
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Prospectus (as defined herein) or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your shares in MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED ("the Company"), you should at once hand the Prospectus Documents (as defined herein) to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Dealings in the shares of the Company may be settled through the Central Clearing and Settlement System operated by Hong Kong Securities Clearing Company Limited ("HKSCC") and you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

A copy of the Prospectus Documents for the Offer Shares have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. A copy of the Prospectus Documents has been filed with the Registrar of Companies in Bermuda in accordance with the Companies Act 1981 of Bermuda (as amended). The Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of any of the documents referred to above.

The Stock Exchange of Hong Kong Limited and HKSCC take no responsibility for the contents of the Prospectus Documents, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the Prospectus Documents.



MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED

東方娛樂控股有限公司*

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

OPEN OFFER OF 180,000,000 OFFER SHARES AT HK\$0.5 PER OFFER SHARE ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE

Underwriter of the Open Offer



It should be noted that the Underwriting Agreement (as defined herein) contains provisions entitling the Underwriter (as defined herein), to terminate the Underwriting Agreement if prior to the Latest Time for Termination (as defined herein):

- (1) in the reasonable opinion of the Underwriter, the success of the Open Offer (as defined herein) would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group (as defined herein) as a whole or is materially adverse in the context of the Open Offer; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will materially adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition for the voluntary liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material uninsured asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement, or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement. If the Underwriter terminates the Underwriting Agreement, the Open Offer will not proceed.

It should be noted that Shares have been dealt in on an ex-entitlements basis commencing from Thursday, 16 August 2007. If the Underwriter terminates the Underwriting Agreement, or the conditions of the Open Offer are not fulfilled, the Open Offer will not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares up to the date when the conditions of the Open Offer are fulfilled (which is expected to be Tuesday, 11 September 2007) will accordingly bear the risk that the Open Offer could not become unconditional and may not proceed.

* For identification purpose only

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SUMMARY OF THE OPEN OFFER

The following information is derived from, and should be read in conjunction with, the full text of this Prospectus:

Basis of the Open Offer:	One Offer Share for every two existing Shares held on the Record Date by the Qualifying Shareholders
Subscription Price:	HK\$0.5 per Offer Share payable in full upon acceptance
Number of Shares in issue as at the Latest Practicable Date:	360,000,000 Shares
Number of Offer Shares to be issued:	180,000,000 Offer Shares
Number of Shares in issue upon completion of the Open Offer:	540,000,000 Shares

EXPECTED TIMETABLE

The expected timetable for the Open Offer is set out below:

2007

Record Date.....	Wednesday, 22 August
Latest Time for Acceptance.....	4:00 p.m. on Friday, 7 September
Latest Time for Termination	4:00 p.m. on Tuesday, 11 September
Announcement of the results of the Open Offer.....	Thursday, 13 September
Despatch of certificates for the Offer Shares	Friday, 14 September
Dealings in Offer Shares commence	Tuesday, 18 September

Note: all times refer to Hong Kong local times in this Prospectus.

Dates stated in this Prospectus for events in the timetable are indicative only and may be extended or varied. Any changes to the expected timetable for the Open Offer will be announced as appropriate.

Shareholders should note that completion of the Underwriting Agreement is conditional and may or may not proceed. Shareholders and potential investors of the Company should exercise extreme caution when dealing in the Shares.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE

The Latest time for Acceptance will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
 - a “black” rainstorm warning
1. in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Friday, 7 September 2007. Instead, the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day;
 2. in force in Hong Kong any local time between 12:00 noon and 4:00 p.m. on Friday, 7 September 2007. Instead, the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance does not take place at 4:00 p.m. on Friday, 7 September 2007, the dates mentioned in the section headed “Expected timetable” in this Prospectus may be affected. Any such changes will be announced by the Company as and when appropriate.

TERMINATION OF THE UNDERWRITING AGREEMENT

If, prior to the Latest Time for Termination:

- (1) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will materially adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition for the voluntary liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material uninsured asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement, or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement. If the Underwriter terminates the Underwriting Agreement, the Open Offer will not proceed.

DEFINITIONS

In this Prospectus, the following expressions have the following meanings unless the context otherwise requires:

“Announcement”	the announcement of the Company dated 20 July 2007 relating to, inter alia, the Open Offer
“Application Form”	the application form for use by the Qualifying Shareholder(s) to apply for the Offer Shares
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	board of Directors
“Business Day”	a day (excluding Saturday and other general holidays in Hong Kong and any day on which a tropical cyclone warning number 8 or above is issued or remains issued between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon or on which a “Black” rainstorm warning is issued or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	Mandarin Entertainment (Holdings) Limited, a company incorporated in the Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
“Companies Act”	The Companies Act 1981 of Bermuda (as amended)
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	an independent third party, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, who is not connected with the Company and its connected persons (as defined under the Listing Rules)

DEFINITIONS

“Last Trading Day”	18 July 2007, being the last trading day which was immediately prior to the suspension of trading in the Shares on the Stock Exchange pending the release of the Announcement
“Latest Lodging Date”	being 4:00 p.m. on 17 August 2007 as the latest time for lodging transfer of Share and/or exercising Options in order to qualify for the Open Offer
“Latest Practicable Date”	22 August 2007, being the latest practicable date for the purpose of ascertaining certain information for inclusion in this Prospectus
“Latest Time for Acceptance”	4:00 p.m. on 7 September 2007 or such later time or date as may be agreed between the Company and the Underwriter, being the latest time for acceptance of, and payment for, the Offer Shares
“Latest Time for Termination”	4:00 p.m. on the second Business Day after the Latest Time for Acceptance, being the latest time to terminate the Underwriting Agreement
“Listing Committee”	has the meaning ascribed thereto in the Listing Rules
“Listing Rules”	Rules Governing the Listing of Securities on Stock Exchange
“Mr. Wong”	Mr. Wong Pak Ming, the chairman of the Board and an executive Director, who is interested in 154,742,000 Shares representing approximately 42.98% of the entire issued share capital of the Company as at the Latest Practicable Date
“Offer Share(s)”	180,000,000 new Shares, proposed to be offered to the Qualifying Shareholders for subscription on the basis of one Offer Share for every two existing Shares held by Qualifying Shareholders on the Record Date and payable in full on application pursuant to the Open Offer
“Open Offer”	the proposed issue of the Offer Shares by way of open offer to the Qualifying Shareholders on the terms set out in the Prospectus Documents and summarised herein
“Options”	options to subscribe for Shares granted under the Share Option Scheme
“Overseas Letter”	a letter from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Open Offer
“Overseas Shareholders”	the Shareholders with registered addresses on the register of members of the Company which are outside Hong Kong on the Record Date

DEFINITIONS

“Prohibited Shareholder(s)”	those Overseas Shareholder(s) to whom the Board, after making enquires, considers it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Offer Shares to them
“Prospectus”	this prospectus issued by the Company in relation to the Open Offer
“Prospectus Documents”	the Prospectus and the Application Form
“Prospectus Posting Date”	the date of this Prospectus, 24 August 2007 or such later date as the Underwriter may agree in writing with the Company
“Qualifying Shareholders”	the Shareholders, other than the Prohibited Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date
“Record Date”	22 August 2007, being the date by reference to which entitlements to the Open Offer will be determined
“Registrar”	Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong, being the Company’s Hong Kong branch share registrar
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Company and became effective on 21 August 2001
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.5 per Offer Share
“Underwriter”	Orient Securities Limited, an Independent Third Party
“Underwriting Agreement”	the underwriting agreement dated 19 July 2007 entered into between the Company, Mr. Wong and the Underwriter in relation to the Open Offer
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED

東方娛樂控股有限公司*

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

Executive Directors:

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

Registered Office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Independent non-executive Directors:

Mr. Wan Ngar Yin, David
Mr. Lai Voon Wai
Mr. Tang Kai Kui, Terence

Head Office and principal Place of Business:

Room 1801-2
Westlands Centre
20 Westlands Road
Quarry Bay Hong Kong

24 August 2007

To the Qualifying Shareholders

Dear Sir or Madam,

**OPEN OFFER OF
180,000,000 OFFER SHARES
AT HK\$0.5 PER OFFER SHARE ON THE BASIS OF ONE OFFER SHARE
FOR EVERY TWO SHARES
HELD ON THE RECORD DATE**

INTRODUCTION

On 20 July 2007 that, the Company announced to raise approximately HK\$90 million before expenses by issuing not less than 180,000,000 Offer Shares and not more than 181,312,000 Offer Shares (if the exercise of the Options is completed before the Record Date) at a price of HK\$0.5 per Offer Share on the basis of one Offer Share for every two existing Shares held by the Qualifying Shareholders on the Record Date and payable in full on acceptance.

The purpose of this Prospectus is to provide you with, further details of the Open Offer and the financial and other information about the Group. Qualifying Shareholders are not entitled to apply for any Offer Shares which are in excess of their assured entitlements.

* For identification purpose only

LETTER FROM THE BOARD

TERMS OF THE OPEN OFFER

Issue statistics:

Basis of the Open Offer:	One Offer Share for every two existing Shares held on the Record Date by the Qualifying Shareholders
Subscription Price:	HK\$0.5 per Offer Share payable in full upon acceptance
Number of Shares in issue as at the Record Date:	360,000,000 Shares
Number of Offer Shares to be issued:	180,000,000 Offer Shares
Number of Shares in issue upon completion of the Open Offer:	540,000,000 Shares

As at the Latest Practicable Date, there are outstanding Options entitling the holders thereof to subscribe for (1) 2,624,000 Shares at exercise price of HK\$0.938 per Share commencing from 24 December 2006 and (2) 12,000,000 Shares at HK\$0.88 per Share commencing from 12 November 2007.

Subscription Price

The Subscription Price is HK\$0.5 per Offer Share, payable in full on application.

The Subscription Price represents:

- (i) a discount of approximately 50.50% to the closing price of HK\$1.01 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 51.74% to the average closing price of HK\$1.036 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 51.50% to the average closing price of HK\$1.031 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and
- (iv) a discount of approximately 40.48% to the theoretical ex-entitlement price of approximately HK\$0.84 based on the closing price of HK\$1.01 per Share as quoted on the Stock Exchange on the Last Trading Day.

