THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in Mandarin Entertainment (Holdings) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED

東 方 娛 樂 控 股 有 限 公 司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00009)

PROPOSED OPEN OFFER ON THE BASIS OF NINETEEN OFFER SHARES FOR EVERY TEN SHARES HELD ON RECORD DATE AND RE-ELECTION OF DIRECTORS

UNDERWRITER

ORIENT Orient Securities Limited 東方滙財證券有限公司 (Member of The Stock Exchange of Hong Kong Ltd., Broker No. 3600)

ORIENT SECURITIES LIMITED

FINANCIAL ADVISER

VINCO 域高

GRAND VINCO CAPITAL LIMITED

A wholly owned subsidiary of Vinco Financial Group Limited

INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE OF MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED

VEDA | CAPITAL 智略資本

A letter from the Board is set out on pages 9 to 23 of this circular. A letter of advice from Veda Capital, to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 40 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 24 of this circular.

A notice convening the SGM to be held at Rooms 1801-2, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong at 2:00 p.m. on Monday, 11 August 2008 is set out on pages i to iii of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrars of the Company in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire.

It should be noted that if prior to 4:00 p.m. on the Latest Date 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 adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material 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 says, excluding any suspension in connection with the clearance of this circular, 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.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

If the Underwriter terminates the Underwriting Agreement, the Open Offer will not proceed. The obligations of all parties under the Underwriting Agreement shall cease and determine and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

* *For identification purposes only*

25 July 2008

CONTENTS

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

"Application Form(s)"	the application form(s) for use by the Qualifying Shareholder(s) to apply for the Open Offer
"associates"	has the same meaning ascribed to it in the Listing Rules
"Acquisition"	the acquisition of the entire interest in a property in Chengdu, Sichuan Province, the PRC by the Group pursuant to the conditional sale and purchase agreement dated 25 January 2008 and a supplemental agreement dated 5 February 2008 entered into between the Group and Mr. Cheng and Ms. Lam Suet Chung
"Announcement"	the announcement of the Company dated 4 July 2008 in relation to the Open Offer
"Board"	board of Directors
"business day"	any day (other than a Saturday or Sunday or public holidays) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"Bye-Laws"	the bye-laws of the Company
"Capeland"	Capeland Holdings Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is wholly and beneficially owned by Mr. Wong.
"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
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Conversion Shares"	Shares to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds

"Convertible Bonds"	with an outstanding principal amount of HK$70,000,000 conferring rights to subscribe a total of 175,000,000 Shares on the basis of an exercise price of HK$0.4 per Share (subject to adjustment)
"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
"Idea Storm"	Idea Storm Holdings Limited, a company incorporated in British Virgin Islands, the entire issued share capital of which is wholly and beneficially owned by Mr. Wong
"Independent Board Committee"	the independent board committee of the Company comprising three independent non-executive Directors, namely Mr. Choy Sze Chung, Jojo, Mr. Tsui Pui Hung, Mr. Chan Tung Tak, Alain, established to give recommendation to the Independent Shareholders regarding the Open Offer
"Independent Shareholders"	the independent Shareholders (Shareholders other than the controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates and those who are interested or involved in the Open Offer otherwise than being the Shareholders)
"Independent Third Party"	an independent third party, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, who is not connected with the Company and its connected persons (as defined under the Listing Rules)
"Latest Lodging Date"	being 4:00 p.m. on 4 August 2008 as the latest time for lodging transfer of Share and/or exercising Share Options or Convertible Bonds in order to qualify for the Open Offer
"Latest Practicable Date"	22 July 2008 being the latest practicable date prior to the printing of this circular for ascertaining information for inclusion in this circular

"Last Trading Day"	2 July 2008, being the last trading day before the date of the Announcement
"Latest Time for Acceptance"	4:00 p.m. on 29 August 2008 or such later time or date as may be agreed by the Company (or such other date as the Underwriter may agree in writing with the Company), being the latest time for acceptance of, and payment for, the Offer Shares
"Latest Time for Termination"	4:00 p.m. on the third business day after the Latest Time for Acceptance, being the latest time to terminate the Underwriting Agreement
"Listing Rules"	Rules Governing the Listing of Securities on Stock Exchange
"Mr. Chan"	Mr. Chan Tung Tak, Alain, an independent non-executive Director
"Mr. Cheng"	Mr. Cheng Keung Fai, one of the vendors in connection to the Acquisition and he has become a substantial Shareholder through his beneficial interest in 175,000,000 Shares and the Convertible Bonds, being part of the consideration for the Acquisition which was completed on 18 April 2008.
"Mr. E. Wong"	Mr. Wong Chi Woon, Edmond, an executive Director
"Mr. Wong"	Mr. Wong Pak Ming, the chairman of the Board and an executive Director, interested in 231,304,000 Shares representing approximately 30.80% of the entire issued share capital of the Company as at the Latest Practicable Date.
"Odd Lot Agent"	Orient Securities Limited, the Underwriter
"Offer Share(s)"	not less than 1,426,900,000 new Shares and not more than 1,569,400,000 new Shares proposed to be offered to the Qualifying Shareholders for subscription on the basis of nineteen Offer Shares for every ten 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 to be set out in the Prospectus Documents and summarized herein
"Overseas Shareholders"	the Shareholders with registered addresses on the register of members of the Company which are outside Hong Kong on the Record Date

"Prohibited Shareholder(s)"	those Overseas Shareholder(s) to whom the Board, after making enquires, consider 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"	the prospectus to be issued by the Company in relation to the Open Offer
"Prospectus Documents"	the Prospectus and the Application Form
"Prospectus Posting Date"	the date of posting the Prospectus Documents to Qualifying Shareholders and the Prospectus to Prohibited Shareholders for their information only
"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"	11 August 2008, being the date by reference to which entitlements to the Open Offer will be determined
"SFC"	the Securities and Futures Commission in Hong Kong
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SGM"	the special general meeting of the Company to be convened to consider and, if thought fit, the Open Offer and the re-election of Directors
"Share(s)"	shares of HK$0.1 each in the share capital of the Company
"Share Options"	options to subscribe for Shares granted by the Board pursuant to 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$0.1 per Offer Share
"Underwriter"	Orient Securities Limited, a licensed corporation to carry on business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO, an Independent Third Party

"Underwriting Agreement"	the underwriting agreement dated 2 July 2008 entered into between the Company, Mr. Wong and the Underwriter in relation to the Open Offer
"Underwritten Shares"	not less than 987,422,400 Offer Shares and not more than 1,129,922,400 (if the conversion of the HK$30,000,000 Convertible Bonds in full are completed before the Record Date) Offer Shares, being all Offer Shares less such number of Offer Shares agreed to be taken up or procured to be taken up by Mr. Wong
"Veda Capital"	Veda Capital Limited, a licensed corporation to carry on business in type 6 (advising on corporate finance) regulated activities under the SFO, an independent financial adviser to the Independent Board Committee
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

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

Basis of the Open Offer:	Nineteen Offer Shares for every ten Shares held on the Record Date
Subscription Price:	HK$0.1 per Offer Share payable in full upon acceptance
Number of Shares in issue as at the Latest Practicable Date:	751,000,000 Shares
Number of Offer Shares:	The 1,426,900,000 Offer Shares represents 190% and approximately 65.52% of the existing issued share capital of the Company and the then issued share capital of the Company as enlarged by the Open Offer respectively, and the 1,569,400,000 Offer Shares represents approximately 208.97% and approximately 65.52% of the existing issued share capital of the Company and the then issued share capital of the Company as enlarged by the Open Offer respectively.
Amount to be raised by the Open Offer:	Not less than approximately HK$142.69 million and not more than approximately HK$156.94 million
Basis of entitlement:	Offer Shares will be allotted in the proportion of nineteen Offer Shares for every ten Shares held by the Qualifying Shareholders on the Record Date. No Offer Shares will be offered to the Prohibited Shareholders (if any)
Right of excess application:	The Qualifying Shareholders will not have the right to apply for excess Offer Shares

EXPECTED TIMETABLE

The expected timetable for the Open Offer set out below is for indicative purposes only and has been prepared on the assumption that all the conditions of the Open Offer will be fulfilled. The expected timetable is subject to change, and any changes will be announced in a separate announcement by the Company as and when appropriate.

	2008
Last day of dealings in the Shares on a cum-entitlement basis	Thursday, 31 July
Commencement of dealings in the Shares on an ex-entitlement basis	Friday, 1 August
Latest time for lodging transfers of Shares in order to qualify for the Open Offer	4:00 p.m. on Monday, 4 August
Register of members closes (both dates inclusive)	Tuesday 5 August to Monday, 11 August
SGM to be held	2:00 p.m. on Monday, 11 August
Announcement of the results of the SGM	Monday, 11 August
Record Date	Monday, 11 August
Register of members reopens	Tuesday, 12 August
Despatch of Prospectus Documents	Friday, 15 August
Latest time for the payment for and acceptance of the Offer Shares	4:00 p.m. on Friday, 29 August
Latest time for the Open Offer to become unconditional	4:00 p.m. on Wednesday, 3 September
Announcement of the results of the Open Offer	Wednesday, 3 September
Despatch of certificates for the Offer Shares	Friday, 5 September
Posting of refund cheques in case the Open Offer does not become unconditional	Friday, 5 September
Dealing in fully-paid Offer Shares commences on	Tuesday, 9 September

All times stated above refer to Hong Kong times. Dates stated 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.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR OFFER SHARES

The Latest Time for Acceptance and payment for Offer Shares will not take place if there is:

1. a tropical cyclone warning signal number 8 or above, or

2. a "black" rainstorm warning

   (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on 29 August 2008. Instead the latest time of acceptance of and payment for the Open Offer will be extended to 5:00 p.m. on the same business say; and

   (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 29 August 2008. Instead the latest time of acceptance of any payment for the Open Offer will be rescheduled to 4:00 p.m. on the following business say 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 and payment for the Open Offer does not take place on 29 August 2008, the dates mentioned in the section headed "Expected timetable" in this circular may be affected. An announcement will be made by the Company in such event.

MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED
東方娛樂控股有限公司*
(incorporated in Bermuda with limited liability)
(Stock Code: 00009)

Executive Directors:
Mr. Wong Pak Ming *(Chairman)*
Ms. Wong Yee Kwan, Alvina
Ms. Law Kee, Alice
Mr. Wong Chi Woon, Edmond

Independent non-executive Directors:
Mr. Choy Sze Chung, Jojo
Mr. Tsui Pui Hung
Mr. Chan Tung Tak, Alain

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business in Hong Kong:
Suite 1511
No.9 Queen's Road Central
Hong Kong

25 July 2008

To the Shareholders and, for information only, holders of the Share Options and the Convertible Bonds

Dear Sir or Madam,

PROPOSED OPEN OFFER ON THE BASIS OF NINETEEN OFFER SHARES FOR EVERY TEN SHARES HELD ON RECORD DATE AND RE-ELECTION OF DIRECTORS

INTRODUCTION

On 4 July 2008, the Company proposed to raise not less than approximately HK$142.69 million but not more than approximately HK$156.94 million, before expenses, by an open offer of not less than 1,426,900,000 Offer Shares and not more than 1,569,400,000 Offer Shares at a subscription price of HK$0.1 per Offer Share, payable in full on application, on the basis of nineteen Offer Shares for every ten Shares held on Record Date.

The purpose of this circular is to provide you with, among other things, further details of (i) the Open Offer; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders on the Open Offer, (iii) the advice from Veda Capital to the Independent Board Committee and the Independent Shareholders on the Open Offer; (iv) re-election of Mr. E. Wong as the executive Director and Mr. Chan as the independent non-executive Director; (v) financial information of the Group; and (vi) the notice of the SGM.

* *For identification purposes only*

PROPOSED OPEN OFFER

Issue Statistics

Basis of the Open Offer:	Nineteen Offer Shares for every ten Shares held on the Record Date
Number of existing Shares in issue:	751,000,000 Shares as at the Latest Practicable Date
Underwriter:	Orient Securities Limited
Number of Offer Shares:	Not less than 1,426,900,000 Offer Shares and not more than 1,569,400,000 Offer Shares
Subscription Price:	HK$0.1 per Offer Share

The 1,426,900,000 Offer Shares represents 190% and approximately 65.52% of the existing issued share capital of the Company and the then issued share capital of the Company as enlarged by the Open Offer respectively, and the 1,569,400,000 Offer Shares represents approximately 208.97% and approximately 65.52% of the existing issued share capital of the Company and the then issued share capital of the Company as enlarged by the Open Offer respectively.

As at the Latest Practicable Date, the Company has 8,526,240 outstanding Share Options and 175,000,000 outstanding Conversion Shares which in aggregate entitling holders thereof to subscribe for 183,526,240 Shares. Save as disclosed above, the Company does not have any other outstanding warrants or securities in issue which are convertible or exchangeable into Shares.

Holders of 8,526,240 Share Options have irrevocably undertaken to the Company, the Underwriter and Mr. Wong on 2 July 2008 that they will not exercise any of the Share Options before the Latest Lodging Date.

As at the Latest Practicable Date, the Company has HK$70,000,000 outstanding Convertible Bonds entitling to conversion of 175,000,000 Shares. However, the holder of the Convertible Bonds has deposited HK$40,000,000 of Convertible Bonds to the Company and agreed that he shall not be entitled to convert whole or any part of the HK$40,000,000 Convertible Bonds until the final judgment of the relevant litigations, in relation to the property in Chengdu, Sichuan Province, the PRC acquired by the Company earlier this year, have been made by the relevant court in the PRC or 30 days before the maturity date of the Convertible Bonds (whichever is earlier). Under such arrangement, the holder of the Convertible Bonds is only entitled to convert the HK$30,000,000 Convertible Bonds for 75,000,000 Conversion Shares as at the Latest Practicable Date. If all outstanding HK$30,000,000 Convertible Bonds are converted in full prior to the Record Date, the maximum number of Shares being entitled to the Open Offer will be increased to 826,000,000 Shares.

Subscription Price

The Subscription Price of HK$0.1 per Offer Share will be payable in full upon application for the Offer Shares. The Subscription Price represents:

1. a discount of approximately 77.53% to the closing price of HK$0.445 per Share as quoted on the Stock Exchange on 2 July 2008, being the last trading day of the Shares on the Stock Exchange prior to the suspension of the trading in the Shares;

2. a discount of approximately 78.72% to the average of the closing prices of HK$0.470 per Share as quoted on the Stock Exchange for the five trading days up to and including 2 July 2008;

3. a discount of approximately 78.95% to the average of the closing prices of HK$0.475 per Share as quoted on the Stock Exchange for the 10 trading days up to and including 2 July 2008;

4. a discount of approximately 54.33% to the theoretical ex-rights price of HK$0.219 based on the closing price of HK$0.445 per Share as quoted on the Stock Exchange on 2 July 2008; and

5. a discount of approximately 65.52% to the closing price of HK$0.29 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to (i) the market price of the Shares under the prevailing market conditions; and (ii) the pricing terms of recent open offer transactions conducted by other listed companies in Hong Kong. The Directors consider that the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As (i) the Subscription Price was determined after arm's length negotiation between the Company and the Underwriter; (ii) the Qualifying Shareholders are offered a chance to subscribe for the Offer Shares at a relatively low price and to maintain their respective pro-rata shareholdings in the Company; and (iii) the Open Offer is subject to approval of the Independent Shareholders, the Directors consider the terms of the Open Offer to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders only. To qualify for the Open Offer, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date, and not be a Prohibited Shareholder.

In order to be registered as members on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with the Company's share registrars and transfer office in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Monday, 4 August 2008.

Closure of register of members

The register of members of the Company will be closed from 5 August 2008 to 11 August 2008, both dates inclusive, to determine the eligibility of the Shareholders to the Open Offer. No transfer of Shares will be registered during this period.

Rights of Prohibited Shareholders

The Prospectus Documents will not be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong and Bermuda. To determine the identities of the Prohibited Shareholders and in compliance with the relevant Listing Rules, the Company will make necessary enquiries regarding the legal restrictions, if any, under the laws of the relevant jurisdictions and will only exclude the Prohibited Shareholders for the Open Offer if it would be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place after making relevant enquiries.

The Company will issue an announcement in connection to the results of enquiries regarding the legal restrictions before the Latest Lodging Date based on best available information and send the Prospectus to Prohibited Shareholders for their information only but the Company will not send any Application Forms to the Prohibited Shareholders. As at the Latest Practicable Date, there are two overseas Shareholders both have registered addresses in the British Virgin Islands.

Fractions of Offer Shares

Fractional entitlements of the Offer Shares will not be issued.

