equipment	304	304
Investment property	445,087	445,087
Investments held for trading	430	430
Cash and bank balances	474	474
Shareholder's loan	(31,766)	(31,766)
Other payables and accruals (including provision for litigations of RMB130,956,000)	(146,654)	(138,336)
Deferred tax liabilities	(104,143)	–
Minority interests	(19,571)	(30,816)
	144,161	245,377
Goodwill	69,034	
	213,195	
Satisfied by:		
Cash	106,261	
Consideration Shares	70,000	
Convertible bonds	63,739	
Costs associated with the Acquisition	4,961	
Shareholder's loan	(31,766)	
	213,195	

An analysis of the net outflow of cash and cash equivalents in respect of the Acquisition of the Profit Source Group is as follows:

	HK$'000
Cash consideration	106,261
Costs associated with the Acquisition	4,961
Due to a shareholder	(6,991)
Cash and bank balances acquired	(474)
Net outflow of cash and cash equivalents in respect of the Acquisition of the Profit Source Group	103,757

At 31 December 2008, the remaining cash consideration of HK$6,991,000 included in "Due to a shareholder" was to be paid on or before 18 April 2009.

Since the Acquisition, the Profit Source Group contributed HK$988,000 to the Group's revenue and HK$196,113,000 to the consolidated loss for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the revenue and the loss of the Group for the year would have been HK$63,849,000 and HK$267,344,000, respectively.

(b) Acquisition of Prosper China Limited and its wholly-owned subsidiary (the "Prosper China Group")

On 9 January 2008, the Group acquired the remaining 60% equity interest of the Prosper China Group for a total consideration of HK$1. Upon the completion of the acquisition, the Group increased its equity interest in the Prosper China Group from 40% to 100%.

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

	Fair value recognised on acquisition *HK$'000*	**Previous carrying amount** *HK$'000*
Property, plant and equipment	6	6
Cash and bank balances	1,036	1,036
Trade receivables	1	1
Prepayments and other receivables	32	32
Other payables and accruals	(798)	(798)
	277	277
Excess over the cost of a business combination	(277)	
	–	
Satisfied by:		
Cash consideration of HK$1	–	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the Prosper China Group is as follows:

	HK$'000
Cash consideration	–
Cash and bank balances acquired	1,036
Net inflow of cash and cash equivalents in respect of the acquisition of the Prosper China Group	1,036

Since the acquisition, the Prosper China Group contributed HK$110,000 to the Group's revenue and HK$237,000 to the consolidated loss for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the revenue and the loss of the Group for the year would have been HK$63,229,000 and HK$228,682,000, respectively.

15. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified because in the opinion of the directors, the current year's presentation would present more fairly the operation of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2008, the Group's turnover decreased by 17.6% to approximately HK$63,229,000 (2007: HK$76,718,000) while gross loss was approximately HK$16,713,000 (2007: loss of HK$12,129,000). Loss attributable to equity holders amounted to approximately HK$216,317,000 (2007: loss of HK$40,067,000). Basic loss per share was HK18.53 cents (2007: HK8.86 cents loss per share). The Board of Directors recommends no dividend payout for the year ended 31 December 2008 (2007: Nil). At 31 December 2008, cash on hand was HK$15,961,000 (2007: HK$100,358,000).

The substantial loss for the Group was mainly attributable to (i) the impairment loss due to decrease in revaluation on the fair value of the investment property in the PRC; (ii) the impairment loss on the fair value of film rights of certain films of the Group; (iii) realized losses on disposal of Hong Kong listed shares; and (iv) decrease in revenue due to the unexpected market situation relating to the film distribution.

INDUSTRY REVIEW

Film Industry

The Hong Kong film industry has embarked on a downward trend since 2003. Film production has shrunk to 50 films every year. Due to the difficult business environment, the HKSAR government earmarked HK$300 million to set up the Film Development Fund ("FDF") to support the development of Hong Kong film production in July 2007. Since the inception of FDF in October 2007, a total of 18 applications have been received until March 2009 and only HK$30.43 million have been approved for film production. Benefiting from Closer Economic Partnership Agreement (the "CEPA"), the quota of Hong Kong films exporting to the PRC film market was increased. The belief of receiving strong support of audience from the world's most populous nation, the PRC towards the Hong Kong films boosted the confidence of film investors.

PRC Property Market

In the first half of 2008, the PRC government stipulated stringent measures to cool the overheated property market. Property prices dropped from the peak in 2007. It emerges high potential investment opportunities.