LETTER FROM THE BOARD

- (v) A discount of approximately 31.51% to the closing price of HK\$0.73 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) A premium of approximately 201.20% to the audited consolidated net asset value per Share of approximately HK\$0.166 as at 31 December 2006.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the prevailing market condition. After considering (i) the discounts for the subscription prices of recent open offer and rights issues made by other listed issuers; (ii) the low liquidity of the Shares; (iii) the fact that the Directors do not wish to create a great financial burden to the existing Shareholders when they wish to subscribe for their entitlements under the Open Offer; and (iv) in order to attract more investors or Shareholders to participate in the Open Offer and the future development of the Group, the Directors consider that the Subscription Price and the discount for the Offer Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. The Company will only send (i) the Prospectus Documents to the Qualifying Shareholders and (ii) the Overseas Letter together with the Prospectus, for information only, to the Prohibited Shareholders (if any). To qualify for the Open Offer, the Shareholders must at the close of business on the Record Date:

- (i) be registered on the register of members of the Company; and
- (ii) not being Prohibited Shareholders.

In order to be registered as members of the Company on the Record Date, the Shareholders should have lodged any transfer of the Shares (with the relevant share certificates) with the Company's share registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong by 4:00 p.m. on Friday, 17 August 2007.

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable or capable of renunciation. There will not be any trading in nil-paid entitlements of the Offer Shares on the Stock Exchange and the Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their respective assured entitlements. Any Offer Share not taken up by the Qualifying Shareholders will be taken up by the Underwriter.

The Prospectus Documents will not be registered and/or filed under the applicable securities legislation of any jurisdiction other than Hong Kong and Bermuda.

As at the Record Date, based on the register of members of the Company, there are two Shareholders having their registered addresses other than Hong Kong. Both of them have registered addresses in the British Virgin Islands, holding an aggregate of 152,200,000 Shares, being approximately 42.27% of the issued share capital of the Company ("BVI Shareholders"). These BVI Shareholders are in fact the limited companies wholly owned by Mr. Wong, particulars of which are set out in details under the section "Directors' Interests and Short Position in Shares, Underlying Shares and Debentures" in Appendix III of this Prospectus.

LETTER FROM THE BOARD

After making enquiries with the Company's legal advisers, based on such legal opinion, the Directors have determined that it is expedient for the Open Offer to be offered to the BVI Shareholders.

Accordingly, as at the Record Date, there are no Prohibited Shareholders.

Closure of register of members

Pursuant to the expected timetable, the register of members of the Company was closed from Monday, 20 August 2007 to Wednesday, 22 August 2007, both dates inclusive, to determine the eligibility of the Shareholders to the Open Offer. No transfers of Shares were registered during such period.

Basis of assured entitlement

The basis of the assured entitlement shall be one Offer Share for every two existing Shares held on the Record Date, being 180,000,000 Offer Shares, at a price of HK\$0.5 per Offer Share. Application for all or any part of a Qualifying Shareholder's assured entitlement should be made by completing the Application Form and lodging the same with a remittance for the Offer Shares being applied for.

Status of the Offer Shares

The Offer Shares (when allotted, fully paid and issued) will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

Fractions of Offer Shares

The Company will not allot fractions of the Offer Shares. Any Offer Shares created from the aggregation of fractions of Offer Shares will be taken up by the Underwriter.

Certificates of the fully-paid Offer Shares

Subject to fulfilment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be posted on or before Friday, 14 September 2007 to those entitled thereto by ordinary post at their own risk.

No Excess Application of the Offer Shares

After arm's length negotiations with the Underwriter, the Company decided that the Qualifying Shareholders are not entitled to apply for any Offer Shares which are in excess of their assured entitlements. The Company also considered that the related administration costs will be lower in the absence of excess application, in particular when considering the relatively small issue size of the Open Offer.

LETTER FROM THE BOARD

Odd lots arrangement

The Company will not procure an agent to arrange for odd lots matching service.

Application for listing

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares on the Stock Exchange.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Offer Shares or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Offer Shares shall have the same board lot size as the Shares, i.e. 2,000 Shares in one board lot. Dealings in the Offer Shares will be subject to the payment of stamp duty in Hong Kong, Stock Exchange trading fee, SFC transaction levy and other applicable fees and charges in Hong Kong.

2. UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date: 19 July 2007

Underwriter: Orient Securities Limited

The Underwriter and its ultimate beneficial owners are Independent Third Parties. The Underwriter is also a licensed corporation to conduct type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO. It is in the ordinary course of business for the Underwriter to act as the underwriter

Number of Offer Shares underwritten: 102,629,000 Offer Shares, being all Offer Shares less such number of Offer Shares agreed to be taken up or procured to be taken up by Mr. Wong

Commission: 2.5% of the aggregate Subscription Price in respect of the number of Offer Shares agreed to be underwritten by the Underwriter

LETTER FROM THE BOARD

Pursuant to the Underwriting Agreement, subject to the terms and conditions and the Underwriter's right to terminate, the Underwriter shall subscribe for not more than 102,629,000 Offer Shares not taken up by the Qualifying Shareholders under the Open Offer.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Underwriter does not have any shareholding in the Company as at the Latest Practicable Date and is an Independent Third Party.

The 2.5% commission payable to the Underwriter was determined after arm's length negotiations between the Company and the Underwriter with reference to the prevailing market rate. The Directors consider that the commission is fair and reasonable, on normal commercial terms and in the interests of the Shareholders and the Company as a whole.

Undertaking by Mr. Wong

Pursuant to the Underwriting Agreement, Mr. Wong, the chairman of the Board and an executive Director, who is interested in 154,742,000 Shares, representing approximately 42.98% of the entire issued share capital of the Company as at the Latest Practicable Date, has irrevocably undertaken to the Company and the Underwriter that he will subscribe for 77,371,000 Offer Shares which he and his associates are entitled to under the Open Offer. The remaining 102,629,000 Offer Shares are fully underwritten by the Underwriter.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination:

- (1) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:**
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or**
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or**

LETTER FROM THE BOARD

- (2) **any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or**
- (3) **there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will materially adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition for the voluntary liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material uninsured asset of the Group; or**
- (4) **any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement, or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,**

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

3. CONDITIONS OF THE OPEN OFFER

The Open Offer is conditional upon:

- (1) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the Prospectus Posting Date;
- (2) the filing with the Registrar of Companies in Bermuda one copy of the Prospectus Documents duly signed by either all Directors or one of the Directors (for and on behalf of all the Directors) (and all other documents to be attached thereto) and otherwise in compliance with the Companies Act not later than the Prospectus Posting Date;
- (3) the posting of the Prospectus Documents to the Qualifying Shareholders on or before the Prospectus Posting Date;
- (4) the obtaining of the permission of the Bermuda Monetary Authority for the issue of the Offer Shares, if necessary;

LETTER FROM THE BOARD

- (5) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares; and
- (6) compliance with and performance of all undertakings and obligations of Mr. Wong to fully subscribe for the assured entitlements of himself and his associates under the Open Offer.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the film distribution and licensing, film processing and advertising and promotional services.

The Group has recorded a consolidated gain of approximately HK\$1.673 million for the year ended 31 December 2006, which represents a turnaround from a loss of approximately HK\$18.619 million for the year ended 31 December 2005.

5. REASONS OF THE OPEN OFFER AND USE OF PROCEEDS

The Group intends to further strengthen its financial position by the Open Offer, which will enable the Company to expand its capital base and business. In addition, the Open Offer allows the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Company. The Directors therefore consider that the Open Offer is in the interests of the Company and the Shareholders as a whole.

The estimated net proceeds from the Open Offer will be approximately HK\$87.5 million (net of expenses of approximately HK\$2.5 million) as no outstanding Options were exercised prior to the Record Date. The Board intends to apply the net proceeds for potential investments in future business opportunities and/or general working capital. As at the Latest Practicable Date, the Company has been studying various business opportunities but have not identified and committed on any business opportunities. The estimated expenses in relation to the Open Offer, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses, of approximately HK\$2.5 million, will be borne by the Company. Having considered other fund raising alternatives for the Group, including bank borrowings and placing of new Shares, and taking into account the benefits and cost of each of the alternatives, the Open Offer allows the Group to strengthen its balance sheet without facing the increasing interest rates. The Board has also discussed the feasibility of having a rights issue, however the Board is of the view that the Open Offer provides a more simplified procedure and shorter time frame for fund raising. The Open Offer also offers all the Qualifying Shareholders an opportunity to participate in the enlargement of the capital of the Company and maintaining their proportionate interest and to continue to participate in the future development of the Company should they wish to do so.

The Board considers that the Open Offer is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

6. WARNING OF THE RISK OF DEALING IN THE SHARES

The Shareholders and potential investors of the Company should note that the Open Offer is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-paragraph headed “Termination of the Underwriting Agreement” in this Prospectus). Accordingly, the Open Offer may or may not proceed.

The Shareholders and potential investors of the Company should therefore exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

The Shareholders should note that dealings in Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on Tuesday, 11 September 2007), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

7. SHAREHOLDING STRUCTURE OF THE COMPANY

The following is the shareholding structure of the Company as at the Latest Practicable Date and the shareholding structure of the Company immediately upon the completion of the Open Offer:

	As at the Latest Practicable Date		Immediately upon the completion of the Open Offer (assuming all Qualifying Shareholders take up their respective entitlements under the Open Offer)		Immediately upon the completion of the Open Offer (assuming none of the Qualifying Shareholders (except Mr. Wong and his associates) take up their respective entitlements under the Open Offer)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Wong Pak Ming (<i>Note 1</i>)	154,742,000	42.98%	232,113,000	42.98%	232,113,000	42.98%
Zhang Xun (<i>Note 2</i>)	40,040,000	11.12%	60,060,000	11.12%	40,040,000	7.41%
Fang Shu An (<i>Note 3</i>)	25,000,000	6.95%	37,500,000	6.95%	25,000,000	4.63%
The Underwriter	-	-	-	-	102,629,000	19.01%
Public Shareholders	140,218,000	38.95%	210,327,000	38.95%	140,218,000	25.97%
Total	360,000,000	100.00%	540,000,000	100.00%	540,000,000	100.00%

LETTER FROM THE BOARD

Notes:

1. Out of the 154,742,000 Shares: (i) 122,200,000 Shares are held in the name of Idea Storm Holdings Limited, which is wholly owned by Mr. Wong. Under the SFO, Mr. Wong is deemed to be interested in all the Shares registered in the name of Idea Storm Holdings Limited; (ii) 30,000,000 Shares are held in the name of Capeland Holdings Limited, which is wholly owned by Mr. Wong. Under the SFO, Mr. Wong is also deemed to be interested in all the Shares registered in the name Capeland Holdings Limited; (iii) 114,000 Shares are held in the name of Mr. Wong's spouse, Zee Ven Chu Lydia in which Mr. Wong is also deemed to be interested in under the SFO; and (iv) Mr. Wong is the beneficial owner of 2,428,000 Shares.
2. Mr. Zhang Xun is interested in a hotel operation in PRC in which the Group is interested in 37.5%.
3. Mr. Fang Shu An is independent from the management and operation of the Company.