No application for excess Offer Shares

The Directors hold the view that the Open Offer allows the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and to participate in the future growth and development of the Group. The Directors consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole not to offer any excess application to the Shareholders.

After arm's length negotiation with the Underwriter, and taking into account that the related administration costs would be lowered in the absence of excess applications, the Company decided that the Qualifying Shareholders are not entitled to apply for any Offer Shares which are in excess of their assured entitlements. Any Offer Shares not taken up by the Qualifying Shareholders and the Offer Shares to which the Prohibited Shareholder(s) would otherwise have been entitled under the Open Offer will be taken up by the Underwriter.

Status of the Offer Shares

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

Share Certificates for Offer Shares

Subject to the fulfillment of the conditions of the Open Offer as set out in the section headed "Conditions of the Open Offer" below, certificates for all fully-paid Offer Shares are expected to be posted on or before 5 September, 2008 to those Qualifying Shareholders who have accepted and (where applicable) applied for, and paid for the Offer Shares at their own risks.

Odd lot arrangement

In view of the odd lots resulting from the Open Offer, the Company has procured the Odd Lot Agent to arrange for the purchase or disposal of such odd lot Offer Shares from or to Shareholders who hold such odd lot Offer Shares during the period from 9 September 2008 to 23 September 2008 at the prevailing market prices. Shareholders who hold such odd lot Offer Shares may instruct their stockbrokers to contact Mr. Tam Wai Cheong of the Odd Lot Agent at telephone number 2123 2206 for the purchase for or disposal of their odd lot holdings thereof.

No fee will be payable by the Company to Odd Lot Agent for this odd lot arrangement. Shareholders should note that successful matching of sale and purchase of odd lots Offer Shares is not guaranteed and will depend on the adequacy of the amount of odd lot Offer Shares available in market for such matching. Shareholders holding odd lots resulting from the Open Offer are advised to consult their professional advisers in relation to the underlying odd lot arrangement.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. The Offer Shares are expected to continue to be traded in existing board lot of 4,000 Shares. Dealings in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty in Hong Kong, Stock Exchange trading fees, SFC transaction levy and other applicable fees and charges in Hong Kong.

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 date of dealings in the Offer Shares on the Stock Exchange 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.

UNDERWRITING ARRANGEMENTS

Underwriting Agreement

Date:	2 July 2008
Underwriter:	Orient Securities Limited
Number of Offer Shares:	Not less than 1,426,900,000 Offer Shares and not more than 1,569,400,000 Offer Shares
Number of Underwritten Shares:	Not less than 987,422,400 Offer Shares and not more than 1,129,922,400 Offer Shares
Subscription Price:	HK$0.1 per Offer Share
Commission:	an underwriting commission of 2.5%

To the best of Directors' knowledge, information and belief having made all reasonable enquiries, each of the Underwriter and its ultimate beneficial owner(s) does not have any shareholding in the Company and is an Independent Third Party and not party acting in concert with any of the Directors, chief executive and other Shareholders or its subsidiaries or any of their respective associates.

The Underwriter undertakes to the Company that, without prejudice in any event to the Underwriter's obligations to procure subscription for the Underwritten Shares not taken up, it will use its reasonable endeavours to procure that the subscribers for any Underwritten Shares are independent of and not connected or acting in concert with the Directors, chief executive or substantial Shareholders or any of its subsidiaries or any of their respective associates.

The Directors consider that the underwriting commission is fair and reasonable and is comparable to the current market rate.

As at the Latest Practicable Date, the Company has 8,526,240 outstanding Share Options and 175,000,000 outstanding Conversion Shares which in aggregate entitling holders thereof to subscribe for 183,526,240 Shares. The Share Options entitle the holders thereof to subscribe for Shares at two exercise prices of HK$0.841 per Share and HK$0.789 per Share (all subject to adjustment). Save as disclosed above, the Company does not have any other outstanding warrants or securities in issue which are convertible or exchangeable into Shares.

Undertakings

(A) As at the Latest Practicable Date, Mr. Wong was deemed interested in 231,304,000 Shares and 1,761,048 Share Options conferring rights to subscribe for 1,761,048 Shares. As at the date of the Underwriting Agreement, Idea Storm and Capeland are the legal and beneficial owners of 155,000,000 Shares and 73,300,000 Shares respectively. The entire issued share capital of Idea Storm and Capeland are wholly and beneficially owned by Mr. Wong. Mr. Wong and his spouse are also the beneficial owners of 3,004,000 Shares. On the terms and subject to the conditions of the Underwriting Agreement, on 2 July 2008, Mr. Wong has given an irrevocable undertaking in favour of the Company and the Underwriter to subscribe for or procure subscriptions for 439,477,600 Offer Shares to which Idea Storm, Capeland, Mr. Wong himself and his spouse are entitled under the Open Offer. Mr. Wong further gives an irrevocable undertaking in favour of the Company, the Underwriter not to and will procure not to exercise on or before the Latest Lodging Date the subscription rights attaching to the Share Options held by him and his associates.

(B) On 2 July 2008, holders of 8,526,240 Share Options have irrevocably undertaken to the Company, the Underwriter and Mr. Wong that they will not exercise any of the Share Options before the Latest Lodging Date.

Subject to and upon the terms and conditions of the Underwriting Agreement, the Underwriter have agreed to underwrite up to not less than 987,422,400 Offer Shares and not more than 1,129,922,400 Offer Shares.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination (provided that if the date of the Latest Time for Termination shall be a business day on which a storm warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next business day on which no storm warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day):

(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.

CONDITIONS OF THE OPEN OFFER

The Open Offer is conditional, inter alia, upon:

(a) the passing by the Independent Shareholders at the SGM of an ordinary resolution to approve the Open Offer;

(b) 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;

(c) the delivery to the Stock Exchange and 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) not later than the Prospectus Posting Date and otherwise in compliance with the Listing Rules and the Companies Ordinance;

(d) the posting of the Prospectus Documents to Qualifying Shareholders on the Prospectus Posting Date;

(e) 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;

(f) if necessary, the Bermuda Monetary Authority granting consent to the issue of the Offer Shares; and

(g) compliance with and performance of all the undertakings and obligations of the substantial Shareholders under the Underwriting Agreement.

The Company shall use all reasonable endeavours to procure the fulfillment of all the conditions precedent by the Latest Time for Termination or such other date as the Company and the Underwriter may agree and in particular shall furnish such information, supply such documents, pay such fees, give such undertakings and do all such acts and things as may be necessary in connection with the listing of the Offer Shares or to give effect to the Open Offer and the arrangements contemplated in the Underwriting Agreement. As at the Latest Practicable Date, none of the above conditions have been satisfied.

WARNING OF RISKS OF DEALING IN SHARES

If the Underwriter terminates the Underwriting Agreement or the conditions of the Open Offer are not fulfilled, the Open Offer will not proceed. **Accordingly, the Open Offer may or may not proceed and the Shareholders and potential investors are advised to exercise caution when dealing in the Shares and consult their professional advisers if they are in any doubt about their positions.**

Shareholders should note that the Shares will be dealt with on an ex-entitlement basis commencing from Friday, 1 August 2008 and that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on or before 4:00 p.m. on Wednesday, 3 September 2008), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE OPEN OFFER

	As at the Latest Practicable Date		Immediately following completion of the Open Offer on the assumption as set out in Note 1		Immediately following completion of the Open Offer on the assumption as set out in Note 2		Immediately following completion of the Open Offer on the assumption as set out in Note 3		Immediately following completion of the Open Offer on the assumption as set out in Note 4	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Mr.Wong *(Note 5)*	231,304,000	30.80	670,781,600	30.80	670,781,600	30.80	670,781,600	30.12	670,781,600	28.00
Cheng Keung Fai ("Mr.Cheng") *(Note 6)*	175,000,000	23.30	507,500,000	23.30	175,000,000	8.04	556,800,000	25.00	175,000,000	7.31
Underwriter	–	–	–	–	987,422,400	45.34	–	–	1,129,922,400	47.17
Public Shareholders	344,696,000	45.90	999,618,400	45.90	344,696,000	15.83	999,618,400	44.88	419,696,000	17.52
Total	751,000,000	100.00	2,177,900,000	100.00	2,177,900,000	100.00	2,227,200,000	100.00	2,395,400,000	100.00

Notes:

1. Assuming all Shareholders take up their respective entitlements to the Offer Shares under the Open Offer.

2. Assuming none of the Shareholders (save for the Mr. Wong and his spouse, Idea Storm and Capeland who have undertaken to subscribe for, or procure the subscription of its pro-rata entitlement to Offer Shares in full under the Open Offer) take up their respective entitlements to the Offer Shares under the Open Offer and, accordingly, the Underwriter will take up the Underwritten Shares in full pursuant to the terms of the Underwriting Agreement.

3. Assuming Mr. Cheng exercises part of the Convertible Bonds for 17,000,000 conversion Shares and increases his shareholding up to 25% (pursuant to the conditional sale and purchase agreement dated 25 January 2008 and a supplemental agreement dated 5 February 2008 entered into between the Group and Mr. Cheng in relation to an acquisition of property interest in Chengdu, Sichuan Province, the PRC by the Group (the "Acquisition")) Mr. Cheng has provided an undertaking to the Company that he will not hold more than 25.00% in the share capital of the Company at any time and the Company has also undertaken that it will not issue Conversion Shares to Mr. Cheng if upon conversion Mr. Cheng will hold more than 25% of the entire share capital of the Company in effect) and all Shareholders take up their respective entitlements to the Offer Shares under the Open Offer. As a result, 17,000,000 Conversion Shares and 1,459,200,000 Offer Shares are assumed to be issued in this case.

4. For illustration purpose only, assuming that Mr. Cheng disposes of his HK$30,000,000 Convertible Bonds to Independent Third Party and such Convertible Bonds are fully converted into 75,000,000 Conversion Shares and none of the Shareholders (save for the Mr. Wong and his spouse, Idea Storm and Capeland who have undertaken to subscribe for, or procure the subscription of its pro-rata entitlement to Offer Shares in full under the Open Offer) take up their respective entitlements to the Offer Shares under the Open Offer.

5. Mr. Wong is beneficially interested in 3,004,000 Shares. Mr. Wong is also the sole beneficial owners of the entire issue share capital of Idea Storm which holds 155,000,000 Shares and Capeland which holds 73,300,000 Shares. Accordingly Mr. Wong is deemed to be interested in 231,304,000 Shares. Ms. Zee Ven Chu Lydia, being the spouse of Mr. Wong, is also deemed to be interested in 231,304,000 Shares. Mr. Wong has undertaken to the Company, the Underwriter and Mr. Wong not to exercise the 1,761,048 Share Options held by him up to the Latest Lodging Date.

6. Mr. Cheng was one of the vendors in connection to the Acquisition and he has become a substantial Shareholder through his beneficial interest in 175,000,000 Shares and the Convertible Bonds, being part of the consideration of the Acquisition on 18 April 2008.

Mr. Wong, being the controlling Shareholder, has given an undertaking to use his best endeavours to ensure that at least 25% of the issued share capital of the Company from time to time will remain in public hands. He further undertakes that should less than 25% of the issued share capital of the Company be held in public hands at any time during the Open Offer period, he shall take all appropriate steps to restore the minimum 25% public float before the close of the Open Offer. The Stock Exchange has indicated that the listing approval of the Offer Shares would not be granted if the public float for the Shares is not met upon completion of the Open Offer.

FUNDS RAISED DURING THE PAST 12 MONTHS

During the past 12 months immediately preceding the Latest Practicable Date, the Company has conducted the following fund raising activities:

1. The open offer of 180,000,000 offer shares at a HK$0.5 per Share on the basis of two shares for every one existing Share as stated in the announcement of the Company dated 19 July 2007. The net proceeds of approximately HK$85 million were intended to be used as general working capital of the Group.

2. The placing of 36,000,000 Shares at an issue price of HK$0.57 per Share as stated in the announcement of the Company dated 17 September 2007. The net proceeds of approximately HK$19.9 million were intended to be used for general working capital of the Group.

The Company has fully utilized the total net proceeds of approximately HK$104.9 million as to (i) approximately HK$70 million be used in the payment of part of the consideration for the Acquisition; (ii) approximately HK$20 million be used in investing in listed securities in Hong Kong in accordance with its treasury policy; and (iii) the remaining balance of approximately HK$14.9 million be used as general working capital of the Group.

As confirmed by the Directors, the Company started to have its investment and fund and treasury management policy in securities and properties as well as money lending business from the last quarter of 2007. The Directors are of the view that the utilization of approximately HK$20 million in investing in listed securities in Hong Kong was treasury activity in accordance the treasury policy of the Company, therefore the Directors also consider that there has not been a change in the use of proceeds which warrant the publication of an announcement.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The Group is principally engaged in the film distribution and licensing, film processing and advertising and promotional services. The Group has recorded a consolidated loss of approximately HK$40 million for the year ended 31 December 2007. In early 2008, the Group also expanded it business exposure in the property market in Chengdu, Sichuan Province, the PRC. 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 net proceeds of the Open Offer (after deduction of commission and expenses of approximately HK$4 million) are expected to amount to not less than approximately HK$138.69 million and not more than approximately HK$152.94 million (i) will be used as to not more than approximately HK$138 million for the repayment of the outstanding debts of the Group, including but not limited to the potential legal exposure (subject to the final judgment) arising from the Acquisition; and (ii) the remaining amount of the net proceeds will be used as the general working capital and/or for potential future investment of the Group. The Acquisition was completed on 18 April 2008 and there has been no material change in the status of litigation since the date of the circular of the Acquisition. As at the Latest Practicable Date, the Directors have not identified any suitable investment opportunity for the Group.

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. In addition, the Group also engaged in the investments in the properties market in the PRC.

For the year ended 31 December 2007, the Group recorded a revenue of HK$76.7 million (2006: HK$77.2 million). Film distribution and licensing, film processing and advertising and promotional services contributed to 63.9%, 25.9% and 10.2% respectively of the Group's revenue. There was no significant change in revenue compared with the prior year after the execution of the CEPA (Closer Economic Partnership Arrangement) Model by the Group.

The Group reported a loss of HK$40 million for the year ended 31 December 2007 compared to a profit of HK$1.7 million for the year ended 31 December 2006. Loss per Share was 8.86 HK cents in 2007 (calculated based on the 576,000,000 Shares in issue in 2007) compared with earnings per Share of 0.44 HK cents in 2006.

The Group have begun shooting an action film this year, titled "*Yip Man*" (KungFu master of *Bruce Lee*) and themed on "*Wing Chun Kuen*". Directed by *Wilson Yip*, with *Sammo Hung* providing guides for martial arts and *Donnie Yen* acting as *Yip Man*.

We will also produce comedy films, which is one of our established strengths. We are going to shoot a New Year comedy film called "*All's Well End's Well 2009*". "*All's Well End's Well*" set a box office record in 1992 and "*All's Well End's Well 97*" topped as one of the box performances in that year. "*All's Well End's Well 2009*" will surely be an impressive hit.

In order to avoid over relying on traditional film production business of which the market situation is relatively versatile, the Company started to have its investment and fund and treasury management policy in securities and properties as well as money lending business from the last quarter of 2007. We hope that such diversification policy will bring the Group more stable income resources.

In the coming year, the Group will continue with its strategy of developing in its core activities as well as venturing into new opportunities, such as the investment in securities in Hong Kong and investment in properties in the PRC, for potential substantial growth and diversifying its business. In the long run, the Group will be benefited from establishing new income sources and maintaining a strong cash position.

ADJUSTMENTS IN RELATION TO THE SHARE OPTION SCHEMES AND THE CONVERTIBLE BONDS

Pursuant to the terms of the share option scheme and the instrument constituting the Convertible Bonds, the exercise prices and conversion price of the respective Share Options and Convertible Bonds will be adjusted in accordance with the Share Option, the deed poll of the Convertible Bonds upon the Open Offer becoming unconditional. Such adjustments will be verified by an independent accountant of the Company and the Company will notify the holders of the Share Options, the holders of the Convertible Bonds the respective adjustments upon the Open Offer becoming unconditional. The Company will issue a further announcement to notify the holders of the Share Options and Convertible Bonds the required adjustment(s) as soon as practicable and details of adjustments will be provided in such announcement.

LISTING RULES IMPLICATIONS

The Open Offer will increase the issued share capital of the Company by more than 50% within the 12 months period immediately preceding the Latest Practicable Date, the Open Offer is subject to approval by the Independent Shareholders at the SGM by poll in accordance with the requirements of Rule 7.24(5) of the Listing Rules. As such, the controlling Shareholder and his associates, namely Mr. Wong, Capeland and Idea Storm, companies wholly and beneficially owned by Mr. Wong, who are beneficially interested in 231,304,000 Shares, representing approximately 30.80% of the existing share capital of the Company as at the Latest Practicable Date, shall abstain from voting at the SGM in respect of the resolution to approve the Open Offer.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been formed to give recommendation to the Independent Shareholders in respect of the Open Offer. Your attention is drawn to the recommendation of the Independent Board Committee set out in its letter on page 24 of this circular.