BUSINESS REVIEW

The Group is principally engaged in the provision of films production services, and investment in film production and worldwide film distribution. The Group has also engaged in the properties investments in the PRC since early 2008. This allows the Group to diversify its existing business and provides a stable cash flow for other business operation.

Film production business

For the year ended 31 December 2008, an operating loss of HK$33,150,000 was recorded. Only one film was shown during the year under review and the box office receipts were not satisfactory as the film was put on show during the period of the Beijing Olympic Game. During which, the PRC government also imposed strict censorship on imported films.

For the year under review, the Group made an impairment provision amounting to HK$19,743,000 for certain films and television programmes.

Subsequent to the financial year 2008, the Group released two popular films, i.e. "Ip Man" and "All's Well End's Well 2009". Both films achieved remarkable results, with box office receipt of approximately HK$25,500,000 and HK$23,340,000 in Hong Kong as well as RMB120,000,000 and RMB41,000,000 in the PRC, respectively.

Film processing

The Group's film processing factory continued to maintain the leadership of taking a market share of nearly 50% among the three film processing factories in Hong Kong.

For the year under review, film processing business contributed profit of approximately HK$2,628,000 despite the business fell behind expectations in the first half of 2008 as the local film release was slowed down by the Beijing Olympic Game. However, revenue was picked up in the second half of 2008 offsetting the loss incurred in the first half of 2008.

Property investment

The Group acquired Profit Source International Limited and its subsidiary (the "Profit Source Group"), which held a five-storey shopping arcade in Chengdu, Sichuan, the PRC in April 2008. For the year ended 31 December, 2008, the property investment business was operated at a loss of HK$234,442,000. Loss of HK$165,654,000 was made by the year end from the impairment value of the investment property in Chengdu, due to the economic downturn in the PRC.

A goodwill amounted to HK$69,034,000 arose from the acquisition of Profit Source Group. The goodwill was mainly come from the deferred tax liabilities from the increase in value of the investment property. In view of the economic turmoil in most global financial markets in the fourth quarter of the year and the property rental business in PRC was adversely affected, we considered that the carrying amount of the goodwill attributable to the property rental business in PRC was fully impaired.

The occupant was moved out after the litigation case of the property had been settled. A 10-year tenancy agreement with a department store in Chengdu starting from April 2009 was then signed. Rental income of RMB10,000,000 per annum would be booked in the financial year of 2009 and contributed to the Group's overall income. The move can provide stable cash inflow and income to the Group and on the other hand save the management cost for maintaining the investment property.

Advertising and Promotion business

Advertising and promotion business was operated at a loss of HK$228,000 for the year ended 31 December 2008.

Subsequent to the financial year 2008, the Group disposed its subsidiary, Chili Advertising and Promotions Limited, which engaged in provision of advertising and promotional services for films. The reasons for the disposal were its continual losses for the past three years and an expected decrease in demand in future for film advertising and promotion from the Group and other film companies due to the weak market sentiment.

Other Businesses

The Group made a gain of HK$988,000 on property trading, whereas a loss of HK$2,898,000 on security trading was recorded for the year ended 31 December 2008. During the year under review, the Group ceased both property trading and security trading businesses.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group's net current assets was HK$13,793,000 (2007: HK$141,029,000), with current assets of approximately HK$101,177,000 (2007: HK$196,306,000) and current liabilities of approximately HK$87,384,000 (2007: HK$55,277,000), representing a current ratio of approximately 1.2 (2007: 3.6).

As at 31 December 2008, the Group had bank balances and cash of approximately HK$15,961,000 (2007: HK$100,358,000).

CAPITAL STRUCTURE

On 18 April 2008, the Company issued 3.5 years zero-coupon convertible bonds with a nominal value of HK$70,000,000. The bonds are convertible at the option of the bondholders into fully paid ordinary shares with a par value of HK$0.10 each of the Company on or after 18 April 2008 up to and including 18 October 2011 at an initial conversion price of HK$0.40 per share. The conversion price was subsequently adjusted to HK$0.274 on 3 September 2008. The Group has an option to settle the conversion requested by bondholders in cash. The bonds are redeemable at the option of the Company at 100% of their principal amount six months after issue date on 18 April 2008. Any convertible bonds not converted will be redeemed on 18 October 2011 at 100% of their principal amount.

Approximately HK$138,000,000 was raised from the Open Offer Share offering in August 2008. The net proceeds were used for the repayment of the outstanding debts of the Group, including the litigation against the Profit Source Group and the general working capital and the future investment of the Group.