Appropriate steps will be taken by both the Company and the Underwriter to ensure the sufficiency of public float in the Shares.

8. FUND-RAISING ACTIVITIES BY THE COMPANY DURING THE PAST 12 MONTHS IMMEDIATELY PRECEDING THE LATEST PRACTICABLE DATE

During the past 12 months immediately preceding the Latest Practicable Date, the Company completed a top up placing of 30,000,000 Shares, the details of which were announced on 4 June 2007. The net proceeds amounted to approximately HK\$39 million, and the Shares were issued pursuant to a general mandate granted by the Shareholders on 31 May 2007. The intended use of proceeds of the top-up placing was for general working capital and to cater for other possible investment opportunities in the future. As at the Latest Practicable Date, HK\$30,500,000 of the net proceeds were utilized for production costs of a movie and a TV drama series. The remaining HK\$8,500,000 of the net proceeds has not been utilized.

Other than the above, no other fund raising activities have been carried out by the Company during the past 12 months immediately preceding the Latest Practicable Date.

9. PROCEDURE FOR ACCEPTANCE OF, AND PAYMENT FOR, THE OFFER SHARES

If you are a Qualifying Shareholder, you will find the Application Form enclosed with this Prospectus, which entitles you to apply for the number of Offer Shares in your assured entitlement shown thereon. If you wish to apply for such Offer Shares or any lesser number of such Offer Shares, you must complete, sign and lodge the same in accordance with the instructions printed thereon, together with the remittance for full amount payable on application with the Registrar by not later than the Latest Acceptance Time, being 4:00 p.m. on Friday, 7 September 2007. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and banker's cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "Mandarin Entertainment (Holdings) Limited - Open Offer Account" and crossed "Account Payee Only". The Qualifying Shareholders may not apply for the Offer Shares which are in excess of their entitlements.

It should be noted that unless the Application Form, together with the appropriate remittance, has been lodged with the Registrar by not later than the Latest Acceptance Time by a Qualifying Shareholder, his/her/its entitlement to apply under the Open Offer will be deemed to have been declined and will be cancelled.

LETTER FROM THE BOARD

All cheques or banker's cashier orders will be presented for payment immediately following receipt and all interest earned on such application monies will be retained for the benefit of the Company. Any Application Form in respect of which the cheque or cashier order is dishonoured on first presentation is liable to be rejected, and in that event the relevant entitlements of the Qualifying Shareholder under the Open Offer will be deemed to have been declined and will be cancelled.

If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement before the Latest Time for Termination and/or if any of the conditions to which the Open Offer is subject are not fulfilled in accordance with the section headed "Conditions of the Open Offer", the application monies will be refunded, without interest, by sending cheques made out to the applicants (or in the case of joint applicants, to the first named applicant) and crossed "Account Payee Only", through ordinary post at the risk of the applicants to the address specified in the Registrar on or before 14 September 2007.

The Application Form is for use only by the person(s) named therein and is not transferable. All documents, including cheques and cashier orders for amounts due, will be sent at the risk of the persons entitled thereto to their registered addresses.

No receipt will be issued in respect of any application monies received.

10. ADJUSTMENT IN RELATION TO THE OPTIONS

Upon completion of the Open Offer, the Options will be adjusted so that the proportion of the issued share capital of the Company to which the holders of Options is entitled to after the Open Offer, will remain the same as that to which the holders of Options was entitled to immediately before the Open Offer. In accordance with the Listing Rules and the supplemental guidance issued by the Stock Exchange, the Company will appoint an independent financial adviser or auditors (acting as experts) of the Company as soon as practicable to confirm in writing that the adjustments satisfy the requirement under the Share Option Scheme. Further details on the adjustments under the Share Option Scheme will be announced as and when appropriate.

Save as disclosed, there are no other outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares.

11. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendix I to III to this Prospectus.

By order of the Board
Wong Pak Ming
Chairman

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following table summarises the results, assets, liabilities and minority interests of the Group for the last three financial years, as extracted from the published audited financial statements of the Group for the three years ended 31 December 2006. The Company's auditors have not issued any qualified opinion on the Group's financial statements for the three preceding financial years.

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

	For the year ended 31st December,		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RESULTS			
Revenue	53,192	43,256	77,165
(Loss) profit before taxation	(55,877)	(19,863)	784
Taxation	(466)	1,244	889
(Loss) profit for the year	(56,343)	(18,619)	1,673
Attributable to:			
Equity holders of the Company	(56,269)	(18,619)	1,673
Minority interests	(74)	–	–
	(56,343)	(18,619)	1,673
At 31st December,			
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS AND LIABILITIES			
Total assets	113,529	122,614	109,885
Total liabilities	(43,469)	(70,240)	(55,196)
	70,060	52,374	54,689
Attributable to:			
Equity holders of the Company	69,872	52,374	54,689
Minority interests	188	–	–
	70,060	52,374	54,689

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2006

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Revenue	6	77,165	43,256
Cost of sales		<u>(60,248)</u>	<u>(42,193)</u>
Gross profit		16,917	1,063
Other income		7,945	2,743
Administrative expenses		(22,984)	(22,952)
Share of (loss) profit of jointly controlled entities		(6)	87
Finance costs	8	<u>(1,088)</u>	<u>(804)</u>
Profit (loss) before taxation		784	(19,863)
Taxation	9	<u>889</u>	<u>1,244</u>
Profit (loss) for the year, attributable to equity holders of the Company	10	<u><u>1,673</u></u>	<u><u>(18,619)</u></u>
Dividends	12	<u><u>–</u></u>	<u><u>–</u></u>
Earnings (loss) per share	13		
Basic		<u><u>0.51 HK cents</u></u>	<u><u>(5.64 HK cents)</u></u>
Diluted		<u><u>0.51 HK cents</u></u>	<u><u>–</u></u>

CONSOLIDATED BALANCE SHEET*At 31st December, 2006*

	<i>NOTES</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	14	2,936	4,194
Prepaid lease payments	15	2,503	2,578
Available-for-sale investments	16	3,796	7,221
Interests in jointly controlled entities	17	20,820	19,871
Pledged bank deposits	18	–	1,005
		<hr/>	<hr/>
		30,055	34,869
		<hr/>	<hr/>
CURRENT ASSETS			
Film rights		1,440	3,277
Film production in progress		38,646	51,058
Prepaid lease payments	15	75	75
Inventories	19	1,680	2,007
Trade and other receivables and deposits paid	20	15,600	14,426
Amount due from a jointly controlled entity	21	602	172
Amount due from a related company	22	5,042	5,814
Tax recoverable		17	–
Pledged bank deposits	18	1,556	506
Bank balances and cash	23	15,172	10,410
		<hr/>	<hr/>
		79,830	87,745
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and other payables and deposits received	24	35,360	44,352
Bank and other borrowings – due within one year	25	5,362	10,501
Tax payable		–	66
Obligations under a finance lease			
– due within one year	26	92	–
		<hr/>	<hr/>
		40,814	54,919
		<hr/>	<hr/>
NET CURRENT ASSETS		39,016	32,826
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		69,071	67,695
		<hr/>	<hr/>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

		2006	2005
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	25	13,627	14,644
Deferred taxation	27	471	677
Obligations under a finance lease			
– due after one year	26	284	–
		<u>14,382</u>	<u>15,321</u>
NET ASSETS		<u>54,689</u>	<u>52,374</u>
CAPITAL AND RESERVES			
Share capital	28	33,000	33,000
Reserves		21,689	19,374
		<u>54,689</u>	<u>52,374</u>
TOTAL EQUITY		<u>54,689</u>	<u>52,374</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2006

	Attributable to equity holders of the Company						Total	Minority interests	Total equity
	Share capital	Share premium	Investment revaluation reserve	Special reserve	Share options reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
At 1st January, 2005	33,000	34,653	1,028	17,926	-	(15,707)	70,900	188	71,088
Gain on fair value change of available-for-sale investments recognised in equity	-	-	93	-	-	-	93	-	93
Loss for the year	-	-	-	-	-	(18,619)	(18,619)	-	(18,619)
Total recognised income and expense for the year	-	-	93	-	-	(18,619)	(18,526)	-	(18,526)
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	(188)	(188)
At 31st December, 2005	33,000	34,653	1,121	17,926	-	(34,326)	52,374	-	52,374
Gain on fair value change of available-for-sale investments recognised in equity	-	-	1,074	-	-	-	1,074	-	1,074
Transferred to profit or loss on sale of available-for-sale investments	-	-	(955)	-	-	-	(955)	-	(955)
Profit for the year	-	-	-	-	-	1,673	1,673	-	1,673
Total recognised income and expense for the year	-	-	119	-	-	1,673	1,792	-	1,792
Recognition of equity-settled share-based payment expenses	-	-	-	-	523	-	523	-	523
At 31st December, 2006	<u>33,000</u>	<u>34,653</u>	<u>1,240</u>	<u>17,926</u>	<u>523</u>	<u>(32,653)</u>	<u>54,689</u>	<u>-</u>	<u>54,689</u>

The special reserve of the Group mainly represents the sum of the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the group reorganisation in 2001 of approximately HK\$10,420,000 (2005: HK\$10,420,000) and the consideration for the acquisition of additional interests in jointly controlled entities which became wholly owned subsidiaries by the substantial shareholder of the Company prior to the Group Reorganisation of HK\$7,506,000 (2005: HK\$7,506,000).