INDEPENDENT FINANCIAL ADVISER

Veda Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer. Your attention is drawn to its letter to the Independent Board Committee and the Independent Shareholders set out on pages 25 to 40 of this circular.

RE-ELECTION OF DIRECTORS

Reference is made to the announcement of the Company dated 3 June 2008 in relation to, among other things, the appointment of Mr. E. Wong as the executive Director and Mr. Chan as the independent non-executive Director.

In accordance with the Bye-Laws, any Director appointed by the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that general meeting. Mr. E. Wong whose appointment as the executive Director took effect on 3 June 2008 and Mr. Chan Tung Tak, Alain whose appointment as the independent non-executive Director took effect on 3 June 2008, shall retire at the SGM and being eligible, offer themselves for re-election. Resolutions for re-electing Mr. E. Wong as the executive Director and Mr. Chan as the independent non-executive Director will be proposed at the SGM. Disclosure required under the Listing Rules pursuant to such re-election is included in the paragraph headed "Details of the Directors to be re-elected" in the appendix III to this circular.

PROCEDURE TO DEMAND A POLL AT GENERAL MEETING

For your further information as required by the Listing Rules, set forth below are the procedures for demanding a poll at general meeting of the Company. Pursuant to bye-law 66 of the Bye-Laws, every resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded:

(a) by the chairman of such meeting; or

(b) by at least three members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

(c) by a member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A poll which is duly demanded shall be then held in such manner prescribed by the Bye-Laws.

SGM

A notice convening the SGM at Rooms 1801-2, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong on 11 August 2008 at 2:00 p.m. is set out on pages i to iii of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrars, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting thereof (as the case may be) should you so desire.

RECOMMENDATION

The Directors believe that the re-election of Directors is in the interests of the Company and the Shareholders as a whole. The Directors also believe that terms of the Open Offer are fair and reasonable and in the interests of the Company and the Shareholders as a whole and therefore recommend the Independent Shareholders and the Shareholders (as the case maybe) to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Open Offer and the re-election of Directors.

Shareholders are advised to read carefully the letter from the Independent Board Committee on page 24 of this circular. The Independent Board Committee, having taken into account the advice of Veda Capital, the text of which is set out on pages 25 to 40 of this circular, considers that the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned, and the Open Offer are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve the Open Offer

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully
By order of the board,
Mandarin Entertainment (Holdings) Limited
Mr. Wong Pak Ming
Chairman

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Open Offer.

MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED
東方娛樂控股有限公司*
(incorporated in Bermuda with limited liability)
(Stock Code: 00009)

25 July 2008

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED OPEN OFFER ON THE BASIS OF NINETEEN OFFER SHARES FOR EVERY TEN SHARES HELD ON RECORD DATE

We refer to the circular of the Company dated 25 July 2008 (the "**Circular**") of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise you as to whether the terms of the Open Offer are fair and reasonable. Veda Capital has been appointed as independent financial adviser to advise you and us in this regard.

Having taken into account the principal reasons and factors considered by, and the advice of, Veda Capital as set out in its letter of advice to you and us on pages 25 to 40 of the Circular, we are of the opinion that the Open Offer is in the interests of the Company and its Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend you to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Open Offer.

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. Choy Sze Chung, Jojo	**Mr. Tsui Pui Hung**	**Mr. Chan Tung Tak, Alain**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

* *For identification purposes only*

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, which has been prepared for the purpose of inclusion in the Circular.

VEDA | CAPITAL
智略資本

Veda Capital Limited
Suite 1302, 13/F, Takshing House
20 Des Voeux Road Central, Hong Kong

25 July 2008

To the Independent Board Committee and the Independent Shareholders of
Mandarin Entertainment (Holdings) Limited

Dear Sirs,

PROPOSED OPEN OFFER ON THE BASIS OF NINETEEN OFFER SHARES FOR EVERY TEN SHARES HELD ON RECORD DATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, details of which are set out in the letter from the Board (the "**Board Letter**") contained in this circular (the "**Circular**") dated 25 July 2008 issued by the Company of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 4 July 2008, the Company proposed to raise not less than approximately HK$142.69 million but not more than approximately HK$156.94 million before expenses, by an open offer of not less than 1,426,900,000 Offer Shares and not more than 1,569,400,000 Offer Shares at a Subscription Price of HK$0.1 per Offer Share on the basis of nineteen Offer Shares for every ten existing Shares held on the Record Date.

The Open Offer will increase the issued share capital of the Company by more than 50% within the 12-month period immediately preceding the Latest Practicable Date, the Open Offer is subject to approval by the Independent Shareholders at the SGM by poll in accordance with the requirements of Rule 7.24(5) of the Listing Rules. As such, the controlling Shareholder and his associates, namely Mr. Wong, Capeland and Idea Storm, companies wholly and beneficially owned by Mr. Wong, who are beneficially interested in 231,304,000 Shares, representing approximately 30.80% of the existing share capital of the Company as at the Latest Practicable Date shall abstain from voting at the SGM in respect of the resolution to approve the Open Offer.

The Independent Board Committee (comprising the independent non-executive Directors namely Mr. Choy Sze Chung, Jojo, Mr. Tsui Pui Hung and Mr. Chan Tung Tak, Alain) which is not involved in or has no interest in the Open Offer and thus being independent, has been established to advise the Independent Shareholders in respect of the Open Offer. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and whether the Open Offer is in the interests of the Company and the Independent Shareholders as a whole.

BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information representations and opinions contained or referred to in the Circular which have been provided by the Company Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true at the date of SGM.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have performed all applicable steps as required under Rule 13.80 of the Listing Rules including the notes thereon. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associated companies.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Offer Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on or liabilities, of any person resulting from the subscription for, holding of or dealing in the Offer Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Open Offer and, if in any doubt should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Open Offer and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

A. THE OPEN OFFER

Financial highlights of the Group

The Group is principally engaged in the film distribution and licensing film processing and advertising and promotional services. In early 2008, the Group also expanded its business exposure in the property market in Chengdu, Sichuan Province, the PRC.

For the year ended 31 December 2007, the Group recorded a turnover of approximately HK$76.72 million, representing a slight decrease of approximately 0.6% compared to approximately HK$77.17 million recorded for the previous year. Film distribution and licensing, film processing and advertising and promotional services contributed to approximately 63.9%, approximately 25.9% and approximately 10.2% respectively of the Group's revenue for the year ended 31 December 2007. The Group reported a gross loss in the amount of approximately HK$12.13 million for the year ended 31 December 2007 whereas it reported a gross profit of approximately HK$16.92 million, representing a gross profit margin of approximately 21.9% for the year ended 31 December 2006. Administration expenses for the year ended 31 December 2007 also increased to approximately HK$27.52 million, representing an increase of approximately 19.7% from that for the previous year of approximately HK$22.98 million. Profitability of the Group was also adversely affected by the fair value loss on investment held for trading of approximately HK$1.71 million, impairment loss recognized in respect of interests in jointly controlled entities of approximately HK$3.5 million and share of loss of jointly controlled entities of approximately HK$2.34 million for the year ended 31 December 2007. The Group recorded a net loss attributable to the Shareholders of approximately HK$40.07 million whereas it reported a net profit of approximately HK$1.67 million for the previous year.

As mentioned in the annual report of the Company for the year ended 31 December 2007, in order to avoid over relying on traditional film production business of which the market situation is relatively versatile, the Company started to have its investment and fund and treasury management policy in securities and properties as well as money lending business from the last quarter of 2007. It is expected that such diversification policy will bring more stable income resources to the Group.

As mentioned in the circular of the Company dated 12 March 2008, during the recent years, the Group has experienced fierce competition from other market competitors, among other things, local and overseas films production companies and the DVD and VCD distributors and retailers. The difficult market conditions in the local and overseas market have caused the Group to take a fresh look at its core business. While it is intended to continue the existing business of the Group, the Group has diversified into the property market in Chengdu, Sichuan Province, the PRC through the Acquisition in early 2008.

Reasons for the Open Offer and the use of proceeds

In the cases that all or part of the Qualifying Shareholders take up their full or partial entitlements under the Open Offer, the Board considers that the Open Offer, represents an opportunity for the Company to enhance the working capital and strengthen the capital base and financial position of the Group. Upon completion of the Open Offer under such circumstances, the Company will be in a position to capture any potential business opportunity and facilitate its business expansion and to enhance its earning potential, and therefore enhance the overall value of the Shares. Moreover, the Board is of the view that it is in the interests of the Company and its Shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Group. Although the Directors confirmed that the Company had not identified any specific investment plans as at the Latest Practicable Date, in view of the discount of the Subscription Price per Offer Share to the market price per Share in connection with the Open Offer, the Board believes that there will be a high level of acceptance of Offer Shares by the Qualifying Shareholders.

The net proceeds under the Open Offer (after deduction of commission and expenses) are expected to amount to not less than approximately HK$138.69 million and not more than approximately HK$152.94 million and will be used:

(i) as to not more than approximately HK$138 million for the repayment of the outstanding debts of the Group, including but not limited to the potential legal exposure (subject to the final judgment) arising from the Acquisition; and

(ii) as to the remaining amount for general working capital and/or for potential future investment of the Group.

Terms of the Open Offer

The Open Offer is on the basis of 19 Offer Shares for every 10 existing Shares held on the Record Date at the Subscription Price of HK$0.1 per Offer Share payable in full on application, represents:

(i) a discount of approximately 77.53% to the closing price of HK$0.445 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 78.72% to the average closing price of approximately HK$0.470 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

(iii) a discount of approximately 78.95% to the average closing price of approximately HK$0.475 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;

(iv) a discount of approximately 54.33% to the theoretical ex-rights price of approximately HK$0.219 per Share based on the closing price of HK$0.445 per Share as quoted on the Stock Exchange on the Last Trading Day; and

(v) a discount of approximately 65.52% to the closing price of HK$0.29 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

As stated in the Board Letter, the Subscription Price was determined after arm's length negotiation between the Company and the Underwriter with reference to (i) the market price of the Shares under the prevailing market conditions and (ii) the pricing terms of the recent open offer transactions conducted by other listed companies in Hong Kong. The Directors consider that the discounts represented by the Subscription Price to the closing prices of the Shares in the recent trading days and theoretical ex-rights price per Share (which take into account the allotment ratio of the Open Offer) may encourage the Shareholders to participate in the Open Offer without exerting excessive financial burden on the part of the Shareholders.

(a) Review on share prices and historical closing prices

The average daily closing price, the highest closing price, the lowest closing price and the average daily trading volume of the Shares as quoted on the Stock Exchange in each of the months during the period commencing from 3 July 2007 (being the commencement of the one-year period preceding the Last Trading Day, as we consider a one-year period provides a broad and sufficient time basis for assessing price performance of the Shares) up to and including the Latest Practicable Date (the "**Review Period**") are shown as follows:

Month	Average daily closing price	Highest closing price	Lowest closing price	Average daily trading volume of the month[1]	Percentage of average daily trading volume of the month to the Shares in issue[2]	Percentage of average daily trading volume of the month to the Shares held by the Independent Shareholders[3]
	(HK$)	*(HK$)*	*(HK$)*	*(Shares)*	*(%)*	*(%)*
2007						
July	0.839	0.867	0.793	1,040,762	0.1386	0.2003
August	0.713	0.780	0.633	1,396,869	0.1860	0.2688
September	0.741	0.840	0.680	3,327,632	0.4431	0.6403
October	0.730	0.770	0.660	440,476	0.0587	0.0848
November	0.683	0.740	0.610	168,545	0.0224	0.0324
December	0.614	0.680	0.550	207,263	0.0276	0.0399

Month	Average daily closing price *(HK$)*	Highest closing price *(HK$)*	Lowest closing price *(HK$)*	Average daily trading volume of the month[1] *(Shares)*	Percentage of average daily trading volume of the month to the Shares in issue[2] *(%)*	Percentage of average daily trading volume of the month to the Shares held by the Independent Shareholders[3] *(%)*
2008						
January	0.557	0.630	0.510	243,364	0.0324	0.0468
February	0.625	0.750	0.550	335,473	0.0447	0.0646
March	0.631	0.730	0.550	456,421	0.0608	0.0878
April	0.582	0.670	0.520	224,286	0.0299	0.0432
May	0.549	0.600	0.490	169,050	0.0225	0.0325
June	0.480	0.510	0.435	88,600	0.0118	0.0170
July (the Last Trading Day)	0.445	0.445	0.445	32,000	0.0043	0.0062
July (since the day that the Shares resumed trading up to the Latest Practicable Date)	0.288	0.330	0.260	399,500	0.0532	0.0769

Source: the Stock Exchange web-site (www.hkex.com.hk)

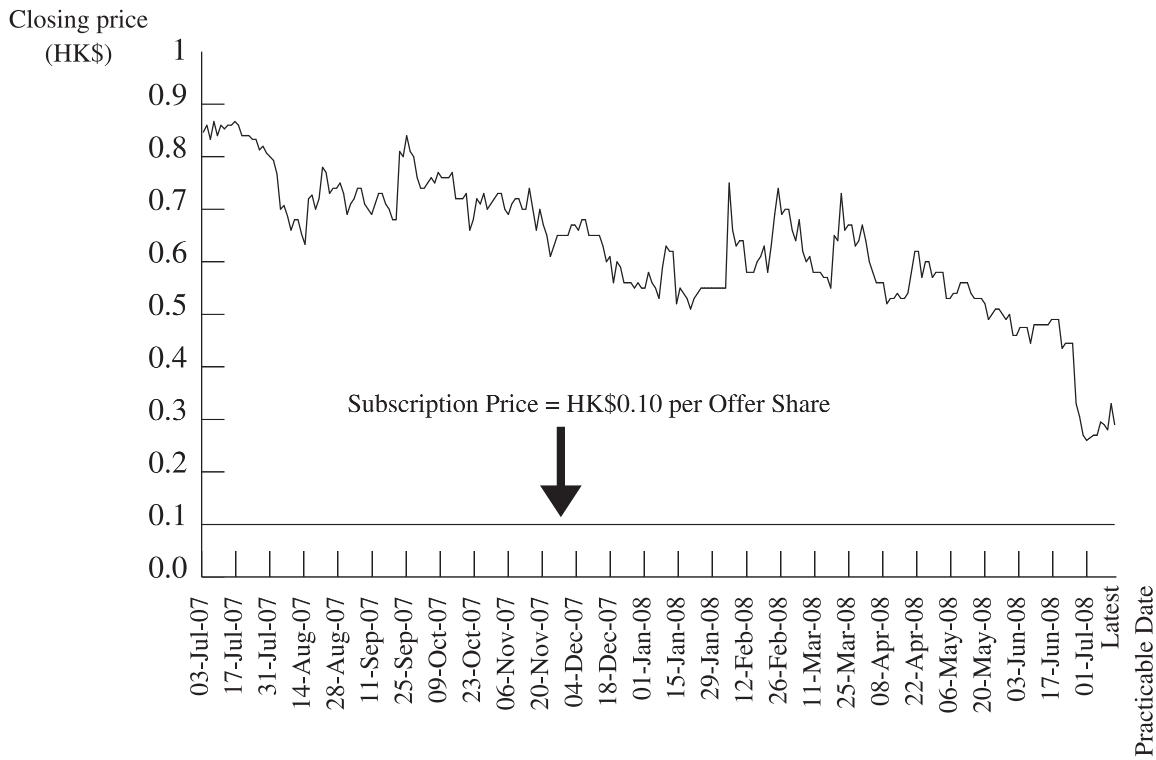
Notes:

1. The trading of the Shares was suspended on 19 and 20 July 2007, 18 September 2007, 28 January to 5 February 2008 and 3 and 4 July 2008 during the Review Period.

2. The Company has 751,000,000 Shares in issue as at the Latest Practicable Date.

3. 519,696,000 Shares were held by the Independent Shareholders as at the Latest Practicable Date.