The Group's 3.5-year zero coupon has a convertible bonds which contained a derivative component for the conversation and redemption option. Due to the decrease in share price of the Company during the year, the market price of the Company's share was less than the exercise price for the conversion of the convertible bonds to the Company's shares as at 31 December 2008. Accordingly, a gain of HK$14.2 million was recoginised for the reduction in the fair value of the derivative liabilities during the year. Should the market price of the Company's share improve in the coming year and all other variables held constant, the value of the derivative liabilities would increase and a fair value loss would then be resulted.

BORROWING AND BANKING FACILITIES

At 31 December 2008, the Group's outstanding short-term bank and other borrowings were approximately HK$22,445,000 (2007: HK$16,846,000). The main purpose of the borrowings was to finance the daily operation of the Group.

At 31 December 2008, a Renminbi loan amounted to approximately HK$3,300,000 was included in short-term bank and other borrowings (2007: HK$2,900,000). The remaining bank and other borrowings were denominated in Hong Kong Dollars.

During the year under review, the Group had borrowed HK$20,000,000 from Mr. Wong Pak Ming for film production in 2008. The loan was unsecured and interest bearing at the Hong Kong prime rate minus 2%, which will be repayable on or before November 2010.

EXPOSURE OF FOREIGN EXCHANGE

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

PROSPECTS

According to the industry survey of the exhibitors and buyers attending the Hong Kong International Film and TV Market (FILMART), the prospects of the global film and entertainment industry are bright amid the global financial crisis. Hong Kong film companies will benefit from Hong Kong's competitive edges and the Closer Economic Partnership Agreement (CEPA). Moreover, there is a great potential in the PRC film market as the PRC box offices keep growing at an annual rate of 25%. The Group will keep close eyes on film development in the PRC.

The encouraging results of "Ip Man" achieved in the Hong Kong and PRC market in late 2008 has paved way to the production of "Ip Man 2". "Ip Man 2" is prepared to production and the Group believes it will be well received by both the Hong Kong and the mainland audience by the time of showing in the year 2010.

With effect from 6 January 2009, Ms. Lai Pik Chi Peggy acted as the Chairman of the Group and Ms. Law Kee, Alice assumed the post of the Chief Executive Officer. In order to reflect the rebalance of business, the Group proposed to change the company name from "Mandarin Entertainment (Holdings) Limited" to "China Mandarin Holdings Limited" and adopt the new Chinese name "中國東方實業集團有限公司" to replace "東方娛樂控股有限公司"in March 2009 and a new logo is designed to turn a new leaf for the Group. Approvals have been obtained from shareholders and the Registrar of Company of Bermuda and the new name can be used after the approval from the Hong Kong Companies Registry.

With the new management on board and disposal of the unpromising business, the Group's new direction is to streamline the business by focusing on film production and distribution as well as property investments in a hope of producing stable income and cash flow from the expanding investment property portfolio to support an expected super returned films-making and distribution business, all to realize the model of high return at a reasonable leverage.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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.

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

During the financial year ended 31 December 2008, the Company has complied with all code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

AUDIT COMMITTEE

The audit committee of the Company has met with the external auditors of the Company, Messrs. Ernst & Young, to review the accounting principles and practices adopted by the Group and the consolidated results of the Group for the year ended 31 December 2008, and is of the opinion that the consolidated results complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made. The audit committee is composed of three independent non-executive Directors of the Company, Mr. Choy Sze Chung, Jojo, Mr. Tsui Pui Hung and Mr. Chan Tung Tak, Alain. The chairman of the audit committee has professional qualifications and experience in financial matters.

PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by the Listing Rules will be published on the Stock Exchange's website in due course.

ACKNOWLEDGEMENT

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

By Order of the Board
Mandarin Entertainment (Holdings) Limited
Lai Pik Chi Peggy
Chairman

Hong Kong, 21 April 2009

As at the date of this announcement, the Board comprises eight Directors. The executive Directors are Ms. Lai Pik Chi, Peggy (Chairman), Ms. Law Kee, Alice (Chief Executive Officer), Mr. Kwok Tsz Wing (Deputy Chairman), Mr. Wong Pak Ming and Mr. Hui Wai Lee Willy; and the independent non-executive Directors are Mr. Choy Sze Chung, Jojo, Mr. Tsui Pui Hung and Mr. Chan Tung Tak, Alain.

** For identification purpose only*