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31st December, 2006*

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
Profit (loss) before taxation	784	(19,863)
Adjustments for:		
Interest income	(325)	(100)
Finance costs	1,088	804
Release of prepaid lease payments	75	75
Depreciation of property, plant and equipment	1,875	2,191
Impairment on trade and other receivables	2,716	3,713
Share of loss (profit) of jointly controlled entities	6	(87)
Impairment loss recognised in respect of film production in progress	2,621	7,795
Loss on disposal of property, plant and equipment	4	–
Gain on disposal of available-for-sale investments	(5,040)	–
Equity-settled share-based payment expenses	523	–
	<hr/>	<hr/>
Operating cash flows before movements in working capital	4,327	(5,472)
Decrease (increase) in film rights and production in progress	11,628	(26,264)
Decrease (increase) in inventories	327	(58)
(Increase) decrease in trade and other receivables and deposits paid	(3,890)	9,688
Increase in amount due to a jointly controlled entity	(430)	(172)
Decrease in amount due from a related company	772	333
(Decrease) increase in trade and other payables and deposits received	(8,992)	24,546
	<hr/>	<hr/>
Cash generated from operations	3,742	2,601
Hong Kong Profits Tax refunded	600	181
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	4,342	2,782
INVESTING ACTIVITIES		
Proceeds from disposal of available-for-sale investments	10,699	–
Interest received	325	100
Proceeds from disposal of property, plant and equipment	30	–
Purchase of available-for-sale investments	(2,115)	–
Investment in a jointly controlled entity	(955)	(3,500)
Purchases of property, plant and equipment	(191)	(183)
Increase in pledged bank deposits	(45)	(1,011)
Repayment from a minority shareholder of a subsidiary	–	92
	<hr/>	<hr/>
NET CASH FROM (USED IN) INVESTING ACTIVITIES	7,748	(4,502)

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
FINANCING ACTIVITIES		
Repayment of bank and other borrowings	(8,188)	(6,694)
Interest paid	(1,088)	(804)
Repayment of obligations under a finance lease	(84)	–
Bank and other borrowings raised	2,000	11,081
	<u> </u>	<u> </u>
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(7,360)	3,583
	<u> </u>	<u> </u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,730	1,863
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	10,026	8,163
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	<u>14,756</u>	<u>10,026</u>
	<u> </u>	<u> </u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	15,172	10,410
Bank overdraft	(416)	(384)
	<u> </u>	<u> </u>
	<u>14,756</u>	<u>10,026</u>
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2006

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 addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the annual report.

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

The Company acts as an investment holding. The principal activities of its subsidiaries are shown in note 38.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”)

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

The Group has not early applied the following new standards, amendment and interpretations issued but are not yet effective. The directors of the Company anticipate that the application of following standards, amendment and interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies” ³
HK(IFRIC) - INT 8	Scope of HKFRS 2 ⁴
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC) - INT 11	HKFRS 2 - Group and Treasury Share Transactions ⁷
HK(IFRIC) - INT 12	Service Concession Arrangements ⁸

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st January, 2009.

³ Effective for annual periods beginning on or after 1st March, 2006.

⁴ Effective for annual periods beginning on or after 1st May, 2006.

⁵ Effective for annual periods beginning on or after 1st June, 2006.

⁶ Effective for annual periods beginning on or after 1st November, 2006.

⁷ Effective for annual periods beginning on or after 1st March, 2007.

⁸ Effective for annual periods beginning on or after 1st January, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entities are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the goods and services provided in the normal course of business, net of discounts and sales related taxes.

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 from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Buildings are stated in the consolidated 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 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.

Other property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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 sales or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, whether shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments, which represent up-front payments to acquire leasehold land interest, are stated at cost and released to the consolidated income statement over the period of the lease on a straight-line basis.

Impairment losses

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, in which case the impairment loss is treated as a revaluation decrease.

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, in which case the reversal of the impairment loss is treated as at revaluation increase.

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting period or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and deposits paid, amount due from a jointly controlled entity, amount due from a related company, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables and deposits received, obligation under a finance lease and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Film rights and production in progress

Perpetual film rights acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Costs of film rights, represent the purchase price of the perpetual film rights, and are amortised over the period of two to twenty years based on the expected income streams.

Film production in progress represents films and television series under production and is stated at production costs incurred to date, less accumulated amortisation and accumulated impairment losses. Such production costs are carried forward as production in progress.

Retirement benefits costs

Payments to defined contribution retirement benefit plans and Mandatory Provident Fund Scheme are charged as expense when employees have rendered services entitling them to the contributions.

Foreign currencies

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other year 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 recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 profit 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 from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 profits 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 profit or loss, 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. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

Estimated impairment on trade and other receivables, amount due from a jointly controlled entity and amount due from a related company

Management regularly reviews the recoverability and/or aging of trade receivables, amount due from a jointly controlled entity and amount due from a related company. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows, aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value.

Estimated impairment loss on film production in progress

Management regularly reviews the recoverability of the Group's film production in progress with reference to its intended use and current market environment. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment on film production in progress is required, the Group takes into consideration the intended use of the assets, the current market environment, the estimated market value of the assets and/or the present value of future cash flow expected to be received. Impairment is recognised based on the higher of estimated future cash flow and estimated market value.

5. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amount due from a jointly controlled entity, amount due from a related company, pledged bank deposits, bank balances, trade and other payables and bank and other borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group is exposed to fair value and cash flow interest rate risk through short term bank deposits and fixed and variable interest rates borrowings as disclosed in note 23 and 25, respectively. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Price risk

The Group is exposed to equity security price risk through its available-for-sale investments. The Group currently does not have a price risk hedging policy. However, management monitors price fluctuation exposure and will consider hedging significant price fluctuation exposure should the need arise.

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the funds generated from its operations. The Directors have given careful consideration on the measures currently undertaken by the Group in respect of the Group's liquidity position. During the year, the Group has continued to tighten cost controls over operating costs to improve the cash flows, profitability and operations of the Group. The directors believe that the Group will have sufficient working capital for its future operational requirements.

Credit risk

As at 31st December, 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counter parties or debtors in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet.

The Group's concentration of credit risk by geographical locations is mainly concentrated in Hong Kong, which accounted for approximately 56% (2005: 52%) of the trade receivables for the year ended 31st December, 2006.

The largest customer accounted for approximately 3% (2005: 10%) of the trade receivables and the five largest customers in aggregate accounted for approximately 52% (2005: 75%) of the trade receivables for the year ended 31st December, 2006.

In addition, there is a concentrations of credit risk in the amount due from a related company.

In order to minimise the credit risk, the management of the Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debtors and the amount due from a related company at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. REVENUE

	2006 HK\$'000	2005 HK\$'000
An analysis of revenue is as follows:		
Film distribution and licensing income	47,603	17,838
Film processing income	22,438	18,117
Advertising and promotional service income	7,124	7,301
	<u>77,165</u>	<u>43,256</u>

7. 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.

2006

	Film distribution and licensing HK\$'000	Film processing HK\$'000	Advertising and promotional services HK\$'000	Elimination HK\$'000	Total HK\$'000
REVENUE					
External revenue	47,603	22,438	7,124	-	77,165
Inter segment revenue	3,720	52	3,830	(7,602)	-
Total revenue	<u>51,323</u>	<u>22,490</u>	<u>10,954</u>	<u>(7,602)</u>	<u>77,165</u>
RESULT					
Segment result	<u>11,712</u>	<u>5,609</u>	<u>(404)</u>	<u>-</u>	16,917
Other income					7,945
Unallocated corporate expenses					(22,984)
Finance costs					(1,088)
Share of loss of jointly controlled entities					(6)
Profit before taxation					784
Taxation					889
Profit for the year					<u>1,673</u>

Inter segment revenue is charged at prevailing market rate.

2006

BALANCE SHEET

	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Advertising and promotional services <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS					
Segment assets	54,421	11,026	1,875	–	67,322
Interests in jointly controlled entities					20,820
Unallocated corporate assets					21,743
Consolidated total assets					<u>109,885</u>
LIABILITIES					
Segment liabilities	29,943	4,114	1,069	–	35,126
Unallocated corporate liabilities					20,070
Consolidated total liabilities					<u>55,196</u>
OTHER INFORMATION					
Capital expenditure	474	53	124	–	651
Impairment on trade and other receivables	2,716	–	–	–	2,716
Release of prepaid lease payments	–	63	–	12	75
Depreciation of property, plant and equipment	209	1,575	76	15	1,875
Impairment loss recognised in respect of film production in progress	<u>2,621</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,621</u>

2005

	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Advertising and promotional services <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE					
External revenue	18,117	17,838	7,301	–	43,256
Inter segment revenue	227	2,531	2,427	(5,185)	–
Total revenue	<u>18,344</u>	<u>20,369</u>	<u>9,728</u>	<u>(5,185)</u>	<u>43,256</u>
RESULT					
Segment result	<u>(2,904)</u>	<u>2,815</u>	<u>1,152</u>	<u>–</u>	1,063
Other income					2,743
Unallocated corporate expenses					(22,952)
Finance costs					(804)
Share of profit of jointly controlled entities					<u>87</u>
Loss before taxation					(19,863)
Taxation					<u>1,244</u>
Loss for the year					<u>(18,619)</u>

Inter segment revenue is charged at prevailing market rate.

2005

BALANCE SHEET

	Film distribution and licensing <i>HK\$'000</i>	Film processing <i>HK\$'000</i>	Advertising and promotional services <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS					
Segment assets	71,823	9,011	1,538	–	82,372
Interests in jointly controlled entities					19,871
Unallocated corporate assets					20,371
Consolidated total assets					<u>122,614</u>
LIABILITIES					
Segment liabilities	40,733	2,514	883	–	44,130
Unallocated corporate liabilities					26,110
Consolidated total liabilities					<u>70,240</u>
OTHER INFORMATION					
Capital expenditure	20	124	39	–	183
Impairment on trade and other receivables	2,717	996	–	–	3,713
Release of prepaid lease payments	–	63	–	12	75
Depreciation of property, plant and equipment	192	1,894	84	21	2,191
Impairment loss recognised in respect of film production in progress	<u>7,795</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,795</u>

GEOGRAPHICAL SEGMENTS

The Group's customers are located in Hong Kong, the People's Republic of China (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.

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

2006	Hong Kong	The PRC	Japan	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	46,902	3,802	7,820	18,641	77,165
	Hong Kong	The PRC	Japan	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of segment assets	65,670	1,652	–	–	67,322
Additions to property, plant and equipment	651	–	–	–	651
2005	Hong Kong	The PRC	Japan	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	38,407	383	336	4,130	43,256
	Hong Kong	The PRC	Japan	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of segment assets	75,948	5,999	–	425	82,372
Additions to property, plant and equipment	183	–	–	–	183

8. FINANCE COSTS

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
– bank and other loans wholly repayable within five years	1,071	804
– finance leases	17	–
	<u>1,088</u>	<u>804</u>

9. TAXATION

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong Profits Tax		
– provision for current year	164	143
– overprovision in prior years	(847)	(1,177)
	<u>(683)</u>	<u>(1,034)</u>
Deferred tax credit (<i>note 27</i>)	(206)	(210)
	<u>(889)</u>	<u>(1,244)</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for both years.

No provision for tax in other jurisdictions for both years has been made in the consolidated financial statements as neither the Company nor any of its subsidiaries had any assessable profit subject to tax in other jurisdictions.