The Subscription Price has been lower than all the monthly highest closing price, the monthly lowest closing price and the average daily closing price respectively during the Review Period. We also reviewed the historical closing price of the Shares versus the Subscription Price during the Review Period. The following chart illustrates the historical closing price of the Shares versus the Subscription Price during the Review Period:



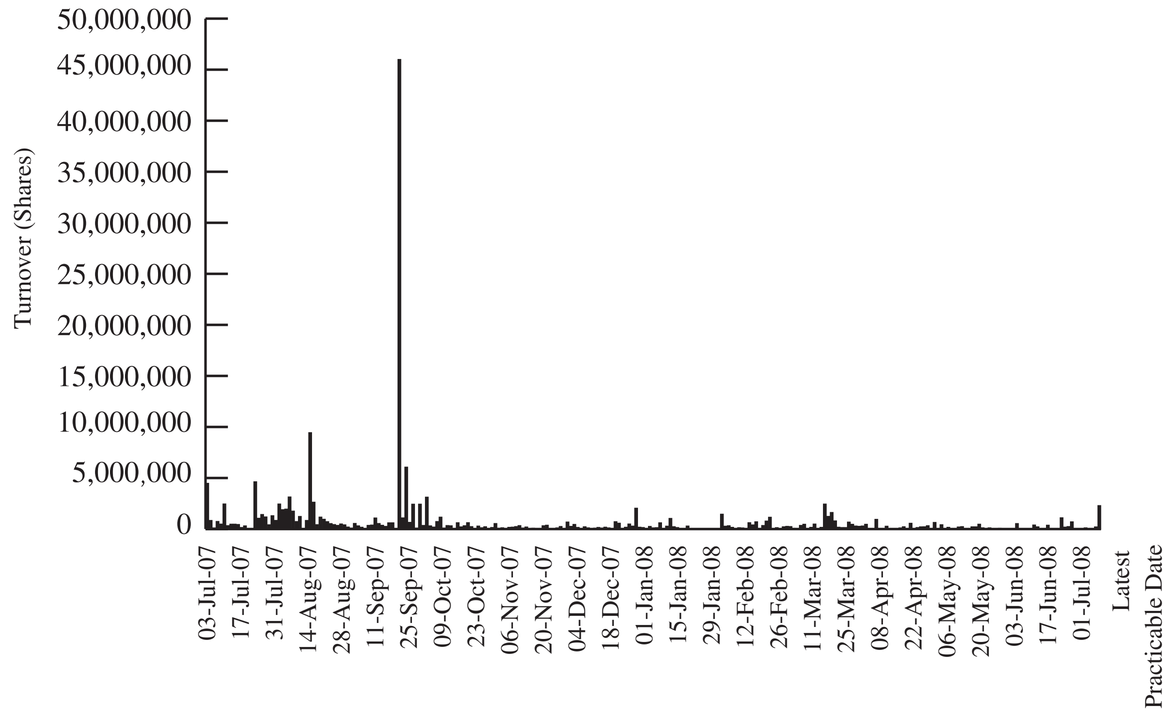
Note: The trading of the Shares was suspended on 19 and 20 July 2007, 18 September 2007, 28 January to 5 February 2008 and 3 and 4 July 2008 during the Review Period.

As shown in the above chart, the closing price of the Shares ranged from the lowest of HK$0.26 on 10 July 2008 to the highest of HK$0.867 on 6 and 16 July 2007 during the Review Period. The Shares were traded above the Subscription Price throughout the Review Period. As seen from the above chart, the closing price of the Shares had been on a decreasing trend since the beginning of the Review Period up to the Last Trading Day, which was generally in line with the correction of the overall stock market. The Subscription Price of HK$0.10 per Offer Share represents a discount of approximately 84.07% to the average closing price of approximately HK$0.628 per Share during the Review Period. The Subscription Price of HK$0.10 per Offer Share represents a discount of approximately 65.52% to the closing price of HK$0.29 per Share on the Latest Practicable Date.

We note that it is a common market practice that, in order to enhance the attractiveness of an open offer exercise and to encourage the existing shareholders to participate in an open offer, the subscription price of an open offer normally represents a discount to the prevailing market prices of the relevant shares. Hence, the fact that the Subscription Price is lower than the prevailing market prices of the Shares is in line with general practice and is acceptable. We will further analyse the fairness and reasonableness of the discounts represented by the Subscription Price by making comparisons with other listed comparables which made open offers recently under the section headed "Comparison with other open offers" below in this letter.

(b) Review on the trading volume of the Shares

The following chart illustrates the historical trading volume of the Shares as quoted on the Stock Exchange during the Review Period:



Note: The trading of the Shares was suspended on 19 and 20 July 2007, 18 September 2007, 28 January to 5 February 2008 and 3 and 4 July 2008 during the Review Period.

As shown in the "Percentage of average daily trading volume of the month to the Shares in issue" of the table in the subsection (a) headed "Review on share prices and historical closing prices" above, we noted that the liquidity of the Shares has been extremely low throughout the Review Period. The highest monthly average daily trading volume of the Shares during the Review Period was in September 2007 of approximately 3,327,632 Shares, representing approximately 0.4431% of the issued share capital of the Company as at the Latest Practicable Date and 0.6403% of the Shares held by the Independent Shareholders as at the Latest Practicable Date. And as reflected in the above chart regarding daily trading volume of the Shares during the Review Period, we noted that 45,983,000 Shares were traded on 19 September 2007. We noticed that the Company has conducted a top-up placing of 36,000,000 Shares on 17 September 2007 and 19 September 2007 is the first trading day of the Shares after such placing. From October 2007 onwards, the monthly average daily trading volume of the Shares had been less than 0.0608% of the issued share capital of the Company as at the Latest Practicable Date and 0.0878% of the Shares held by the Independent Shareholders as at the Latest Practicable Date. Upon resumption of trading of the Shares on 7 July 2008 after the publication of the Announcement, average daily trading volume of the Shares remained thin at approximately 0.0532% of the Company's Shares in issue or approximately 0.0769% of the Shares held by the Independent Shareholders as at the Latest Practicable Date.

Comparison with other open offers

In assessing the fairness of the Subscription Price, we consider a broader comparison of open offers of ordinary shares of other listed companies to provide a more general reference for the pricing of the Open Offer. To the best of our knowledge, we have identified and reviewed all, i.e. a total of 27 open offers (the "**Comparables**") of the companies that are listed on the Main Board or the Growth Enterprise Market of the Stock Exchange, which announced the respective open offers during the Review Period. Details of the Comparables are summarized in the following table:

Date of announcement	Company name (Stock code)	Offer ratio	Subscription price *(HK$)*	Closing price as at the last trading day before the date of announcement *(HK$)*	Premium/ (Discount) I *(Note 1)* *(%)*	Premium/ (Discount) II *(Note 2)* *(%)*	Dilution *(Note 3)* *(%)*	Underwriting Commission *(%)*	Excess application
18 Jul 08	Dynamic Global Holdings Limited (231)	1 for 1	0.12	0.154	(22.08)	(12.41)	50.00	0	Yes
20 Jun 08	Burwill Holdings Limited (24)	18 for 10	0.15	0.33	(54.54)	(29.91)	64.29	2.25	No
29 May 08	Wah Sang Gas Holdings Limited (8035)	1 for 1	0.04	0.64	(93.75)	(88.24)	50.00	Not mentioned in announcement	Yes
2 May 08	Starlite Holdings Limited (403)	1 for 5	0.35	0.52	(32.69)	(28.86)	16.67	0	Yes
24 Apr 08	China Best Group Holding Limited (370)	1 for 2	0.075	0.119	(36.97)	(27.88)	33.33	4.25	No
23 Apr 08	China Oil Resources Holdings Limited (850)	1 for 2	0.288	0.485	(40.62)	(31.32)	33.33	3.3	No
3 Apr 08	Pine Technology Holdings Limited (8013)	1 for 2	0.26	0.345	(24.63)	(17.98)	33.33	Such open offer is not underwritten	No

Date of announcement	Company name (Stock code)	Offer ratio	Subscription price *(HK$)*	Closing price as at the last trading day before the date of announcement *(HK$)*	Premium/ (Discount) I *(Note 1)* *(%)*	Premium/ (Discount) II *(Note 2)* *(%)*	Dilution *(Note 3)* *(%)*	Underwriting Commission *(%)*	Excess application
13 Mar 08	WLS Holdings Limited (8021)	1 for 4	0.12	0.26	(53.85)	(48.28)	20.00	1	Yes
17 Jan 08	Prosperity Investment Holdings Limited (310)	1 for 2	1	1.85	(45.95)	(36.18)	33.33	1.5	No
30 Nov 07	COL Capital Limited (383)	1 for 1	4	6.55	(38.93)	(24.17)	50.00	0	No
7 Nov 07	Long Success International (Holdings) Limited (8017)	1 for 1	0.11	0.305	(63.93)	(47.12)	50.00	3	Yes
2 Nov 07	Kanhan Technologies Group Limited (8175)	1 for 2	0.08	0.235	(65.96)	(56.28)	33.33	2.5	Yes
21 Oct 07	Magician Industries (Holdings) Limited (526)	1 for 2	0.10	0.495	(79.79)	(72.45)	33.33	3	No
18 Oct 07	Riche Multi-Media Holdings Limited (764)	1 for 2	0.3	0.375	(20.00)	(14.29)	33.33	2.5	Yes
2 Oct 07	Tian An China Investments Company Limited (28)	1 for 5	6	9.5	(36.84)	(32.71)	16.67	2	No
28 Sep 07	Everest International Investments Limited (204)	2 for 1	1	1.2	(16.67)	(6.25)	66.67	0	Yes
28 Sep 07	Paliburg Holdings Limited (617)	7 for 20	0.21	0.31	(32.30)	(26.08)	25.93	Not Applicable	Yes
21 Sep 07	Sun Innovation Holdings Limited (547)	1 for 3	1.56	1.85	(15.68)	(12.24)	25.00	In the form of share options	No

Date of announcement	Company name (Stock code)	Offer ratio	Subscription price *(HK$)*	Closing price as at the last trading day before the date of announcement *(HK$)*	Premium/ (Discount) I *(Note 1)* *(%)*	Premium/ (Discount) II *(Note 2)* *(%)*	Dilution *(Note 3)* *(%)*	Underwriting Commission *(%)*	Excess application
20 Sep 07	Intelli-Media Group (Holdings) Limited (8173)	1 for 2	0.05	0.125	(60.00)	(50.00)	33.33	1.5	Yes
5 Sep 07	Prime Investments Holdings Limited (721)	5 for 1	0.101	0.75	(86.53)	(51.71)	83.33	0	No
31 Aug 07	Brilliant Arts Multi-Media Holding Limited (8130)	1 for 2	0.15	0.23	(34.78)	(26.23)	33.33	2.5	Yes
23 Aug 07	eCyber China Holdings Limited (254)	30 for 1	0.12	1.4	(91.43)	(25.60)	96.77	2	No
15 Aug 07	Thiz Technology Group Limited (8119)	1 for 2	0.1	0.23	(56.52)	(46.43)	33.33	2.5	Yes
24 Jul 07	Northern International Holdings Limited (736)	3 for 1	0.17	0.71	(76.10)	(44.26)	75.00	2.5	No
20 Jul 07	Mandarin Entertainment (Holdings) Limited (009)	1 for 2	0.5	1.01	(50.50)	(40.48)	33.33	2.5	No
20 Jul 07	Theme International Holdings Limited (990)	1 for 2	0.06	0.134	(55.20)	(45.12)	33.33	2	Yes
17 Jul 07	Asia Commercial Holdings Limited (104)	4 for 5	0.4	0.87	(54.02)	(39.49)	44.44	2	No

Date of announcement	Company name (Stock code)	Offer ratio	Subscription price *(HK$)*	Closing price as at the last trading day before the date of announcement *(HK$)*	Premium/ (Discount) I *(Note 1)* *(%)*	Premium/ (Discount) II *(Note 2)* *(%)*	Dilution *(Note 3)* *(%)*	Underwriting Commission *(%)*	Excess application
				Maximum discount	**(93.75)**	**(88.24)**			
				Minimum discount	**(15.68)**	**(6.25)**			
				Average discount	**(49.64)**	**(36.44)**			
						Maximum	**96.77**	**4.25**	
						Minimum	**16.67**	**0**	
7 Jul 08	**The Company**	**19 for 10**	**0.10**	**0.445**	**(77.53)**	**(54.33)**	**65.52**	**2.5**	**No**

Source: www.hkex.com.hk and the respective announcements containing details of the Comparables

Notes:

1 The discount of the subscription price to the closing price per share on the last trading day prior to the announcements in relation to the respective open offers.

2. The discount of the subscription price to the theoretical ex-rights price per share based on the closing price per share on the last trading day prior to the announcements in relation to the respective open offers (the theoretical ex-rights price per share is calculated as (number of open offer shares x subscription price of the open offer + number of existing shares held x closing price per share on the last trading day prior to the announcement of the open offer)/(number of open offer shares + number of existing shares held), e.g. for the Open Offer, the theoretical ex-rights per Share is calculated as (19 x HK$0.10 + 10 x HK$0.445)/29 = HK$0.219).

3. Maximum dilution effect of each open offer and is calculated as (1-number of existing shares held/(number of existing shares held + number of open offer shares)), e.g. for a 19 for 10 open offer, the maximum dilution effect is calculated as 1-10/(10+19) = 65.52%.

We are mindful of the fact that pricing of an open offer may vary under different stock market conditions as well as among companies with different financial standings and business performance (including loss-making companies and profit-making companies). Nevertheless, we consider that a broader comparison of open offers announced recently would provide a more general reference for the reasonableness of the pricing of the Open Offer.

We found that the subscription prices for the Comparables were all set at discounts to their respective closing price of the Shares on the last trading day prior to the release of the relevant announcements and ranged (the "**Closing Price Range**") from approximately 15.68% to approximately 93.75% with an average of approximately 49.64%. The discount of approximately of 77.53% of the Subscription Price to the closing price per Share on the Last Trading Day falls within the Closing Price Range but is at a deeper discount than the average of the Closing Price Range.

The subscription price of the Comparables were all set at discounts to the theoretical ex-rights price on the last trading day prior to the announcement and ranged (the "**Theoretical Price Range**") from approximately 6.25% to approximately 88.24% with an average of approximately 36.44%. The discount of approximately 54.33% of the Subscription Price to the theoretical ex-rights price per Offer Share based on the closing price per Share on the Last Trading Day also falls within the Theoretical Price Range but is at a deeper discount than the average of the Theoretical Price Range.

We noted that the Subscription Price falls within the Closing Price Range and the Theoretical Price Range of the Comparables, and that the Subscription Price represents deeper discounts than the average of the Closing Price Range and the Theoretical Price Range respectively. We have discussed with the Directors about the reasons for the deeper discount represented by the Subscription Price compared to the average of the Closing Price Range and the Theoretical Price Range. First, the Group has recorded a consolidated loss of approximately HK$40 million for the year ended 31 December 2007. Second, after completion of the Open Offer, the Company will apply majority of the net proceeds from the Open Offer for repayment of the outstanding debts of the Group, including but not limited to the potential legal exposure (subject to the final judgment) arising from the Acquisition so as to reduce the financial burden of the Group from external borrowings. Third, in view of the extremely low turnover of the Shares during the Review Period, we believe that it is difficult to attract Qualifying Shareholders to reinvest through the Open Offer at a subscription price without a substantial discount. Fourth, setting the Subscription Price at a substantial discount will improve the attractiveness of the Open Offer so as to encourage more existing Shareholders to participate in the Open Offer without exerting too much financial burden on them. Therefore, in order to attract the Qualifying Shareholders' interests and participation in the Open Offer so that the Group can secure more funding from the Open Offer and reduce the level of indebtedness of the Group, the Subscription Price is at a discount which is deeper than the average discount represented by the Comparables. We consider that a substantial discount is inevitable in order to provide incentives to the Qualifying Shareholders to subscribe for the Open Offer.

From the table with the issue statistics of the Comparables as set out above, we note that the commissions of the respective underwriters ranged form 0% to 4.25%. We consider that the commission charged by the Underwriter of 2.5% in the Open Offer is within the range of the Comparables and is reasonable to the Company.

Pursuant to the terms of the Underwriting Agreement, no provision is stipulated for excess application arrangement of the Offer Shares, and it was in such basis that the Underwriter entered into the Underwriting Agreement. In this regard, the Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their assured entitlements. Based on the 27 Comparables, 14 of which did not offer a facility for excess application. We are of the view that the absence of excess application for open offer is not an uncommon market practice. Although the absence of excess application will affect the rights of the Qualifying Shareholders by limiting them to further participate in the Open Offer at a low Subscription Price, in view of the substantial discount represented by the Subscription Price to the market price per Share, the Directors believe that there might be a high level of acceptance of the Offer Shares by the Qualifying Shareholders and therefore there might not be any significant number of Offer Shares available for excess application. Also, the Company would also be able to save costs incurred from the administrative procedures for implementing the arrangement for excess application for the Open Offer. As a result, we concur with the Directors that the absence of excess application under the Open Offer is fair and reasonable.