The taxation for the year can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit (loss) before taxation	<u>784</u>	<u>(19,863)</u>
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	137	(3,476)
Tax effect of expenses not deductible for tax purpose	989	2,098
Tax effect of income not taxable for tax purpose	(986)	(26)
Overprovision in prior years	(847)	(1,177)
Tax effect of tax losses not recognised	866	1,387
Utilisation of tax losses previously not recognised	(1,049)	(36)
Tax effect on share of loss (profit) of jointly controlled entities	1	(14)
	<u>(889)</u>	<u>(1,244)</u>

10. PROFIT (LOSS) FOR THE YEAR

	2006 HK\$'000	2005 HK\$'000
Profit (loss) for the year has been arrived at after charging:		
Directors' emoluments (<i>note 11</i>)	4,050	3,408
Other staff costs	11,410	11,003
Retirement benefit scheme contributions, excluding directors	547	489
Share-based payment expenses, excluding directors	133	–
	<hr/>	<hr/>
Total staff costs	16,140	14,900
	<hr/>	<hr/>
Auditor's remuneration	1,085	1,005
Depreciation of property, plant and equipment		
– owned assets	1,790	2,191
– finance lease	85	–
Release of prepaid lease payments	75	75
Impairment on trade and other receivables	2,716	3,713
Impairment loss recognised in respect of film production in progress (included in cost of sales)	2,621	7,795
Cost of inventories recognised as expenses	46,815	27,092
Share of tax of jointly controlled entities (included in share of (loss) profit of jointly controlled entities)	50	43
Loss on disposal of property, plant and equipment	4	–
and after crediting:		
Interest income	325	100
Gain on disposal of available-for-sale investments	5,040	–
Net foreign exchange gain (loss)	43	(2)
	<hr/> <hr/>	<hr/> <hr/>

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the seven (2005: eight) directors were as follows:

2006

	Wong Pak Ming HK\$'000	Wong Kit Fong HK\$'000	Wong Yee Kwan, Alvina HK\$'000	Lai Voon Wai HK\$'000	Wan Ngar Yin, David HK\$'000	Ko Tin Chow HK\$'000	Tang Kai- Kui, Terence HK\$'000	Total HK\$'000
Fees	-	-	-	120	240	-	120	480
Other emoluments:								
Salaries and other benefits	1,788	478	374	-	-	480	-	3,120
Retirement benefit scheme contributions	12	12	12	-	-	24	-	60
Share-based payment expenses	65	65	65	-	65	65	65	390
Total emoluments	<u>1,865</u>	<u>555</u>	<u>451</u>	<u>120</u>	<u>305</u>	<u>569</u>	<u>185</u>	<u>4,050</u>

2005

	Wong Pak Ming HK\$'000	Wong Kit Fong HK\$'000	Wong Yee Kwan, Alvina HK\$'000	Lai Voon Wai HK\$'000	Wan Ngar Yin, David HK\$'000	Ko Tin Chow HK\$'000	Tang Kai- Kui, Terence HK\$'000	Woo, Alan* HK\$'000	Total HK\$'000
Fees	-	-	-	120	240	-	10	110	480
Other emoluments:									
Salaries and other benefits	1,788	526	536	-	-	40	-	-	2,890
Retirement benefit scheme contributions	12	12	12	-	-	2	-	-	38
Total emoluments	<u>1,800</u>	<u>538</u>	<u>548</u>	<u>120</u>	<u>240</u>	<u>42</u>	<u>10</u>	<u>110</u>	<u>3,408</u>

* Woo, Alan resigned on 1st December, 2005.

(b) Emoluments of highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2005: four) were directors of the Company, whose emoluments are included in the disclosure set out in note (a) above. The emoluments of the remaining two (2005: one) highest paid individuals were as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Salaries and other benefits	876	908
Retirement benefit scheme contributions	24	34
	<u>900</u>	<u>942</u>

All of their emoluments were less than HK\$1,000,000 for both years.

(c) During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments during the year.

12. DIVIDENDS

No dividends were paid or proposed during the year ended 31st December, 2006 and 2005, nor has any dividend been proposed since the balance sheet date.

13. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	<u>1,673</u>	<u>(18,619)</u>
Number of shares		
	2006	2005
Number of ordinary shares for the purposes of basic earnings (loss) per share	330,000,000	330,000,000
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	<u>399,000</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u>330,399,000</u>	<u>330,000,000</u>

Diluted earnings per share is not presented for 2005 as the share options granted to directors and employees on 23rd June, 2006 are anti dilutive in terms of HKAS 33 "Earnings per share".

14. PROPERTY, PLANT AND EQUIPMENT

	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
COST OR VALUATION						
At 1st January, 2005	1,614	5,389	3,068	525	20,684	31,280
Additions	-	102	-	-	81	183
Disposals	-	-	-	-	(80)	(80)
At 31st December, 2005	1,614	5,491	3,068	525	20,685	31,383
Additions	-	38	-	460	153	651
Disposals	-	-	-	(475)	-	(475)
At 31st December, 2006	1,614	5,529	3,068	510	20,838	31,559
Comprising:						
At cost	-	5,529	3,068	510	20,838	29,945
At valuation - 2005	1,614	-	-	-	-	1,614
	<u>1,614</u>	<u>5,529</u>	<u>3,068</u>	<u>510</u>	<u>20,838</u>	<u>31,559</u>
DEPRECIATION AND AMORTISATION						
At 1st January, 2005	441	4,550	2,309	444	17,334	25,078
Provided for the year	96	236	337	27	1,495	2,191
Eliminated on disposals	-	-	-	-	(80)	(80)
At 31st December, 2005	537	4,786	2,646	471	18,749	27,189
Provided for the year	96	270	208	85	1,216	1,875
Eliminated on disposals	-	-	-	(441)	-	(441)
At 31st December, 2006	633	5,056	2,854	115	19,965	28,623
CARRYING VALUES						
At 31st December, 2006	<u>981</u>	<u>473</u>	<u>214</u>	<u>395</u>	<u>873</u>	<u>2,936</u>
At 31st December, 2005	<u>1,077</u>	<u>705</u>	<u>422</u>	<u>54</u>	<u>1,936</u>	<u>4,194</u>

The above items of property, plant and equipment are depreciated and amortised on a straight-line basis at the following rates per annum:

Buildings	2.5%
Furniture and fixtures	20%
Leasehold improvements	20%
Motor vehicles	20% - 30%
Plant, machinery and equipment	20%

The Group's buildings were revalued at 31st December, 2005 by Messrs. RHL Appraisal Limited, on an open market value basis. Messrs. RHL Appraisal Limited are not connected with the Group. Messrs. RHL Appraisal Limited are members of the Institute of Valuers and have appropriate qualification and recent experiences in valuation of similar properties. The valuation conforms to International Valuation Standards and was arrived at by reference to market evidence of transaction prices for similar properties. The directors consider that the impact of the change in the market value is not significant and accordingly, no adjustment has been made to reflect the market value of the buildings at the balance sheet date in the consolidated financial statements.

The net book value of motor vehicles of HK\$395,000 (2005: Nil) is in respect of asset held under a finance lease.

The buildings of the Group are situated in Hong Kong.

At 31st December, 2006, had all of the buildings of the Group been carried at historical cost less accumulated depreciation and amortisation and accumulated impairment losses, their carrying values would have been HK\$981,000 (2005: HK\$1,077,000).

15. PREPAID LEASE PAYMENTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
The Group's prepaid lease payments comprise medium-term leasehold land in Hong Kong	<u>2,578</u>	<u>2,653</u>
Analysed for reporting purpose as:		
Current assets	75	75
Non-current assets	<u>2,503</u>	<u>2,578</u>
	<u>2,578</u>	<u>2,653</u>

16. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments represent:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Equity securities listed in Hong Kong	<u>3,796</u>	<u>7,221</u>

The equity securities are stated at fair value, which have been determined by reference to bid prices quoted in active markets.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006 HK\$'000	2005 HK\$'000
Cost of unlisted investments in jointly controlled entities	24,456	23,501
Share of post-acquisition losses	(3,636)	(3,630)
	<u>20,820</u>	<u>19,871</u>
Loan to a jointly controlled entity	10,927	10,927
Impairment loss recognised on loan to a jointly controlled entity	(10,927)	(10,927)
	<u>—</u>	<u>—</u>

At 31st December, 2006, the Group had interests in the following jointly controlled entities:

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

Note: These Companies are sino-foreign equity joint ventures established in the PRC.

During the year, the Group injected an amount of HK\$955,000 as capital injection in Dong Tian.

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Non-current assets	<u>92,371</u>	<u>92,620</u>
Current assets	<u>125,216</u>	<u>61,454</u>
Current liabilities	<u>76,982</u>	<u>19,243</u>
Non-current liabilities	<u>100,000</u>	<u>96,154</u>
Income	<u>36,620</u>	<u>34,624</u>
Expenses	<u>37,455</u>	<u>34,819</u>
Loss for the year	<u>970</u>	<u>195</u>

The Group has discontinued recognition of its share of losses of certain jointly controlled entities. The amounts of unrecognised share of those jointly controlled entities, both for the year and cumulatively, are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Unrecognised share of losses of jointly controlled entities for the year	<u>(315)</u>	<u>(171)</u>
Accumulated unrecognised share of losses of jointly controlled entities	<u>(486)</u>	<u>(171)</u>

18. PLEDGED BANK DEPOSITS

At 31st December, 2006, the amount of HK\$1,556,000 (2005: HK\$506,000) represents deposits pledged to banks to secure banking facilities granted to the Group. These deposits have been pledged to secure bank overdrafts and are therefore classified as current assets.

At 31st December, 2005, there were deposits amounting to HK\$1,005,000 pledged to secure long-term borrowings and were therefore classified as non-current assets.

The deposits carry fixed interest rate ranging from 2.8% to 3.3% (2005: 2.75% to 3.03%) per annum. The pledged bank deposits will be released upon the termination of relevant banking facilities.

19. INVENTORIES

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Raw materials	1,672	1,898
Work in progress	8	109
	<u>1,680</u>	<u>2,007</u>

20. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

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 and deposits paid are trade receivables of HK\$6,296,000 (2005: HK\$5,598,000) and their aged analysis is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 – 90 days	3,982	3,690
91– 180 days	1,077	821
181 – 365 days	700	362
Over 1 year	537	725
	<u>6,296</u>	<u>5,598</u>

21. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount due from a jointly controlled entity is unsecured, non-interest bearing and repayable on demand.