Taking into account that the Open Offer enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to do so and provides an equal opportunity among the Qualifying Shareholders to share future benefits that may be brought about from the expansion of the Group's business through future investments. Although the shareholdings interests of those Qualifying Shareholders who do not take up their entitlements under the Open Offer will be diluted, they have been given a fair chance to participate in the Open Offer and the Subscription Price falls within the Closing Price Range and the Theoretical Price Range of the Comparables, we consider that the Subscription Price is fair and reasonable so far as the Qualifying Shareholders are concerned.

Alternatives to the Open Offer

As advised by the Directors, they have considered alternative means for the Company to raise funds other than the Open Offer, including but not limited to debt financing, placing of new shares and rights issue. The Directors believe that taking additional borrowings or other debt financing would increase the Group's interest expenses and gearing of the Group. We concur with the Directors that bank borrowing and other debt financing will adversely affect the Group's balance sheet and increase the gearing ratio.

Apart from debt financing, common means of equity financing include placing of new shares, open offer and rights issue. The Directors consider that placing of new shares by its nature excludes existing Shareholders and dilutes their interests in the Company without providing them with an opportunity to share the future developments of the Company that may be brought about by the expansion of the Group's business. While rights issue and open offer both can raise funds and allow the Qualifying Shareholders to maintain their existing shareholdings in the Company and participate in the future growth and development of the Company, the Company opts for the latter as it does not require time for trading of nil-paid entitlements on the Stock Exchange and is more time and cost effective. In view of the time and cost efficiency, we concur with the Directors that the Open Offer is a better fund raising method for the Company.

Potential dilution effect on the shareholding interests of the Independent Shareholders

The attributable interest of the Qualifying Shareholders in terms of percentage shareholding in the Company who take up their entitlements in full under the Open Offer will remain unchanged upon completion of the Open Offer. Qualifying Shareholders who do not subscribe for their provisional entitlements under the Open Offer will have their shareholding interests diluted by a maximum of approximately 65.52%.

In order to assess the fairness and reasonableness of the dilution effect of the Open Offer on the shareholding interests of the Independent Shareholders, we have made comparisons with other open offers of the Comparables. From the Comparables as set out in subsection headed "Comparisons with other open offers" above, we note that the dilutions of the respective open offers of the Comparables ranged form approximately 16.67% to approximately 96.77%. The dilution of the Open Offer falls within the range of the dilutions of the Comparables.

In view of the above and after taking into consideration the reasons and benefits of the Open Offer, together with the opportunity for Qualifying Shareholders to maintain their proportionate interests in the Company and the fact that the dilution of the Open Offers falls within the range of the dilutions of the Comparables, we consider that the potential dilution effect of the Open Offer is acceptable.

Financial effects of the Open Offer

(i) Effect on net tangible assets

A statement of unaudited pro forma statement of adjusted consolidated net tangible assets of the Group based on the audited consolidated net tangible assets of the Group as at 31 December 2007 adjusted for the effect of the Open Offer on the net tangible assets of the Group is set out in Appendix II to the Circular (the "**Statement**").

The audited consolidated net tangible assets of the Group were approximately HK$108.73 million as at 31 December 2007. Based on 576,000,000 Shares in issue the net tangible asset value of the Group per Share was approximately HK$0.1888. Based on the Statement, upon completion of the Open Offer, the unaudited pro forma adjusted consolidated net tangible assets of the Group would increase by approximately 96.98% to approximately HK$214.17 million while the unaudited pro forma adjusted consolidated net tangible assets per share of the Group would become approximately HK$0.1282 (based on 1,670,400,000 Shares in issue immediately following the completion of the Open Offer, comprising 576,000,000 Shares in issue as at 31 December 2007 and 1,094,400,000 Offer Shares to be issued).

(ii) Effect on gearing ratio

The Group's gearing ratio (being total liabilities/total equity) was approximately 25.79% as at 31 December 2007. As a result of the increase in the net asset value of the Group immediately after the Open Offer and the expected repayment of the outstanding debts of the Group, the Group's gearing ratio is expected to be reduced. We consider the reduced gearing ratio provides the Company with more financial flexibility and hence is in the interests of the Company and the Independent Shareholders as a whole.

(iii) Effect on liquidity

Total current assets and total current liability of the Group as at 31 December 2007 were reported as approximately HK$196.31 million and approximately HK$55.28 million respectively. Accordingly, the current ratio (being current assets/current liabilities) as at 31 December 2007 was about 0.28 times. The net proceeds from the Open Offer are expected to enhance its current asset value by (i) approximately HK$138.69 million should 1,426,900,000 Offer Shares be issued; or (ii) approximately HK$152.94 million should 1,569,400,000 Offer Shares be issued and thus improve the current ratio. Hence the financial capability of the Company to look for expanded business opportunities will be enhanced accordingly.

In light of the enhancement on the unaudited pro forma adjusted consolidated net tangible assets, working capital position of the Group and the lowering of the gearing level of the Group as a result of the Open Offer, we are of the opinion that the Open Offer is in the interests of the Company and the Independent Shareholders as a whole.

Recommendation

Taking into consideration of the above mentioned principal factors and reasons, we consider that the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant ordinary resolution to be proposed at the SGM to approve the Open Offer.

Yours faithfully,
For and on behalf of
Veda Capital Limited
Hans Wong *Managing Director*
Julisa Fong *Executive Director*

1. FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group as extracted from the respective annual reports of the Company is set out below:

Consolidated Income Statement

	For the year ended 31st December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	76,718	77,165	43,256
Cost of sales	(88,847)	(60,248)	(42,193)
Gross (loss) profit	(12,129)	16,917	1,063
Other income	7,942	7,945	2,743
Administrative expenses	(27,515)	(22,984)	(22,952)
Fair value loss on investments held for trading	(1,711)	–	–
Impairment loss recognised in respect of interests in jointly controlled entities	(3,500)	–	–
Share of loss of jointly controlled entities	(2,341)	(6)	87
Finance costs	(939)	(1,088)	(804)
(Loss) profit before tax	(40,193)	784	(19,863)
Income tax credit	126	889	1,244
(Loss) profit for the year, attributable to equity holders of the Company	(40,067)	1,673	(18,619)
Dividends	–	–	–
(Loss) Earnings per share			
Basic	(8.86) HK cents	0.44 HK cents	(5.64) HK cents
Diluted	N/A	0.44 HK cents	–

Consolidated Balance Sheet

	As at 31st December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	3,765	2,936	4,194
Prepaid lease payments	2,428	2,503	2,578
Available-for-sale investments	–	3,796	7,221
Interests in jointly controlled entities	16,664	20,820	19,871
Pledged bank deposits	–	–	1,005
	22,857	30,055	34,869
CURRENT ASSETS			
Film rights	720	1,440	3,277
Film production in progress	53,202	38,646	51,058
Prepaid lease payments	75	75	75
Inventories	1,853	1,680	2,007
Property held for sale	4,561	–	–
Investments held for trading	16,350	–	–
Trade and other receivables and deposits paid	11,508	15,600	14,426
Loan receivable	5,500	–	–
Amount due from a jointly controlled entity	1,349	602	172
Amount due from a related company	–	5,042	5,814
Tax recoverable	297	17	–
Pledged bank deposits	533	1,556	506
Bank balances and cash	100,358	15,172	10,410
	196,306	79,830	87,745
CURRENT LIABILITIES			
Trade and other payables and deposits received	35,220	35,360	44,352
Bank and other borrowings – due within one year	19,882	5,362	10,501
Tax payable	83	–	66
Obligations under a finance lease – due within one year	92	92	–
	55,277	40,814	54,919
NET CURRENT ASSETS	141,029	39,016	32,826
TOTAL ASSETS LESS CURRENT LIABILITIES	163,886	69,071	69,695
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	537	13,627	14,644
Deferred taxation	508	471	677
Obligations under a finance lease – due after one year	192	284	–
	1,237	14,382	15,321
NET ASSETS	162,649	54,689	52,374
CAPITAL AND RESERVES			
Share capital	57,600	33,000	33,000
Reserves	105,049	21,689	19,374
TOTAL EQUITY	162,649	54,689	52,374

2. AUDITED FINANCIAL STATEMENTS

Set out below are the audited financial statements together with the relevant notes thereto as extracted from the annual report of the Company for the year ended 31 December 2007.

Consolidated Income Statement
For the year ended 31st December, 2007

	NOTES	2007 HK$'000	2006 HK$'000
Revenue	7	76,718	77,165
Cost of sales		(88,847)	(60,248)
Gross (loss) profit		(12,129)	16,917
Other income		7,942	7,945
Administrative expenses		(27,515)	(22,984)
Fair value loss on investments held for trading		(1,711)	–
Impairment loss recognised in respect of interests in jointly controlled entities	18	(3,500)	–
Share of loss of jointly controlled entities		(2,341)	(6)
Finance costs	9	(939)	(1,088)
(Loss) profit before tax		(40,193)	784
Income tax credit	10	126	889
(Loss) profit for the year, attributable to equity holders of the Company	11	(40,067)	1,673
Dividends	13	–	–
(Loss) Earnings per share	14		
Basic		(8.86) HK cents	0.44 HK cents
Diluted		N/A	0.44 HK cents

Consolidated Balance Sheet
At 31st December, 2007

	NOTES	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	3,765	2,936
Prepaid lease payments	16	2,428	2,503
Available-for-sale investments	17	–	3,796
Interests in jointly controlled entities	18	16,664	20,820
		22,857	30,055
CURRENT ASSETS			
Film rights		720	1,440
Film production in progress		53,202	38,646
Prepaid lease payments	16	75	75
Inventories	19	1,853	1,680
Property held for sale	20	4,561	–
Investments held for trading	21	16,350	–
Trade and other receivables and deposits paid	22	11,508	15,600
Loan receivable	23	5,500	–
Amount due from a jointly controlled entity	24	1,349	602
Amount due from a related company	25	–	5,042
Tax recoverable		297	17
Pledged bank deposits	26	533	1,556
Bank balances and cash	27	100,358	15,172
		196,306	79,830
CURRENT LIABILITIES			
Trade and other payables and deposits received	28	35,220	35,360
Bank and other borrowings – due within one year	29	19,882	5,362
Tax payable		83	–
Obligations under a finance lease – due within one year	30	92	92
		55,277	40,814
NET CURRENT ASSETS		141,029	39,016
TOTAL ASSETS LESS CURRENT LIABILITIES		163,886	69,071
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	29	537	13,627
Deferred taxation	31	508	471
Obligations under a finance lease – due after one year	30	192	284
		1,237	14,382
NET ASSETS		162,649	54,689
CAPITAL AND RESERVES			
Share capital	32	57,600	33,000
Reserves		105,049	21,689
TOTAL EQUITY		162,649	54,689

Consolidated Statement Of Changes In Equity
For the year ended 31st December, 2007

	Attributable to equity holders of the Company						
	Share capital	Share premium	Investment revaluation reserve	Special reserve	Share options reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2006	33,000	34,653	1,121	17,926	–	(34,326)	52,374
Gain on fair value change of available-for-sale investments recognised in equity	–	–	1,074	–	–	–	1,074
Transferred to profit or loss on sale of available-for-sale investments	–	–	(955)	–	–	–	(955)
Profit for the year	–	–	–	–	–	1,673	1,673
Total recognised income and expense for the year	–	–	119	–	–	1,673	1,792
Recognition of equity-settled share-based payment expenses	–	–	–	–	523	–	523
At 31st December, 2006	33,000	34,653	1,240	17,926	523	(32,653)	54,689
Transferred to profit or loss on sale of available-for-sale investments	–	–	(1,240)	–	–	–	(1,240)
Loss for the year	–	–	–	–	–	(40,067)	(40,067)
Total recognised income and expense for the year	–	–	(1,240)	–	–	(40,067)	(41,307)
Issue of shares	24,600	125,820	–	–	–	–	150,420
Transaction costs attributable to issue of shares	–	(3,848)	–	–	–	–	(3,848)
Transferred to accumulated losses on forfeiture of share options	–	–	–	–	(917)	917	–
Recognition of equity-settled share-based payment expenses	–	–	–	–	2,695	–	2,695
At 31st December, 2007	57,600	156,625	–	17,926	2,301	(71,803)	162,649

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007

	2007	2006
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
(Loss) profit before tax	(40,193)	784
Adjustments for:		
Interest income	(1,303)	(325)
Finance costs	939	1,088
Release of prepaid lease payments	75	75
Depreciation of property, plant and equipment	1,294	1,875
Impairment on trade and other receivables	3,289	2,716
Share of loss of jointly controlled entities	2,341	6
Impairment loss recognised in respect of interests in jointly controlled entities	3,500	–
Impairment loss recognised in respect of film production in progress	16,827	2,621
Loss on disposal of property, plant and equipment	200	4
Gain on disposal of available-for-sale investments	(2,173)	(5,040)
Fair value loss on investments held for trading	1,711	–
Reversal of impairment loss on trade and other receivables	(1,153)	–
Equity-settled share-based payment expenses	2,695	523
Operating cash flows before movements in working capital	(11,951)	4,327
(Increase) decrease in film rights and production in progress	(30,663)	11,628
(Increase) decrease in inventories	(173)	327
Increase in property held for sale	(4,561)	–
Increase in investments held for trading	(18,061)	–
Decrease (increase) in trade and other receivables and deposits paid	1,956	(3,890)
Increase in amount due to a jointly controlled entity	(747)	(430)
Decrease in amount due from a related company	5,042	772
Decrease in trade and other payables and deposits received	(140)	(8,992)
Cash (used in) generated from operations	(59,298)	3,742
Hong Kong Profits Tax refunded	157	600
Hong Kong Profits Tax paid	(191)	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(59,332)	4,342

	2007 *HK$'000*	2006 *HK$'000*
INVESTING ACTIVITIES		
Increase in loan receivable	(5,500)	–
Purchases of property, plant and equipment	(2,323)	(191)
Capital contribution to a jointly controlled entity	(1,685)	(955)
Proceeds from disposal of available-for-sale investments	4,729	10,699
Interest received	1,303	325
Decrease (increase) in pledged bank deposits	1,023	(45)
Purchase of available-for-sale investments	–	(2,115)
Proceeds from disposal of property, plant and equipment	–	30
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(2,453)	7,748
FINANCING ACTIVITIES		
Proceeds from issue of shares	150,420	–
Bank and other borrowings raised	7,080	2,000
Repayment of bank and other borrowings	(5,234)	(8,188)
Expenses on issue of shares	(3,848)	–
Interest paid	(939)	(1,088)
Repayment of obligations under a finance lease	(92)	(84)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	147,387	(7,360)
NET INCREASE IN CASH AND CASH EQUIVALENTS	85,602	4,730
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	14,756	10,026
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	100,358	14,756
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	100,358	15,172
Bank overdraft	–	(416)
	100,358	14,756

Notes To The Consolidated Financial Statements

For the year ended 31st December, 2007

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 41.

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

In the current year, the Group and the Company have applied, for the first time, the following new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs has had no material effect on how the results and 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 and revised standards, amendments or interpretations that have been issued but are not yet effective.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Share-based Payment[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) – INT 12	Service Concession Arrangements[4]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[5]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1st January, 2009
[2] Effective for annual periods beginning on or after 1st July, 2009
[3] Effective for annual periods beginning on or after 1st March, 2007
[4] Effective for annual periods beginning on or after 1st January, 2008
[5] Effective for annual periods beginning on or after 1st July, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of the other new or revised standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain 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 (including special purpose 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.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the goods sold 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 and released, the film has been distributed to the cinema circuit 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 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 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 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 consolidated 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 values, 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.

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 during the vesting period, 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.

The Group as lessee

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.

Property held for sale

Property held for sale is stated at the lower of the cost and estimated market value.

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 into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

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, loan receivable, amount due from a jointly controlled entity/a related company, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL or loans and receivables.

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 (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including bank and other borrowings and trade and other payables of the Company 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 receivable 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 expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

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 amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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

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 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 tax.

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 or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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 profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to 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 application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

Management regularly reviews the recoverability and/or aging of trade receivables and amount due from a jointly controlled entity. 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. 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. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 29 and equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and their associated risks thereto. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2007	2006
	HK$'000	*HK$'000*
Financial assets		
Fair value through profit or loss		
Held for trading	16,350	–
Loans and receivables		
(including cash and cash equivalents)	113,004	30,145
Available-for-sale financial assets	–	3,796
Financial liabilities		
Amortised cost	34,539	38,276

6b. Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, loan receivable, amount due from a jointly controlled entity/a related company, pledged bank deposits, bank balances and cash, trade and other payables, obligations under a finance lease and bank and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
United State dollars ("USD")	–	–	6,885	3,153
Renminbi ("RMB")	13,593	8,062	1,632	5,958

Sensitivity analysis

The Group is mainly exposed to the RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding RMB denominated monetary items as the directors consider that the Group's exposure to USD is insignificant on the ground that HKD is pegged to USD. The sensitivity analysis adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans, trade and other payables, amount due from a jointly controlled entity/a realated company as well as bank balances where the denomination of the loans, trade and other payables, amount due from a jointly controlled entity/a related company and bank balances is in a currency other than the currency of the Group. A positive number below indicates an increase in profit where Hong Kong dollars strengthen 5% against the relevant currency. For a 5% weakening of Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	RMB	
	2007	2006
	HK$'000	*HK$'000*
Profit or loss	598*(i)*	115*(ii)*

(i) This is mainly attributable to the exposure outstanding on RMB payables and loans at year end.

(ii) This is mainly attributable to the exposure outstanding on RMB payables, amount due from a jointly controlled entity/a related company and loans at year end.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to loan receivable, pledged bank deposits, fixed rate borrowings, obligations under a finance lease as set out in Notes 23, 26, 29 and 30 respectively.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 27 and 29 for details of the bank balances and bank borrowings respectively). It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of prime rate arising from the Group's HKD borrowing.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative financial instruments at the balance sheet date (see notes 27 and 29 for details of bank balances and bank borrowings). The analysis is prepared assuming the amount of monetary assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's (loss) profit for the year ended 31st December, 2007 would decrease/increase by HK$385,000 (2006: decrease/increase by HK$38,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowing.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

(iii) Other price risk

The Group is exposed to equity price risk through its investments held for trading. The Group's equity price risk is mainly concentrated on listed equity instruments quoted in the Stock Exchange. The management manages this exposure by closely monitoring the price risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower, loss (profit) for the year ended 31 December 2007 would decrease/increase by HK$675,000 (2006: Nil) as a result of the changes in fair value of financial assets at fair value through profit or loss.

Credit risk

As at 31st December, 2007, 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 counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade debt 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. The Group has no significant concentration of credit risk on liquid funds, which exposure spread over a number of counterparties.

The Group has concentration of credit risk as 65% (2006: 56%) of the total trade receivables was due from the Group's top five major customers amounting to approximately HK$1,948,000 (2006: HK$3,526,000) within the film distribution and licensing business segment. Besides, the Group has concentration of credit risk on deposits paid to directors and several artists for film production with good working relationship. In addition, the Group has another concentration of credit risk on the loan receivable which was due from a company is considered to be of good credit-standing. The borrower is a company incorporated and operating in Hong Kong and acts as an investment holding. Except for the above, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity table

	Weighted average effective interest rate	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**Total undiscounted cash flows**	**Carrying amount at 31.12.2007**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007							
Non-derivative financial instruments							
Trade and other payables	–	1,356	2,670	10,094	–	14,120	14,120
Bank and other borrowings	4.86%	362	687	19,300	574	20,923	20,419
Obligations under a finance lease	4%	9	18	83	231	341	284
		1,727	3,375	29,477	805	35,384	34,823

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount at 31.12.2006
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006							
Non-derivative financial instruments							
Trade and other payables	–	2,614	1,201	15,056	–	18,871	18,871
Bank overdraft	9%	416	–	–	–	416	416
Bank and other borrowings	4.42%	564	3,236	1,398	13,928	19,126	18,989
Obligations under a finance lease	4%	9	18	83	341	451	376
		3,603	4,455	16,537	14,269	38,864	38,652

6c. 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.

7. REVENUE

	2007	2006
	HK$'000	*HK$'000*
An analysis of revenue is as follows:		
Film distribution and licensing income	49,001	47,603
Film processing income	19,900	22,438
Advertising and promotional service income	7,817	7,124
	76,718	77,165

8. 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.

2007

	Film distribution and licensing	Film processing	Advertising and promotional services	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External revenue	49,001	19,900	7,817	–	76,718
Inter segment revenue	2,810	2,368	4,294	(9,472)	–
Total revenue	51,811	22,268	12,111	(9,472)	76,718

	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Advertising and promotional services *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
RESULT					
Segment result	(24,504)	(2,419)	468	–	(26,455)
Other income					6,789
Unallocated corporate expenses					(12,036)
Fair value loss on investments held for trading					(1,711)
Impairment loss recognised in respect of interests in jointly controlled entities					(3,500)
Share of loss of jointly controlled entities					(2,341)
Finance costs					(939)
Loss before tax					(40,193)
Income tax credit					126
Loss for the year					(40,067)

Inter segment revenue is charged at prevailing market rate.

BALANCE SHEET

	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Advertising and promotional services *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
ASSETS					
Segment assets	61,186	8,878	39	–	70,103
Interests in jointly controlled entities					16,664
Unallocated corporate assets					132,396
Consolidated total assets					219,163
LIABILITIES					
Segment liabilities	29,450	5,204	175	–	34,829
Unallocated corporate liabilities					21,685
Consolidated total liabilities					56,514

	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Advertising and promotional services *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
OTHER INFORMATION					
Capital expenditure	407	100	262	1,554	2,323
Impairment on trade and other receivables	3,289	–	–	–	3,289
Reversal of impairment loss on trade and other receivables	1,153	–	–	–	1,153
Release of prepaid lease payments	–	63	–	12	75
Depreciation of property, plant and equipment	261	879	78	76	1,294
Impairment loss recognised in respect of film production in progress	16,827	–	–	–	16,827
Fair value loss on investments held-for-trading	–	–	–	1,711	1,711
Impairment loss recognised is respects of interests in jointly controlled entities	–	–	–	3,500	3,500
Loss on disposal of property, plant and equipment	–	200	–	–	200

2006

	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Advertising and promotional services *HK$'000*	Unallocated *HK$'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	51,323	22,490	10,954	(7,602)	77,165
RESULT					
Segment result	(567)	229	318	–	(20)
Other income					7,945
Unallocated corporate expenses					(6,047)
Share of loss of jointly controlled entities					(6)
Finance costs					(1,088)
Profit before tax					784
Income tax credit					889
Profit for the year					1,673

Inter segment revenue is charged at prevailing market rate.

BALANCE SHEET

	Film distribution and licensing *HK$'000*	**Film processing** *HK$'000*	**Advertising and promotional services** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
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					109,885
LIABILITIES					
Segment liabilities	29,943	4,114	1,069	–	35,126
Unallocated corporate liabilities					20,070
Consolidated total liabilities					55,196
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	2,621	–	–	–	2,621
Loss on disposal of property, plant and equipment	–	4	–	–	4

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, licensing and investment holding 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.

2007

	Hong Kong	**The PRC**	**Japan**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	37,493	13,316	14,325	11,584	76,718

	Hong Kong	**The PRC**	**Japan**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount of segment assets	98,795	39	–	–	98,834
Additions to property, plant and equipment	2,317	6	–	–	2,323

2006

	Hong Kong	**The PRC**	**Japan**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	46,902	3,802	7,820	18,641	77,165

	Hong Kong	**The PRC**	**Japan**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount of segment assets	65,670	1,652	–	–	67,322
Additions to property, plant and equipment	651	–	–	–	651

9. FINANCE COSTS

	2007 *HK$'000*	2006 *HK$'000*
Interest on:		
– bank and other loans wholly repayable within five years	921	1,071
– finance leases	18	17
	939	1,088

10. TAXATION

	2007 *HK$'000*	2006 *HK$'000*
Hong Kong Profits Tax		
– provision for current year	–	164
– overprovision in prior years	(163)	(847)
	(163)	(683)
Deferred tax charge (credit) *(note 31)*	37	(206)
Taxation attributable to the Company and its subsidiaries	(126)	(889)

Hong Kong Profits Tax is calculated at 17.5% (2006: 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 (loss) profit before tax per the consolidated income statement as follows:

	2007 *HK$'000*	2006 *HK$'000*
(Loss) profit before tax	(40,193)	784
Tax at the domestic income tax rate of 17.5% (2006: 17.5%)	(7,034)	137
Tax effect of expenses not deductible for tax purpose	945	989
Tax effect of income not taxable for tax purpose	(1,099)	(986)
Overprovision in prior years	(163)	(847)
Tax effect of tax losses not recognised	6,815	866
Utilisation of tax losses previously not recognised	–	(1,049)
Tax effect on share of loss of jointly controlled entities	410	1
Tax credit for the year	(126)	(889)

11. (LOSS) PROFIT FOR THE YEAR

	2007 *HK$'000*	2006 *HK$'000*
(Loss) profit for the year has been arrived at after charging:		
Directors' emoluments *(note 12)*	6,800	4,050
Other staff costs	12,560	11,410
Retirement benefit scheme contributions, excluding directors	596	547
Share-based payment expenses, excluding directors	505	133
Total staff costs	20,461	16,140
Auditor's remuneration	1,001	920
Depreciation of property, plant and equipment		
– owned assets	1,149	1,790
– finance lease	145	85
Release of prepaid lease payments	75	75
Impairment on trade and other receivables	3,289	2,716
Impairment loss recognised in respect of film production in progress (included in cost of sales)	16,827	2,621
Cost of inventories recognised as expenses	50,778	46,815
Loss on disposal of property, plant and equipment	200	4
and after crediting to other income:		
Interest income	1,303	325
Gain on disposal of available-for-sale investments	2,173	5,040
Net foreign exchange gain	340	43
Reversal of impairment loss on trade and other receivable	1,153	–

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2006: seven) directors were as follows:

2007

	Wong Pak Ming	Wong Kit Fong	Wong Yee Kwan, Alvina	Law Kee, Alice	Lai Voon Wai*	Wan Ngar Yin, David*	Tsui Pui Hung	Ko Tin Chow*	Choy Sze Chung, JoJo	Tang Kai–Kui, Terence	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	80	166	40	–	40	120	446
Other emoluments:											
Salaries and other benefits	1,938	1,299	393	92	–	–	–	380	–	–	4,102
Retirement benefit scheme contributions	12	12	12	7	–	–	–	19	–	–	62
Share-based payment expenses	281	281	281	–	–	225	–	561	–	561	2,190
Total emoluments	2,231	1,592	686	99	80	391	40	960	40	681	6,800

2006

	Wong Pak Ming	Wong Kit Fong	Wong Yee Kwan, Alvina	Lai Voon Wai	Wan Ngar Yin, David	Ko Tin Chow	Tang Kai–Kui, Terence	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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	1,865	555	451	120	305	569	185	4,050

* Lai Voon Wai, Wan Ngar Yin, David and Ko Tin Chow resigned on 31st August, 9th September and 16th October, 2007, respectively.

(b) Emoluments of highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2006: three) were directors of the Company, whose emoluments are included in the disclosure set out in note (a) above. The emoluments of the remaining two (2006: two) highest paid individuals were as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other benefits	892	876
Retirement benefit scheme contributions	24	24
	916	900

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.

13. DIVIDENDS

No dividends were paid or proposed during the year ended 31st December, 2007 and 2006, nor has any dividend been proposed since the balance sheet date.

14. (LOSS) EARNINGS PER SHARE

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

	2007	**2006**
	HK$'000	*HK$'000*
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	(40,067)	1,673

Number of shares

	2007	**2006**
Number of ordinary shares for the purposes of basic (loss) earnings per share	452,408,295	381,467,890
Effect of dilutive potential ordinary shares: Share options issued by the Company	–	399,000
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	452,408,295	381,866,890

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for both years for the Open Offer on 14th September, 2007.

No diluted loss per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for 2007.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Leasehold improvements	Motor vehicles	Plant, machinery and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION						
At 1st January, 2006	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
Additions	–	260	940	692	431	2,323
Disposals	–	–	(1,249)	–	(40)	(1,289)
Deficit on revaluation	(729)	–	–	–	–	(729)
At 31st December, 2007	885	5,789	2,759	1,202	21,229	31,864
Comprising:						
At cost	–	5,789	2,759	1,202	21,229	30,979
At valuation – 2007	885	–	–	–	–	885
	885	5,789	2,759	1,202	21,229	31,864
DEPRECIATION AND AMORTISATION						
At 1st January, 2006	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
Provided for the year	96	241	202	145	610	1,294
Eliminated on disposals	–	–	(1,054)	–	(35)	(1,089)
Eliminated on revaluation	(729)	–	–	–	–	(729)
At 31st December, 2007	–	5,297	2,002	260	20,540	28,099
CARRYING VALUES						
At 31st December, 2007	885	492	757	942	689	3,765
At 31st December, 2006	981	473	214	395	873	2,936

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, 2007 by Messrs. RHL Appraisal Limited, on depreciated replacement cost approach. 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 was arrived at by an estimate of new replacement costs of buildings and structures of the property from which deductions are then made to allow for age, conditions, and functional obsolescence.

The net book value of motor vehicles of HK$942,000 (2006: HK$395,000) is held under a finance lease.

The buildings of the Group are situated in Hong Kong.

At 31st December, 2007, 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 approximately HK$888,000 (2006: HK$928,000).

16. PREPAID LEASE PAYMENTS

	2007	**2006**
	HK$'000	*HK$'000*
The Group's prepaid lease payments represent medium-term leasehold land in Hong Kong	2,503	2,578
Analysed for reporting purpose as:		
Current assets	75	75
Non-current assets	2,428	2,503
	2,503	2,578

17. AVAILABLE-FOR-SALE INVESTMENTS

	2007	**2006**
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong	–	3,796

In the current year, the Group disposed of all listed equity securities with carrying amount of HK$3,796,000, which had been carried at cost less impairment before the disposal. A gain on disposal of HK$2,173,000 (2006: HK$5,040,000) has been recognised in profit or loss for the current year.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2007	**2006**
	HK$'000	*HK$'000*
Cost of unlisted investments in jointly controlled entities	26,141	24,456
Impairment loss recognised on cost of unlisted investment in jointly controlled entities	(3,500)	–
Share of post-acquisition losses	(5,977)	(3,636)
	16,664	20,820
Loan to a jointly controlled entity	10,927	10,927
Impairment loss recognised on loan to a jointly controlled entity	(10,927)	(10,927)
	–	–

At 31st December, 2007, the Group had interests in the following jointly controlled entities:

Name of entity	Form of structure	Place of business operations	Proportion of nominal value of issued share capital/ registered capital incorporation/ by the Company held indirectly % 2007	2006	Nature of business
Prosper China Limited	Incorporated	British Virgin Islands ("BVI")/ Hong Kong	40	40	Investment holding
北京東方新青年文化發展有限公司	Incorporated	PRC/PRC *(note)*	40	40	Provision of cultural education courses
浙江東方國際發展有限公司	Incorporated	PRC/PRC *(note)*	37.5	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	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")	50	50	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$1,685,000 as capital injection in Dong Tian.

In the opinion of directors of the Company, the Company is determined to withdraw from the investment in 橫店影視製作 and the capital injection of HK$3,500,000 in prior years was not probable to be recovered and therefore, an impairment loss of HK$3,500,000 was recognised to the consolidated income statement in 2007.

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

	2007 *HK$'000*	2006 *HK$'000*
Non-current assets	34,227	34,644
Current assets	45,414	47,437
Current liabilities	33,227	23,761
Non-current liabilities	26,250	37,500
Income	12,437	13,733
Expenses	14,775	13,689
Income tax expense	3	50
Loss for the year	2,341	6

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:

	2007	2006
	HK$'000	*HK$'000*
Unrecognised share of losses of jointly controlled entities for the year	(210)	(315)
Accumulated unrecognised share of losses of jointly controlled entities	(801)	(486)

19. INVENTORIES

	2007	2006
	HK$'000	*HK$'000*
Raw materials	1,812	1,672
Work in progress	41	8
	1,853	1,680

20. PROPERTY HELD FOR SALE

The Company has acquired a property in Hong Kong during the year and the property was disposed of to an independent third party at a consideration of HK$5,170,000 subsequently after the balance sheet date. Thus, the property is classified as current assets.

21. INVESTMENTS HELD FOR TRADING

Investments held for trading represent equity securities listed on The Stock Exchange of Hong Kong Limited.

22. 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$2,997,000 (2006: HK$6,296,000) and their aged analysis is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 – 90 days	2,877	3,982
91- 180 days	12	1,077
181 – 365 days	108	700
Over 1 year	–	537
	2,997	6,296

Before accepting any new customers, the Group uses an internal credit assessment process to assess the potential customers' credit quality and defines credit limits by customers. Limits attributed to customers are reviewed regularly. 18% (2006: 21%) of the trade receivables that are neither past due nor impaired have good repayment history in prior years.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$120,000 (2006: HK$2,314,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 32 days (2006: 68 days).