22. AMOUNT DUE FROM A RELATED COMPANY

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
廣州東影影視出品有限公司 ("Tung Ying") (Note)	<u>5,042</u>	<u>5,814</u>

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

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

23. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at 2% to 3% (2005: 2% to 3%) per annum and have original maturity of three months or less.

Included in the bank balances and cash as at 31st December, 2006, was an amount in Renminbi of RMB899,000 (2005: RMB154,000). Renminbi is not freely convertible into other currencies.

24. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

Included in trade and other payables are trade payables of HK\$2,520,000 (2005: HK\$2,204,000) and their aged analysis is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 - 90 days	1,941	1,690
91- 180 days	579	514
	<u>2,520</u>	<u>2,204</u>

25. BANK AND OTHER BORROWINGS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Bank loans	5,527	13,640
Bank overdraft	416	384
Other loan	13,046	11,121
	<u>18,989</u>	<u>25,145</u>
Secured	5,943	6,719
Unsecured	13,046	18,426
	<u>18,989</u>	<u>25,145</u>

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

On demand or within one year	5,362	10,501
More than one year, but not exceeding two years	13,421	14,064
More than two years, but not exceeding five years	206	580
	<u>18,989</u>	<u>25,145</u>
Less: Amount due within one year shown under current liabilities	<u>(5,362)</u>	<u>(10,501)</u>
Amount due after one year	<u>13,627</u>	<u>14,644</u>

Bank borrowings carry interest at rates from 3% to 9% (2005: 3% to 8%) per annum. Interest is repriced every month.

Included in the other loan at 31st December, 2006 is an amount in Renminbi of HK\$2,885,000 (2005: HK\$2,885,000). The loan is a fixed rate borrowing which carries interest ranging from 1% to 3% (2005: 1% to 3%) per annum.

26. OBLIGATIONS UNDER A FINANCE LEASE

It is the Group's policy to lease certain of its motor vehicle under finance leases. The lease term is five years. Interest rate underlying all obligations under a finance leases is fixed at contract date of 4%. This lease has no terms of renewal or purchase option and escalation clauses. No arrangement has been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Amounts payable under a finance lease				
Within one year	110	–	92	–
In more than one year but not more than two years	110	–	92	–
In more than two years but not more than three years	110	–	92	–
In more than three years but not more than four years	110	–	92	–
In more than four years but not more than five years	11	–	8	–
	<u>451</u>	<u>–</u>	<u>376</u>	<u>–</u>
Less: future finance charges	(75)	–	–	–
Present value of lease obligations	<u>376</u>	<u>–</u>	376	–
Less: Amount due for settlement with 12 months (shown under current liabilities)			(92)	–
Amount due for settlement after 12 months			<u>284</u>	<u>–</u>

27. DEFERRED TAXATION

The followings are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK\$'000
At 1st January, 2005	887
Credit to consolidated income statement for the year	<u>(210)</u>
At 31st December, 2005	677
Credit to consolidated income statement for the year	<u>(206)</u>
At 31st December, 2006	<u>471</u>

At 31st December, 2006, the Group has unused tax losses of approximately HK\$38,099,000 (2005: HK\$39,145,000) 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. Tax losses may be carried forward indefinitely.

28. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	<u>330,000,000</u>	<u>33,000</u>

29. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme was adopted pursuant to a resolution passed on 21st August, 2001 (the "Scheme") 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 of 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 share as stated in the daily quotations sheets of the Stock Exchange on the date of grant, which must be a business day; (ii) the average closing price of the 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; and (iii) the nominal value of the Company's share, subject to the terms of the Scheme.

Details of the share options granted under the Scheme to directors of the Company and certain employees of the Group under the Scheme during the year and movement in such holding during the year are as follows:

	Date of grant	Vesting date	Exercisable period	Exercise price per share HK\$	Outstanding as at 1.1.2006	Granted during the year	Outstanding as at 31.12.2006
Directors	23.6.2006	24.12.2006	24.12.2006 to 20.8.2011	0.938	-	1,968,000	1,968,000
Employees	23.6.2006	24.12.2006	24.12.2006 to 20.8.2011	0.938	-	656,000	656,000
					<u>-</u>	<u>2,624,000</u>	<u>2,624,000</u>

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

No share option were cancelled or lapsed during the year.

During the year ended 31st December, 2006, options were granted on 23rd June. The estimated fair values of the options granted for the year is HK\$523,000.

These fair values were calculated using the Black-Scholes Option Pricing (the "Model"). The inputs into the Model were as follows:

Closing share price at the date of grant	HK\$0.93
Exercise price	HK\$0.938
Expected volatility	23.28%
Expected life	3 years
Risk-free rate	4.7%
Expected dividend yield	N/A
Fair value per share option	HK\$0.2

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years. The expected life used in the Model has been adjusted, based on the management's best estimate, for the efforts of non transferability, exercise restrictions and behavioral considerations.

There is no consideration received during the year for taking up the options granted.

The Group recognised the total expense of HK\$523,000 for the year ended 31st December, 2006 (2005: Nil) in relation to share options granted the Company.

The fair values were calculated by Greater China Appraisal Limited, an independent third party. The Model is one of the commonly used models to estimate the fair value of the options. The value of an option varies with different variables of certain subjective assumptions. Any changes in the variables so adopted may materially affect the estimation of the fair value of an option.

30. OPERATING LEASE COMMITMENTS

Minimum lease payments under operating leases during the year:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Premises	<u>1,357</u>	<u>1,295</u>

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	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	214	1,152
In the second year inclusive	<u>–</u>	<u>214</u>
	<u>214</u>	<u>1,366</u>

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

31. CAPITAL COMMITMENTS

At 31st December, 2006, the Group had capital commitment of HK\$20,058,000 (2005: HK\$20,058,000) which is contracted for the investment in a joint venture in the PRC.

32. OTHER COMMITMENTS

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Production of a film	157	–
Artists' fees	16,783	3,578
	<u>16,940</u>	<u>3,578</u>

33. BANKING FACILITIES AND PLEDGE OF ASSETS

At 31st December, 2006, the Group's banking facilities are secured by the following:

- (1) the unlimited corporate guarantee given by the Company;
- (2) the personal guarantee given by a director of the Company;
- (3) the legal charge over the copyright of one film with a carrying value of HK\$4,200,000, included in film production in progress at 31st December, 2006 (2005: HK\$33,175,000);
- (4) the assignment of income receivables to be derived from the licensing of the film "Dragon Tiger Gate" in all territories throughout the world;
- (5) certain of its prepaid lease payments and buildings with a carrying value of HK\$3,559,000 (2005: HK\$3,730,000 together with plant and machinery of HK\$1,292,000); and
- (6) bank deposits as set out in note 18.

34. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into a finance lease arrangement in respect of the asset with a total capital value at the inception of the lease of HK\$460,000.

35. RETIREMENT BENEFITS PLANS

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.

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

For members of the MPF Scheme, the Group contributes the lower of HK\$1,000 or 5% of relevant payroll costs to the scheme, this contribution is matched by the employee.

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.

36. CONTINGENT LIABILITIES

In April 2006, 上海華芮文化傳播有限公司 (“Shanghai City Glory”), one of the investors of “Seven Swords”, initiated legal proceedings against Mandarin Films Distribution Co., Ltd. (“Mandarin Films Distribution”), an indirect wholly owned subsidiary of the Company in respect of claim for payment of income amounting to approximately US\$732,036 (equivalent to HK\$5,680,233) arising from the filming of “Seven Swords”.

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

37. RELATED PARTY DISCLOSURES

(i) Related party transactions

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

Nature of transactions	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Agency fees paid	(a)	874	100
Management fee income	(b)	–	150
Consultancy service fee paid	(c)	–	100

Notes:

- (a) The agency fees are charged by Tung Ying for the distribution income generated by Tung Ying on behalf of the Group, in which it acted as an agent to generate that income.
- (b) The management fee income was charged to PCL, a jointly controlled entity.
- (c) The consultancy service fee was paid to a brother of Mr. Wong Pak Ming.

(ii) Compensation of key management personnel

The remuneration of the key management personnel during the year was as follows:

	2006 HK\$'000	2005 HK\$'000
Short term benefits	3,600	3,370
Other long term benefits	450	38
	<u>4,050</u>	<u>3,408</u>

The remuneration of directors and other key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

(iii) Related party balances

Details of the balances with a jointly controlled entity, a related company and a loan from Mr. Zhang Xun, a substantial shareholder of the Company, as at the respective balance sheet dates are set out in the consolidated balance sheet and their respective notes.

38. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 31st December, 2006 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by Company %	Principal activities
Chili Advertising & Promotions Limited	Hong Kong	HK\$10,000 ordinary shares	100	Provision of advertising and promotional services
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)	100	Distribution of films produced or purchased by the Group
Mandarin Films Distribution Co., Ltd.	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 and distribution 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)	100	Investment holding

Note: 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.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

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

39. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31st December, 2006 is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
ASSETS		
Investment in subsidiaries	6,172	6,172
Amounts due from subsidiaries	39,651	40,778
Prepayment	145	145
Bank balances and cash	66	56
	<u>46,034</u>	<u>47,151</u>
LIABILITY		
Accrued charge	408	359
	<u>45,626</u>	<u>46,792</u>
CAPITAL AND RESERVES		
Share capital	33,000	33,000
Reserves (<i>note</i>)	12,626	13,792
	<u>45,626</u>	<u>46,792</u>

Note:

Reserves

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Share options reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2005	34,653	44,072	-	(48,618)	30,107
Loss for the year	-	-	-	(16,315)	(16,315)
	<u>34,653</u>	<u>44,072</u>	<u>-</u>	<u>(64,933)</u>	<u>13,792</u>
At 31st December, 2005	34,653	44,072	-	(64,933)	13,792
Loss for the year	-	-	-	(1,689)	(1,689)
Recognition of equity-settled share-based payment expenses	-	-	523	-	523
	<u>34,653</u>	<u>44,072</u>	<u>523</u>	<u>(66,622)</u>	<u>12,626</u>
At 31st December, 2006	<u>34,653</u>	<u>44,072</u>	<u>523</u>	<u>(66,622)</u>	<u>12,626</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.

3. BUSINESS REVIEW AND PROSPECTS

In the year ended 31 December 2006, the Group recorded a revenue of HK\$77.2 million. Film distribution and licensing, film processing and advertising and promotional services contributed to 61.7%, 29.1% and 9.2% respectively of the Group's revenue. The increase in revenue compared with the prior year is mainly due to the increase in film distribution and licensing revenue of the Group resulting from the successful execution of the CEPA (Closer Economic Partnership Arrangement) Model by the Group.

During the period, the Group has disposed of 15,976,000 shares in Jade Dynasty Group Limited, whose shares are listed on the Stock Exchange of Hong Kong and were held by the Group as available-for-sale investments as at 31st December, 2005, for an aggregate consideration of approximately HK\$10.7 million resulting in a profit of approximately HK\$5.04 million.

The Group reported a profit of HK\$1.7 million compared to a loss of HK\$18.6 million last year. Earnings per share is 0.51 HK cents, calculated on the 330,000,000 shares in issue in 2006 compared with loss of 5.64 HK cents per share of the prior year.

4. WORKING CAPITAL

The Directors are of the opinion that, taking into account the cash flows generated from the operating activities, the financial resources available to the Group, including internally generated funds, the available credit facilities and the estimated net proceeds from the Open Offer, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this Prospectus.

5. INDEBTEDNESS

(a) Borrowings

As at the close of business on 30 June 2007, being the latest practicable date for the purpose of this indebtedness statement, the Group had total outstanding debts of approximately HK\$18.3 million which included (i) secured bank borrowings of approximately HK\$4.1 million, (ii) bank overdraft of approximately HK\$0.8 million, (iii) an outstanding obligations under finance leases of approximately HK\$0.3 million and (iv) outstanding other borrowings of approximately HK\$13.1 million.

(b) Debt securities

As at the close of business on 30 June 2007, the Group had no outstanding debt securities issued or authorised or otherwise created but unissued.

(c) Pledge of assets

At the close of business on 30 June 2007, the Group had the following pledge of assets:

- (i) bank deposits amounting to approximately HK\$0.5 million have been pledged to secure the overdraft of HK\$0.8 million granted to the Group;
- (ii) certain prepaid lease payments and buildings with a carrying value of HK\$3.5 million have been pledged to secure the general banking facilities of HK\$0.9 million; and
- (iii) the legal charge over the copyright of a film with a carrying value of HK\$7.6 million which is included in the film production in progress and the assignment of income receivable to be derived from the licensing of the film have been pledged to secure the general banking facilities amounting to HK\$3.5 million.

(d) Contingent liabilities

Details of contingent liabilities are set out in Appendix III to this Prospectus under the section headed "LITIGATION".

(e) Litigation

Details of litigation are set out in Appendix III to this Prospectus under the section headed "LITIGATION".

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, as at the close of business on 30 June 2007, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Company were made up.

**APPENDIX II UNAUDITED PRO-FORMA FINANCIAL INFORMATION
OF THE GROUP**

**1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET
TANGIBLE ASSETS OF THE GROUP**

The unaudited pro forma statement of adjusted consolidated net tangible assets (the “Unaudited Pro Forma Financial Information”) of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Open Offer on the consolidated net tangible assets of the Group as if the Open Offer had been completed on 31 December 2006.

The Unaudited Pro Forma Financial Information of the Group has been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Group following the Open Offer.

Adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company (Audited) HK\$'000 (note 1)	Add: Estimated net proceeds from the Open Offer (Unaudited) HK\$'000 (note 2)	Pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company (Unaudited) HK\$'000
<u>14,603</u>	<u>87,500</u>	<u>102,103</u>
Audited adjusted consolidated net tangible assets per Share as at 31 December 2006 (note 3)		<u>4.4 HK cents</u>
Unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Open Offer (notes 4 and 5)		<u>20.0 HK cents</u>

APPENDIX II UNAUDITED PRO-FORMA FINANCIAL INFORMATION OF THE GROUP

Notes:

- (1) This figure represented the consolidated net assets (HK\$54,689,000) less the intangible assets, being film rights (HK\$1,440,000) and production in progress (HK\$38,646,000) and all these figures are extracted from the audited consolidated balance sheet of the Company as at 31 December 2006.
- (2) The estimated net proceeds from the Open Offer are based on the gross proceeds from the 180,000,000 Shares issuable pursuant to the Open Offer at the Subscription Price of HK\$0.5 per Offer Share totaling approximately HK\$90,000,000 and after deduction of the estimated related expenses of approximately HK\$2,500,000.
- (3) The audited adjusted consolidated net tangible assets per Share before completion of the Open Offer is based on 330,000,000 Shares in issue as at 31 December 2006.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Open Offer is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company upon completion of the Open Offer and on the basis of 510,000,000 Shares issued and issuable, comprising 330,000,000 Shares in issue as at 31 December 2006 and 180,000,000 Offer Shares to be issued.
- (5) The Unaudited Pro Forma Financial Information has not taken into account the effect of the placing of 30,000,000 new shares issued on 29 May 2007. The net proceeds from this subscription was approximately HK\$39,000,000. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company upon completion of the Open Offer and the unaudited pro forma adjusted consolidated net tangible assets per Share will be HK\$141,103,000 and HK\$26.1 cents respectively if the placing of new shares of 30,000,000 had been taken into account.

2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

We report on the unaudited pro forma financial information of Mandarin Entertainment (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 57 and 58 of Appendix II to the prospectus dated 24 August 2007 (the "Prospectus") in connection with the open offer of 180,000,000 offer shares at HK\$0.5 per offer share on the basis of one offer share for every two shares held (the "Open Offer"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Open Offer might have affected the financial information presented. The basis of preparation of the unaudited pro forma financial information is set out in the accompanying introduction and notes to the unaudited pro forma financial information included in Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**APPENDIX II UNAUDITED PRO-FORMA FINANCIAL INFORMATION
OF THE GROUP**

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

24 August 2007

1. RESPONSIBILITY STATEMENT

This Prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly and severally accept responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable inquiries and that to the best of their knowledge and belief there are no other facts the omission of which would made any statement therein misleading.

2. SHARE CAPITAL

The authorized and issued capital of the Company as at the Latest Practicable Date were, and immediately following the completion of the Open Offer (assuming no Option has been exercised from the Latest Practicable Date to the completion of the Open Offer) will be, as follows:

<i>Authorised</i>	<i>HK\$</i>
<u>1,000,000,000</u>	<u>100,000,000</u>
<i>Issued and fully paid</i>	<i>HK\$</i>
360,000,000 Shares in issue as at the Latest Practicable Date	36,000,000
180,000,000 Offer Shares to be issued pursuant to the Open Offer (<i>Note 1</i>)	18,000,000
<u>540,000,000</u> Shares in issue upon completion of the Open Offer	<u>54,000,000</u>

Note:

- Based on 360,000,000 Shares in issue as at the Latest Practicable Date and on the basis of one Offer Share for every two existing Shares held.

All the Shares in issue and Offer Shares to be issued shall rank and will rank *pari passu* in all respects with each other including as regards to dividends, voting and return of capital. All the Offer Shares to be issued will be listed on the Stock Exchange.

Save as disclosed below, as at the Latest Practicable Date, the Company has no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for Shares.

The Shares are listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

There are no arrangements under which future dividends will be waived or agreed to be waived.

Save for 30,000,000 Shares issued pursuant to the top up placing announced on 1 June 2007 and 4 June 2007, no shares have been issued since 31 December 2006 being the end of the last financial year of the Company.

SHARE OPTION SCHEME

The Share Option 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 Share Option Scheme, the Board may grant Options to eligible employees, including Directors of the Company and its subsidiaries, to subscribe for Shares. The total number of Shares in respect of which Options may be granted under the Share Option Scheme is not permitted to exceed 10% of the Shares in issue at any point of time, without prior approval from the 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 Shareholders.

Options offered 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 6 months after the date of grant to the 10th anniversary of the date of adoption of the Share Option Scheme. In each grant of Options, the Board 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 Shares as stated in the daily quotations sheets of the Stock Exchange on the date of grant, which must be a Business Day; (ii) the average closing price of the Shares as stated in the daily operations sheet of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Shares, subject to the terms of the Share Option Scheme.

As at the Latest Practicable Date, certain Directors and employees of the Company held Options granted to them under the Share Option Scheme entitling them to subscribe for the Shares, details of which are set out below:

	Date of grant	Exercise Period	Exercise price per share	Outstanding as at the Latest Practicable Date
Directors	23.6.2006	24.12.2006 to 20.8.2011	HK\$0.938	1,968,000
	10.5.2007	12.11.2007 to 20.8.2011	HK\$0.880	9,750,000
Mr. Wong Pak Ming	23.6.2006	24.12.2006 to 20.8.2011	HK\$0.938	328,000
	10.5.2007	12.11.2007 to 20.8.2011	HK\$0.880	1,250,000
Ms. Wong Kit Fong	23.6.2006	24.12.2006 to 20.8.2011	HK\$0.938	328,000
	10.5.2007	12.11.2007 to 20.8.2011	HK\$0.880	1,250,000
Ms. Wong Yee Kwan, Alvina	23.6.2006	24.12.2006 to 20.8.2011	HK\$0.938	328,000
	10.5.2007	12.11.2007 to 20.8.2011	HK\$0.880	1,250,000
Mr. Ko Tin Chow	23.6.2006	24.12.2006 to 20.8.2011	HK\$0.938	328,000
	10.5.2007	12.11.2007 to 20.8.2011	HK\$0.880	2,500,000
Mr. Wan Ngar Yin, David	23.6.2006	24.12.2006 to 20.8.2011	HK\$0.938	328,000
	10.5.2007	12.11.2007 to 20.8.2011	HK\$0.880	1,000,000
Mr. Tang Kai Kui, Terence	23.6.2006	24.12.2006 to 20.8.2011	HK\$0.938	328,000
	10.5.2007	12.11.2007 to 20.8.2011	HK\$0.880	2,500,000
Employees	23.6.2006	24.12.2006 to 20.8.2011	HK\$0.938	656,000
	10.5.2007	12.11.2007 to 20.8.2011	HK\$0.880	2,250,000
Total				14,624,000

Save as disclosed above, as at the Latest Practicable Date, no share or loan capital of other members of the Group is under option or agreed conditionally or unconditionally to be put under option.

3. DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Directors' interest in the Shares

Name of directors	Number of Shares held	Capacity			Approximate percentage of total issued Shares (%)
		Beneficial Owner	Family Interest	Interest of Controlled Corporation	
Mr. Wong Pak Ming (note)	232,113,000 (L)	2,428,000 (L)	114,000 (L)	152,200,000 (L)	64.48%
Mr. Wan Ngar Yin, David	1,328,000 (L)	1,328,000 (L)			0.37%
Ms. Wong Kit Fong	3,728,000 (L)	3,728,000 (L)			1.04%
Ms. Wong Yee Kwan, Alvina	3,684,000 (L)	3,684,000 (L)			1.02%
Mr. Ko Tin Chow	2,828,000 (L)	2,828,000 (L)			0.79%

L: Long Position

Note: Out of the 232,113,000 Shares: 122,200,000 Shares are held in the name of Idea Storm Holdings Limited, which is wholly owned by Mr. Wong. Under the SFO, Mr. Wong is deemed to be interested in all the Shares registered in the name of Idea Storm Holdings Limited; 30,000,000 Shares are held in the name of Capeland Holdings Limited, which is wholly owned by Mr. Wong. Under the SFO, Mr. Wong is also deemed to be interested in all the Shares registered in the name of Capeland Holdings Limited; 114,000 Shares are held in the name of Mr. Wong's spouse, Zee Ven Chu Lydia, in which Mr. Wong is also deemed to be interested in under the SFO; 77,371,000 are Shares that Mr. Wong undertook to subscribe or procure to subscribe for pursuant to the Underwriting Agreement.

Directors' interests in the underlying shares of share options of the Company

Name	Number of Options held	Exercise Period	Exercise price per share
Mr. Wong Pak Ming	328,000	24 December 2006 to 20 August 2011	HK\$0.938
	1,250,000	12 November 2007 to 20 August 2011	HK\$0.880
Ms. Wong Kit Fong	328,000	24 December 2006 to 20 August 2011	HK\$0.938
	1,250,000	12 November 2007 to 20 August 2011	HK\$0.880
Ms. Wong Yee Kwan, Alvina	328,000	24 December 2006 to 20 August 2011	HK\$0.938
	1,250,000	12 November 2007 to 20 August 2011	HK\$0.880
Mr. Ko Tin Chow	328,000	24 December 2006 to 20 August 2011	HK\$0.938
	2,500,000	12 November 2007 to 20 August 2011	HK\$0.880
Mr. Wan Ngar Yin, David	328,000	24 December 2006 to 20 August 2011	HK\$0.938
	1,000,000	12 November 2007 to 20 August 2011	HK\$0.880
Mr. Tang Kai Kui, Terence	328,000	24 December 2006 to 20 August 2011	HK\$0.938
	2,500,000	12 November 2007 to 20 August 2011	HK\$0.880

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company and their respective associates held any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or were required, pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date and as far as is known to the Directors and according to the register of interests in shares and short positions of substantial shareholders maintained by the Company under Section 336 of SFO, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to

be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or who were directly or indirectly, interested in 10% or more of the nominal value of any class of shares capital that carry a right to vote in all circumstances at general meetings of any other member of the Group:

Name	Number of Shares held	Capacity		Percentage of shareholdings (%)
		Beneficial owner	Family interest	
Mr. Zhang Xun	40,040,000	40,040,000	–	11.12%
Mr. Fang Shu An	25,000,000	13,000,000	12,000,000 (Note)	6.94%

Note: 12,000,000 Shares are held by Mr. Fan Shu An's spouse in which Mr. Fang is also deemed to be interested in under the SFO.

Save as disclosed above, the Directors are not aware of any other person as at the Latest Practicable Date who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or who were interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital that carry a right to vote in all circumstances at general meetings of any member of the Group.

5. SERVICE CONTRACTS

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

6. INTERESTS IN CONTRACT OR ARRANGEMENT

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

7. INTERESTS IN ASSETS

None of the Directors has or has had any direct or indirect interest in any assets which have been acquired or disposed of or leased to by any member of the Group or are proposed to be acquired or disposed of or leased to by any member of the Group since 31 December 2006 being the date to which the latest published audited accounts of the Group were made up.

8. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors, or the controlling Shareholder, and their respective associates had any interests in a business which competes or may compete with the business of the Group.

9. LITIGATION

As at the Latest Practicable Date, the Directors were aware that the following litigation or claims are pending or threatened against the Group:

In April 2006, 上海華芮文化傳播有限公司 (“Shanghai City Glory”), one of the investors of “Seven Swords”, initiated legal proceedings regarding a joint venture agreement against Mandarin Films Distribution Co., Ltd. (“Mandarin Film Distribution”), a wholly owned subsidiary of the Company in respect of claim for payment of investment proceeds amounting to approximately US\$732,036 (equivalent to HK\$5,680,233) arising from the filming of “Seven Swords”. Upon mediation from the officers of the Shanghai No. 2 Intermediate People’s Court (上海市第二中級人民法院), Shanghai City Glory and Mandarin Film Distribution entered into a settlement agreement on 2 August 2007, pursuant to which, Shanghai City Glory will withdraw its claim against Mandarin Film Distribution after Mandarin Film Distribution paying a sum of RMB3,777,001.89 into the court account by the end of August 2007, and both parties will continue to perform their obligations pursuant to the joint venture agreement and Shanghai City Glory retains its rights against Mandarin Film Distribution pursuant to agreement(s) that the parties entered into.

In July 2006, Award Media Profits Limited (“Award Media”), an indirect wholly owned subsidiary of the Company, initiated legal proceedings against City Glory Media Investments Limited (formerly known as Future Port Investments Limited) for loss and damages suffered due to the breach of a Chinese subscription and shareholders agreement dated 28th July 2004, entered into between Award Media, City Glory Media Investments Limited and a joint venture company regarding the formation of a joint venture for production and distribution of films, television series and concerts, provision of artist agency services, design and production of advertisement in the PRC. On 14 November 2006, Award Media obtained an interlocutory judgment for damage to be assessed against City Glory Media Investments Limited. As at the Latest Practicable Date, Award Media has not yet proceeded with the application for the assessment of damages.

10. EXPERT AND CONSENT

The qualification of the expert who have given opinion in this Prospectus are as follows:

Deloitte Touche Tohmatsu

Certified Public Accountants

As at the Latest Practicable Date, Deloitte Touche Tohmatsu has no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and has no direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up.

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its letter and the reference to its name in the form and context in which they appear.

11. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date and which are material to the Group:

1. contract notes entered into between Grimston Limited, a wholly owned subsidiary of the Company (“Grimston”), and securities brokerage firms for the disposal of 15,976,000 shares in Jade Dynasty Group Limited (“Jade Dynasty”) at an aggregate consideration of approximately HK\$10,699,440 during the period from 2 March 2006 to 8 September 2006;
2. contract notes entered into Grimston and securities brokerage firms for the disposal of 5,581,575 shares in Jade Dynasty at an aggregate consideration of approximately HK\$4,729,420 on 15 May 2007;
3. a subscription agreement dated 29 May 2007 entered into between the Company and Capeland Holdings Limited, a company wholly and beneficially owned by Mr. Wong Pak Ming, in respect of the subscription of 30,000,000 Shares at HK\$1.33 each; and
4. the Underwriting Agreement.

12. BINDING EFFECT

The Prospectus Documents and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance with the laws of Hong Kong. When an acceptance or application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance.

13. EXPENSES

The expenses in connection with the Open Offer, including the underwriting commission, printing, registration, translation, financial, legal and accounting fees, are estimated to be approximately HK\$2.5 million and will be payable by the Company.

14. CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Head office and principal place of business	Room 1801-2 Westlands Centre 20 Westlands Road Quarry Bay Hong Kong

Company secretary	Mr. Lo Hang Fong <i>L.L.B. (Bristol)</i>
Qualified Accountant	Mr. Kwok Chi Keung, Andy <i>Certified Public Accountant, fellow member of The Association of Chartered Certified Accountants.</i>
Authorized representatives	Mr. Wong Pak Ming Ms. Wong Kit Fong
Auditors	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 35/F One Pacific Place 88 Queensway Hong Kong
Principal share registrar and transfer office	Butterfield Corporate Services Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
Branch share registrar in Hong Kong	Tricor Standard Limited 26th Floor, Tesbury Centre 28 Queen's Road East Hong Kong
Principal banker	Bank of China (Hong Kong) Ltd. Wing Lung Bank Ltd. The Hongkong and Shanghai Banking Corporation Limited
Legal advisers to the Company	<i>As to Hong Kong law:</i> Stevenson, Wong & Co. 4/F & 5/F, Central Tower No. 28 Queen's Road Central, Hong Kong David Lo & Partners Suite 2502, 9 Queen's Road Central, Central, Hong Kong. <i>As to Bermuda law:</i> Conyers Dill & Pearman 2901, One Exchange Square 8 Connaught Place, Central Hong Kong

Executive Directors and Senior Management

Mr. WONG Pak Ming, aged 61, 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 24 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 59, 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.

Mr. KO Tin Chow, aged 57, is the senior manager responsible for supervising the film processing business of the Group. Mr. Ko has over 34 years of experience in the film processing industry. Prior to joining the Group in 1995, he was the general manager of Hong Kong Color Moviellab Limited, a film processing company in Hong Kong. He is the chairman of the Hong Kong & Kowloon Film Laboratory Merchants' Association Limited.

Ms. WONG Yee Kwan, Alvina, aged 31, is a daughter of Mr. Wong Pak Ming, was appointed as an 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 an executive director of the Company, she has been appointed as 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 46, was re-designated as an 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 36, was appointed as an 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 11 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, for over one and a half years. He is now the Managing Director of Corporate Finance of CCB International Capital Limited in Hong Kong.

Mr. TANG Kai Kui, Terence, aged 48, is a member of the Royal Institute of British Architects. Mr. Tang is a director of an interior design and engineering company.

Other Senior Management

Mr. KWOK Chi Keung, Andy, aged 39, is the qualified accountant of the Company and was appointed as the chief financial officer of the Group on 30th September, 2004. Mr. Kwok has over 14 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 58, 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 36 years of experience in the film processing industry.

Mr. FUNG Hon Wah, aged 55, 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 32 years of experience in the film processing industry.

Mr. LAU Siu Sun, aged 59, 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 32 years of experience in the film processing industry.

Mr. WONG Tung Ming, aged 60, 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 36 years of experience in the film processing industry.

Ms. HO Yuen Man, Janice, aged 39, 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.)".

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company at Room 1801-2, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong during normal business hours up to and including 10 September 2007:

1. the memorandum of association and the bye-laws of the Company;
2. the annual reports of the Company for the three years ended 31 December 2006;
3. the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

4. the written consent referred to in the paragraph headed “Expert and Consent” in this Appendix;
5. the report from Deloitte Touche Tohmatsu dated 24 August 2007 on the unaudited pro forma statement of adjusted net tangible assets of the Group, the text of which is reproduced on pages 59 to 60 of this Prospectus; and
6. the circular of the Company dated 8 June 2007.