Ageing of trade receivables which are past due but not impaired

	2007	2006
	HK$'000	*HK$'000*
91-180 days	12	1,077
More than 180 days	108	1,237
	120	2,314

The trade debtors that were past due but not impaired related to customers that have good track records with the Group. Management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movement in the allowance for doubtful debts

	2007	2006
	HK$'000	*HK$'000*
Balance at beginning of the year	12,822	10,106
Impairment losses recognised on receivables	3,289	2,716
Amounts recovered during the year	(1,153)	–
	14,958	12,822

The impairment loss recognised on trade receivables is mainly because of those trade debtors have financial difficulties.

In addition, included in trade and other receivables and deposits paid are deposits paid in respect of production of a film and artists' fees of HK$3,126,000 (2006: HK$2,321,000).

23. LOAN RECEIVABLE

The amount is unsecured fixed-rate loan receivable, which carries interest at 8.4% per annum. The loan is receivable within twelve months of the balance sheet date and therefore was classified as current asset.

24. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount due from a jointly controlled entity is unsecured, non-interest bearing and repayable on demand. The amount is denominated in RMB, foreign currency of the relevant group entities.

25. AMOUNT DUE FROM A RELATED COMPANY

The amount due from a related company, 廣州東影影視出品有限公司 ("Tung Ying"), in which a brother of Mr. Wong Pak Ming ("Mr. Wong") has a beneficial interest, was unsecured, non-interest bearing and was fully settled during the year. The amount is denominated in RMB, foreign currency of the relevant group entities.

26. PLEDGED BANK DEPOSITS

At 31st December, 2007, the amount of HK$533,000 (2006: HK$1,556,000) 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.

The deposits carry fixed interest rate ranging from 2.6% to 3.2% (2006: 2.8% to 3.3%) per annum. The pledged bank deposits will be released upon the termination of relevant banking facilities.

27. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at 1.2% to 4.8% (2006: 2% to 3%) per annum and have original maturity of three months or less.

The amount of the Group's bank balances and cash denominated in foreign currency of the relevant group entities are set out below:

	RMB	**USD**
	HK$'000	*HK$'000*
At 31st December, 2007		
Bank balances and cash	283	6,885
At 31st December, 2006		
Bank balances and cash	899	3,153

28. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

Included in trade and other payables are trade payables of HK$3,514,000 (2006: HK$2,520,000) and their aged analysis is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
0 – 90 days	2,631	1,941
91- 180 days	320	579
181 – 365 days	172	–
Over 1 year	391	–
	3,514	2,520

In addition, included in trade and other payables and deposits received are deposits received from distributors of HK$17,810,000 (2006: HK$14,178,000) for the distribution of films.

The amount of the Group's trade and other payables denominated in foreign currency of the relevant group entities are set out below:

	RMB
	HK$'000
At 31st December, 2007	
Trade and other payables	10,708
At 31st December, 2006	
Trade and other payables	5,177

29. BANK AND OTHER BORROWINGS

	2007 *HK$'000*	2006 *HK$'000*
Bank loans	6,896	5,527
Bank overdraft	–	416
Other loans	13,523	13,046
	20,419	18,989
Secured	3,803	5,943
Unsecured	16,616	13,046
	20,419	18,989
Total bank and other borrowings		
Fixed-rate	13,523	13,046
Variable-rate	6,896	5,943
	20,419	18,989

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

	2007 *HK$'000*	2006 *HK$'000*
On demand or within one year	19,882	5,362
More than one year, but not exceeding two years	272	13,421
More than two years, but not exceeding five years	265	206
	20,419	18,989
Less: Amount due within one year shown under current liabilities	(19,882)	(5,362)
Shown under non-current liabilities	537	13,627

The amounts of the Group's borrowings that are denominated in foreign currency of the relevant group entities are set out below:

	Total *HK$'000*
As at 31st December, 2007	
Other loan	2,885
As at 31st December, 2006	
Other loan	2,885

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	2007 *HK$'000*	2006 *HK$'000*
On demand or within one year	13,190	–
More than one year, but not exceeding two years	167	13,046
More than two years, but not exceeding five years	166	–
	13,523	13,046

In addition, the Group has variable-rate borrowings which carry interest at prime rate. The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2007	**2006**
Effective interest rate:		
Fixed-rate borrowings	1% to 3%	1% to 3%
Variable-rate borrowings	4.75% to 7.5%	3% to 9%

30. OBLIGATIONS UNDER A FINANCE LEASE

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

	Minimum lease payments		**Present value of minimum lease payments**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under a finance lease				
Within one year	110	110	92	92
In more than one year but not more than two years	110	110	92	92
In more than two years but not more than three years	110	110	92	92
In more than three years but not more than four years	11	110	8	92
In more than four years but not more than five years	–	11	–	8
	341	451	284	376
Less: future finance charges	(57)	(75)		
Present value of lease obligations	284	376		
Less: Amount due for settlement with 12 months (shown under current liabilities)			(92)	(92)
Amount due for settlement after 12 months			192	284

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

31. 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, 2006	677
Credit to consolidated income statement for the year	(206)
At 31st December, 2006	471
Charge to consolidated income statement for the year	37
At 31st December, 2007	508

At 31st December, 2007, the Group has unused tax losses of approximately HK$77,042,000 (2006: HK$38,099,000) 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.

32. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st January, 2006 and 31st December, 2006 and 31st December, 2007	1,000,000,000	100,000
Issued and fully paid:		
At 1st January, 2006 and 1st January, 2007	330,000,000	33,000
Issue of shares *(note a)*	30,000,000	3,000
Open Offer *(note b)*	180,000,000	18,000
Issue of shares *(note c)*	36,000,000	3,600
At 31st December, 2007	576,000,000	57,600

The shares issued during the year rank pari passu with the then existing shares in all respects.

Notes:

(a) On 29th May, 2007, arrangements were made for a private placement of new shares to Capeland Holdings Limited ("Capeland"), a company incorporated in the British Virgin Islands, the entire issued share capital of which is wholly and beneficially owned by Mr. Wong of 30,000,000 shares of HK$0.10 each in the Company, at a price of HK$1.33 per share representing a premium of approximately 5% to the closing market price of HK$1.267 per share of the Company on 29th May, 2007.

Pursuant to a subscription agreement of the same date, Capeland subscribed for 30,000,000 new shares of HK$0.10 each in the Company at a price of HK$1.33 per share. The proceeds were used to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 31st May, 2007 and rank pari passu with the then existing shares in issue in all respects.

(b) On 14th September, 2007, the Company had completed the Open Offer by issuing 180,000,000 shares ("Open share(s)") on the basis of one Open share for every two existing shares, at the subscription price at HK$0.50 each. The proceeds were used to further strengthen its financial position and expand its capital base and business.

(c) On 17th September, 2007, arrangements were made for another private placement to Capeland of 36,000,000 shares of HK$0.10 each in the Company, at a price of HK$0.57 per share representing a discount of approximately 16% to the closing market price of HK$0.68 per share of the Company on 17th September, 2007.

Pursuant to a subscription agreement of the same date, Capeland subscribed for 36,000,000 new shares of HK$0.10 each in the Company at a price of HK$0.57 per share. The proceeds were used to provide additional working capital for the Company. These new shares rank pari passu with the then existing shares in issue in all respects.

33. 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 exercisable 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 quotation 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	Outstanding at 1st January, 2006	Granted during the year	Outstanding at 1st January, 2007	Granted during the year	Adjustments	Forfeited during the year	Outstanding at 31st December, 2007
				HK$					*(note)*		
Directors	23.6.2006	23.6.2006 to 24.12.2006	24.12.2006 to 20.8.2011	0.841	–	1,968,000	1,968,000	–	228,288	(732,096)	1,464,192
	10.5.2007	10.5.2007 to 22.11.2007	22.11.2007 to 20.8.2011	0.789	–	–	–	9,750,000	1,131,000	(3,906,000)	6,975,000
Employees	23.6.2006	23.6.2006 to 24.12.2006	24.12.2006 to 20.8.2011	0.841	–	656,000	656,000	–	76,096	–	732,096
	10.5.2007	10.5.2007 to 22.11.2007	22.11.2007 to 20.8.2011	0.789	–	–	–	2,250,000	261,000	–	2,511,000
					–	2,624,000	2,624,000	12,000,000	1,696,384	(4,638,096)	11,682,288

Note: The number and exercise price of the share options were adjusted as a result of the completion of Open Offer in the proportion of one Open share for every two existing shares held on 24th August, 2007. The exercise prices shown above represent the adjusted exercise prices as at 31st December, 2007.

The closing price of the shares of the Company on 10th May, 2007 immediately before the grant of the share options was HK$0.753 per share.

During the year ended 31st December, 2007, options were granted on 10th May. The estimated fair values of the options granted for the year is HK$2,695,000. During the year ended 31st December, 2006, options were granted on 23rd June. The estimated fair values of the options granted for the year was HK$523,000.

Upon the cessation of the directorship, the Company forfeited 4,638,096 share options during the year and the estimated fair value of share options being transferred to accumulated losses was amounting to HK$917,000.

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

	2007	**2006**
Closing share price at the date of grant	HK$0.753	HK$0.93
Exercise price	HK$0.789	HK$0.938
Expected volatility	40.11%	23.28%
Expected life	3 years	3 years
Risk-free rate	3.98%	4.70%
Expected dividend yield	N/A	N/A
Fair value per share option	HK$0.225	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.

The consideration of HK$8 was received during the year for taking up the options granted.

The Group recognised the total expense of HK$2,695,000 for the year ended 31st December, 2007 (2006: HK$523,000) in relation to share options granted by 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.

34. OPERATING LEASE COMMITMENTS

Minimum lease payments under operating leases during the year:

	2007 *HK$'000*	**2006** *HK$'000*
Premises	2,195	1,357

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

	2007 *HK$'000*	**2006** *HK$'000*
Within one year	3,004	214
In the second to fifth years inclusive	2,610	–
	5,614	214

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.

35. CAPITAL COMMITMENTS

At 31st December, 2007, the Group had no capital commitment (2006: HK$20,058,000, which was contracted for the investment in a joint venture in the PRC).

36. OTHER COMMITMENTS

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

	2007	2006
	HK$'000	*HK$'000*
Production of a film	1,822	157
Artists' fees	4,859	16,783
	6,681	16,940

37. BANKING FACILITIES AND PLEDGE OF ASSETS

At 31st December, 2007, 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$1,134,000, included in film production in progress at 31st December, 2007 (2006: HK$4,200,000);

(4) the assignment of income receivables to be derived from the licensing of the film "Wonder Woman" (2006: "Dragon Tiger Gate") in all territories throughout the world;

(5) certain of its prepaid lease payments and buildings with a carrying value of HK$3,388,000 (2006: HK$3,559,000); and

(6) bank deposits as set out in note 26.

38. 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 employees.

The employees of the Company'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.

During the year, the retirement benefit scheme contributions amounted to approximately HK$658,000 (2006: HK$607,000).

39. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Company had completed the acquisition of property interest in Chengdu through the acquisition of the entire equity interest in Profit Source International Limited, a company which holds 90% equity interest in Chengdu Zhougfa Real Estate Development Co., Ltd, a joint venture enterprise in the PRC. The total consideration for the acquisition is HK$240 million. Details are set out in the circular issued by the Company on 12th March, 2008.

40. RELATED PARTY DISCLOSURES

(i) Related party transactions

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

Nature of transactions	*Notes*	**2007** *HK$'000*	**2006** *HK$'000*
Agency fees paid	(a)	568	874
Rental expenses paid	(b)	983	–

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 rental expenses for certain office premises are paid to Pure Project Limited, a related company in which Mr. Wong Pak Ming, the director of the Company has beneficial interest.

(ii) Compensation of key management personnel

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

	2007 *HK$'000*	**2006** *HK$'000*
Short term benefits	4,548	3,600
Retirement benefit scheme contributions	62	60
Share-based payment expenses	2,190	390
	6,800	4,050

The remuneration of directors 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 other loans of HK$13,036,000 (2006: HK$13,046,000) from Mr. Zhang Xun, a substantial shareholder of the Company, as at the respective balance sheet dates are set out in the Notes 24, 25, and 29 to the consolidated financial statements.

41. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 31st December, 2007 and 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 % 2007	2006	Principal activities
Adore Capital Limited	BVI	US$1 ordinary shares	100	–	Investment holding
Chili Advertising & Promotions Limited	Hong Kong	HK$10,000 ordinary shares	100	100	Provision of advertising and promotional services
Ease Brilliant Limited	Hong Kong	HK$1 ordinary shares	100	–	Property holding
Fame Sight Investment Limited	Hong Kong	HK$1 ordinary shares	100	–	Investment holding
Good Phase Limited	Hong Kong	HK$1 ordinary shares	100	–	Inactive
Grimston Limited	BVI/ Hong Kong	US$10,000 ordinary shares	100	100	Investment holding
Mandarin Films Distribution Company Limited	Hong Kong	HK$20 ordinary shares HK$10,000,000 non-voting deferred shares *(note)*	100	100	Distribution of films produced or purchased by the Group
Mandarin Films Distribution Co., Ltd.	BVI	US$10,000 ordinary shares	100	100	Distribution of films produced or purchased by the Group
Mandarin Films Limited	Hong Kong	HK$100 ordinary shares	100	100	Production and distribution of films
Mandarin Laboratory Limited	Hong Kong	HK$10,000 ordinary shares	100	100	Distribution of films produced by third parties
Mandarin Laboratory (International) Limited	Hong Kong	HK$1,000,000 ordinary shares	100	100	Film processing and storage of films
Mandarin Motion Picture Limited	Hong Kong	HK$500,000 ordinary shares	100	100	Production of films
Mega Fame Corporation Limited	Hong Kong	HK$1 ordinary shares	100	–	Investment holding
Sino Step Inc.	BVI	US$1 ordinary shares	100	–	Investment holding
Walsbo Limited	Hong Kong	HK$2 ordinary shares HK$9,800 non-voting deferred shares *(note)*	100	100	Investment holding
Well Merit (Hong Kong) Limited	Hong Kong	HK$1 ordinary shares	100	–	Securities trading

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 and Adore Capital Limited. All other interests shown above are indirectly held.

42. SUMMARISED BALANCE SHEET OF THE COMPANY

The summarised balance sheet of the Company as at 31st December, 2007 is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
ASSETS		
Investments in subsidiaries	6,172	6,172
Amounts due from subsidiaries	154,969	39,651
Prepayment	–	145
Bank balances and cash	30,397	66
	191,538	46,034
LIABILITY		
Accrued charges	96	408
	191,442	45,626
CAPITAL AND RESERVES		
Share capital	57,600	33,000
Reserves *(note)*	133,842	12,626
	191,442	45,626

Note:

Reserves

	Share premium	**Contributed surplus**	**Share options reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2006	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
At 31st December, 2006	34,653	44,072	523	(66,622)	12,626
Loss for the year	–	–	–	(3,451)	(3,451)
Placing of new shares	125,820	–	–	–	125,820
Transaction costs attributable to issue of shares	(3,848)	–	–	–	(3,848)
Transferred to accumulated losses on forfeiture of share options	–	–	(917)	917	–
Recognition of equity-settled share-based payment expenses	–	–	2,695	–	2,695
At 31st December, 2007	156,625	44,072	2,301	(69,156)	133,842

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. STATEMENT OF INDEBTEDNESS

Borrowings and debt securities

At the close of the businesses on 31 May 2008, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this circular, the Group had indebtedness of approximately HK$240,456,000 comprising secured bank loans of approximately HK$2,329,000 (of which approximately HK$2,169,000 are repayable within one year and approximately HK$160,000 are repayable in second to fifth years inclusive), bank overdraft of approximately HK$2,900,000, secured loans of approximately HK$15,769,000 (of which approximately HK$15,504,000 are repayable within one year and approximately HK$265,000 are repayable in the second to fifth years inclusive), provision of loss on guarantee of approximately HK$137,787,000, liability component of Convertible Bonds of approximately HK$50,527,000 (i.e. face value of HK$70,000,000 less equity component of HK$19,473,000), unsecured amounts due to shareholders of HK$30,000,000, unsecured amount due to a related company of approximately HK$899,000 and obligation under finance lease of approximately HK$245,000.

As at 31 May 2008, the Group's secured bank loans are secured by legal charge over the copyright of a film with a carrying value of HK$1,133,922, the assignment of income receivable derived from the licensing of the film in all territories throughout the world, leasehold land and building with net book value of approximately HK$970,000, personal guarantee given by a director of the Company and corporate guarantee given by the Company. The bank overdraft is secured by corporate guarantee given by the Company and personal guarantee given by a director of Company. Secured loans are secured by corporate guarantee given by the Company. Obligation under finance lease is secured by motor vehicle with net book value of approximately HK$239,000.

Details of the provision of loss on guarantee of approximately HK$137,787,000 (RMB122,630,000)are set out in page III-7 to this circular.

Contingent liabilities

As at 31 May, 2008, majority part of the investment property of a PRC subsidiary of the Company had been pledged to third parties for banking facilities to the extent of approximately HK$150,921,000 (RMB134,320,000). In relation to these banking facilities, several judgments in the total amount of approximately HK$137,787,000 (RMB122,630,000) have been issued by the Court in PRC during the period up to 31 May, 2008 and provision for loss on guarantee of the same amount had been recognized by the Group. Accordingly, the Group had contingent liabilities in the amount of approximately HK$13,134,000 (RMB11,690,000) in this respect.

Save as aforesaid, the Group had no other material contingent liabilities as at 31 May, 2008.

Commitments

As at 31 May 2008, the Group had operating lease commitments of approximately HK$3,637,000 (of which approximately HK$2,835,000 is repayable within one year and approximately HK$802,000 is repayable in the second to fifth years, inclusive) in respect of rental of premises under operating lease arrangements.

Disclaimer

Save as aforesaid, and apart from intra-group liabilities, and normal trade payables, the Group did not have any bank overdrafts, loans, debt securities issued and outstanding, authorised or otherwise created but unissued, term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 31 May 2008.

4. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, taking into consideration the financial resources available to the Group including internally generated funds and the estimated net proceeds from the Open Offer (if the Open Offer becomes unconditional), the Group will have sufficient working capital for at least twelve months from the date of this circular.

5. MATERIAL CHANGE

The Company announced on 6 February 2008 that on 25 January 2008, Sino Step Inc., a wholly-owned subsidiary of the Company entered into a conditional sale and purchase agreement subsequently amended by a supplemental agreement dated 5 February 2008 as purchaser with Mr. Cheng Keung Fai and Ms. Lam Suet Chung as vendors in respect of (i) the sale and purchase of two (2) shares of HK$1.00 each in the share capital of Profit Source International Limited, representing its entire issued share capital as at the date of the Agreement and all obligations, liabilities and debts owing or incurred by the Target to the Vendors on completion of the Agreement for a total consideration of HK$240,000,000.

Save as disclosed above, the Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2007 (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

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 2007.

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

	Audited adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2007	Estimated net proceeds from the Open Offer	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company upon completion of the Open Offer	Audited adjusted consolidated net tangible assets per Share as at 31 December 2007	Unaudited pro forma adjusted consolidated net tangible assets per Share immediately upon completion of the Open Offer
	(note 1)	*(note 2)*		*(note 3)*	*(note 4)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$*	*HK$*
Open Offer on the basis of nineteen offer shares for every ten shares held	108,727	105,440	214,167	0.1888	0.1282

Notes:

(1) This figure represented the consolidated net assets (HK$162,649,000) less the intangible assets, being film rights (HK$720,000) and production in progress (HK$53,202,000) and these figures are extracted from the audited consolidated balance sheet of the Company as at 31 December 2007.

(2) The estimated net proceeds from the Open Offer are based on the gross proceeds from the Open Offer of 1,094,400,000 offer shares (calculated on the basis of nineteen Offer Shares for every ten Shares held based on 576,000,000 Share in issue as at 31 December 2007) at the Subscription Price of HK$0.1 per offer share totalling approximately HK$109,440,000, after the deduction of the commission and professional fee in relation to the Open Offer of approximately HK$4,000,000.

(3) The audited adjusted consolidated net tangible assets per Share before completion of the Open Offer is based on 576,000,000 Shares in issue as at 31 December 2007.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share immediately upon 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 on the basis of 1,670,400,000 Shares issued and issuable, comprising 576,000,000 Shares in issue as at 31 December 2007 and 1,094,400,000 offer shares to be issued.

(5) The Unaudited Pro Forma Financial Information has not taken into account the effect of the issue of 175,000,000 new shares on 18 April, 2008 at the total consideration of HK$70,000,000.

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

Robert Chui & Co.

2109 China Resources Building
26 Harbour Road, Wanchai
Hong Kong

25 July 2008

The Board of Directors
Mandarin Enterainment (Holdings) Limited
Suite 1511
No. 9 Queen's Road Central
Hong Kong

Dear Sirs,

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") ("the Unaudited Pro Forma Financial information") set out in Appendix II to the circular dated 25 July 2008 (the "Circular") in connection with the Open Offer of not less than 1,426,900,000 Offer Shares but not more than 1,569,400,000 Offer Shares at HK$0.1 per Offer Share on the basis of nineteen Offer Shares for every ten 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 on pages II-1 to II-2 to the Circular.

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 ("HKICPA").

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 HKICPA. 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.

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 2007 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.

Yours faithfully,
Robert Chui & Co.
Certified Public Accountants (Practising)
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the circular and confirm, having made all enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular the omission of which would make any of their statements in this circular misleading.

2. SHARE CAPITAL

(a) Share capital as at the Latest Practicable Date

Authorised		*HK$*
10,000,000,000	Shares	1,000,000,000
Issued and fully paid:		
751,000,000	Shares as at the Latest Practicable Date	75,100,000

(b) Share capital upon the completion of the Open Offer and assuming no exercise of the Share Options and no conversion of the outstanding Convertible Bonds on or before the Record Date

Authorised		*HK$*
10,000,000,000	Shares	1,000,000,000
Issued and fully paid:		
751,000,000	Shares as at the Latest Practicable Date	75,100,000
1,426,900,000	Offer Shares to be issued pursuant to the Open Offer (assuming no exercise of the Share Options and no conversion of the outstanding Convertible Bonds on or before the Record Date)	142,690,000
2,177,900,000	Share upon completion of the Open Offer	217,790,000

(c) Share capital upon the completion of the Open Offer and assuming full conversion of the Share Options and full conversion of the outstanding Convertible Bonds on or before the Record Date

Authorised		*HK$*
10,000,000,000	Shares	1,000,000,000
Issued and fully paid:		
826,000,000	Shares as at the Latest Practicable Date	82,600,000
1,569,400,000	Offer Shares to be issued pursuant to the Open Offer (upon full conversion of the outstanding HK$30,000,000 Convertible Bonds on or before the Record Date)	156,940,000
2,395,400,000	Share upon completion of the Open Offer	239,540,000

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Offer Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares.

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 Offer Shares or any other securities of the Company to be listed or dealt in any other stock exchange.

3. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and 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 the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken 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 to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows.

(i) Interests in Shares:

Name of Director/chief executive of the Company	Capacity: Interest in controlled corporation	Capacity: Beneficial owner	Capacity: Family	Total	Position	Approximate Percentage of the total issued share capital of the Company as at the Latest Practicable Date
Mr. Wong *(note)*	228,300,000	2,593,000	411,000	231,304,000	Long	30.08%
Ms. Wong Yee Kwan, Alvina	–	4,212,000	–	4,212,000	Long	0.56%
Mr. E. Wong	–	2,586,000	–	2,586,000	Long	0.34%

Note: Mr. Wong is beneficially interested in 3,004,000 Shares. Mr. Wong is also the sole beneficial owners of the entire issue share capital of Idea Storm which holds 155,000,000 Shares and Capeland which holds 73,300,000 Shares. Accordingly Mr. Wong is deemed to be interested in 231,304,000 Shares. Ms. Zee Ven Chu Lydia, being the spouse of Mr. Wong, is also deemed to be interested in 231,304,000 Shares.

(ii) Interests in Share Options under share option scheme adopted on 21 August 2001:

Name of Director/ chief executive of the Company	Exercise period	Exercise price	Position	Number of share option
Mr. Wong	24 December 2006 to 20 August 2011	HK$0.841	Long	366,048
	11 November 2007 to 20 August 2011	HK$0.789	Long	1,395,000
Ms. Wong Yee Kwan, Alvina	24 December 2006 to 20 August 2011	HK$0.841	Long	366,048
	11 November 2007 to 20 August 2011	HK$0.789	Long	1,395,000
Mr. E. Wong	24 December 2006 to 20 August 2011	HK$0.841	Long	366,048
	11 November 2007 to 20 August 2011	HK$0.789	Long	1,395,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) 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 (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 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 share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Substantial Shareholders:

Name of Shareholders	Number of Shares	Position	Capacity	Approximate percentage of the total issued share capital of the Company as at the Latest Practicable Date
Idea Storm *(note 1)*	155,000,000	Long	Beneficial owner	20.64%
Capeland *(note 1)*	73,300,000	Long	Beneficial owner	9.76%
Mr. Cheng *(note 2)*	175,000,000	Long	Beneficial owner	23.30%

Notes:

(1) Mr. Wong is beneficially interested in 3,004,000 Shares. Mr. Wong is also the sole beneficial owners of the entire issue share capital of Idea Storm which holds 155,000,000 Shares and Capeland which holds 73,300,000 Shares. Accordingly Mr. Wong is deemed to be interested in 231,304,000 Shares. Ms. Zee Ven Chu Lydia, being the spouse of Mr. Wong, is also deemed to be interested in 231,304,000 Shares.

(2) Mr. Cheng was one of the vendors in connection to the Acquisition and he has become a substantial Shareholder through his beneficial interest in 175,000,000 Shares and the Convertible Bonds, being part of the consideration of the Acquisition on 18 April 2008.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. MATERIAL CONTRACTS

Saved as disclosed below, no other contract (not being contracts in the ordinary course of business) had been entered into by any member of the Group within two years immediately preceding the date of this circular and up to the Latest Practicable Date which are or may be material:

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, a company wholly and beneficially owned by Mr. Wong, in respect of the subscription of 30,000,000 Shares at HK$1.33 each;

4. the underwriting agreement dated 19 July 2007 entered into between the Company, Mr. Wong Pak Ming and the Underwriter in relation to the open offer of the Company;

5. the placing agreement dated 17 September 2007 entered into between the Company and Orient Securities Limited as placing agent in relation to the placing of 36,000,000 existing shares of the Company at the placing price of HK$0.57 per share on the best efforts basis;

6. the subscription agreement dated 17 September 2007 entered into between the Company and Capeland, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by Mr. Wong Pak Ming as subscriber in relation to the subscription of 36,000,000 shares of the Company at the subscription price of HK$0.57 per share;

7. the property acquisition agreement dated 12 November 2007 entered into between GUH, Grand Unique Holdings Limited as vendor and Ease Brilliant Limited, an indirect wholly-owned subsidiary of the Company as purchaser;

8. the property acquisition agreement dated 14 November 2007 entered into between Mr. Yuen Avent Gar Kit as vendor and Good Phase Limited, an indirect wholly-owned subsidiary of the Company as purchaser;

9. the counter-guarantee agreements dated 19 May 2006 and 28 June 2007 entered into by a PRC subsidiary of the Company in relation to the charges of the Property;

10. the conditional sale and purchase agreement dated 25 January 2008 and the supplemental agreement dated 5 February 2008 both entered into among Sino Step Inc., a wholly-owned subsidiary of the Company, as purchaser and Mr. Cheng Keung Fai and Ms. Lam Suet Chung as vendors in respect of (i) the sale and purchase of two (2) shares of HK$1.00 each in the share capital of Profit Source International Limited, representing its entire issued share capital as at the date of the Agreement and all obligations, liabilities and debts owing or incurred by the Target to the Vendors on completion of the Agreement for a total consideration of HK$240,000,000; and

11. the Underwriting Agreement.

5. LITIGATION

Chengdu Zhongfa Real Estate Development Co. Ltd.# (成都中發黃河實業有限公司), a 90% owned subsidiary of the Company and Chengdu Renmin Plaza Huanghe Commercial City Limited# (成都人民商場黃河商業城有限責任公司) are jointly and severally sued by Renmin Plaza (Group) Limited# (人民商場(集團)股份有限公司) under seven civil litigations action numbers in the PRC for an aggregate damages sum of approximately RMB116,010,000. Awards have been made by the courts in the PRC in favour of Renmin Plaza (Group) Limited# (人民商場(集團)股份有限公司). Chengdu Zhongfa Real Estate Development Co. Ltd.# (成都中發黃河實業有限公司), and Chengdu Renmin Plaza Huanghe Commercial City Limited# (成都人民商場黃河商業城有限責任公司) are liable to pay Renmin Plaza (Group) Limited# (人民商場(集團)股份有限公司) an aggregate damages sum of approximately RMB116,010,000 plus interest accrued thereon from the respective dates of the damages awarded, and the legal costs of approximately RMB650,092.

Pursuant to a civil litigation action number (2007) 成民初字第941號 in the PRC, Chengdu Zhongfa Real Estate Development Co. Ltd.# (成都中發黃河實業有限公司) was ordered by the court to pay Chengdu Songde Investment Limited# (成都崇德投資有限公司) under a City claiming for the sum of approximately RMB6.62 million plus interest accrued thereon from the date of damages awarded.

Setting out below are the details of each of the above mentioned civil actions, damages payable and the relevant judgement dates in respect of each of the above mentioned civil actions.

Action nos.	**Date of judgement**	**Final damage to be made RMB**
(2005) 成民初字第138號	2 June 2005	2,010,000
(2006) 成民初字第608號	5 September 2006	3,000,000
(2006) 成民初字第616號	5 September 2006	27,000,000
(2007) 成民初字第165號	14 May 2007	17,690,000
(2007) 成民初字第270號	23 May 2007	27,250,000
(2007) 成民初字第241號	24 May 2007	22,750,000
(2007) 成民初字第205號	30 May 2007	16,310,000
(2007) 成民初字第941號	16 November 2007	6,620,000
	total:	122,630,000

Details of the litigations have been disclosed in an announcement made by the Company dated 6 February 2008 and the circular made by the Company dated 12 March 2008. The acquisition of Chengdu Zhongfa Real Estate Development Co. Ltd.# (成都中發黃河實業有限公司) was completed on 18 April 2008. As at the Latest Practicable Date, none of the above damages has been paid by Chengdu Zhongfa Real Estate Development Co. Ltd.# (成都中發黃河實業有限公司).

Save as disclosed above, as at the Latest Practicable Date, none of the member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

\# the English translations of Chinese names or words in this circular, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.

6. DIRECTORS' SERVICE CONTRACTS

Mr. Wong, an executive Director, has entered into a service contract with the Company on 21 August 2001 for an initial term of two-year commencing from 1 September 2001 and shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice. As at the Latest Practicable Date, Mr. Wong is entitled to an annual remuneration of HK$1,800,000 and monthly rental reimbursement in the sum not exceeding HK$50,000.

Ms. Wong Yee Kwan, Alvina an executive Director, has entered into a service contract with the Company on 1 September 2003 for an initial term of two-year commencing from 1 September 2003 and shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice. As at the Latest Practicable Date, Ms. Wong is entitled to an annual remuneration of HK$624,000 and she is also entitled to a year end bonus equivalent not exceeding (5) percent of the net profit of the relevant financial year.

Ms. Law Kee, Alice, an executive Director, has entered into a service contract with the Company on 6 October 2007 for an initial term of one year commencing from 16 October 2007 and shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice. As at the Latest Practicable Date, Ms. Law is entitled to a monthly remuneration of HK$30,000.

Mr. E. Wong, an executive Director, has entered into a service contract with the Company on 3 June 2008 for an initial term of one year commencing from 3 June 2008 and shall continue unless terminated by not less than three month's notice in writing served by either party. Pursuant to his service contract, Mr. E. Wong is entitled to an annual remuneration of HK$300,000 (including any sum receivable as director's fee or other remuneration from any member of the Group) which was determined with reference to his duties and responsibilities with the Company. He is also entitled to a year end bonus equivalent to one month's basic salary payable around Chinese New Year.

Mr. Choy Sze Chung, Jojo has signed an appointment letter with the Company on 29 August 2007 for an initial term of one year commencing from 1 September 2007 which is extendable for such period as Mr. Choy and the Company may agree in writing. Pursuant to his letter of appointment, Mr. Choy's remuneration is fixed at HK$120,000 per annum, which commensurate with his duties and responsibilities as the independent non-executive Director and the prevailing market situation.

Mr. Tsui Pui Hung, Walter has signed an appointment letter with the Company on 6 September 2007 for an initial term of one year commencing from 10th September 2008 which is extendable for such period as Mr. Tsui and the Company may agree in writing. Pursuant to his letter of appointment, Mr. Tsui's remuneration is fixed at HK$120,000 per annum, which commensurate with his duties and responsibilities as the independent non-executive Director and the prevailing market situation.

Mr. Chan has signed an appointment letter with the Company on 3 June 2008 for an initial term of one year commencing from 3 June 2008 which is extendable for such period as Mr. Chan and the company may agree in writing. Pursuant to his letter of appointment, Mr. Chan's remuneration is fixed at HK$120,000 per annum, which commensurate with his duties and responsibilities as the independent non-executive Director and the prevailing market situation.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

7. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

(a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up.

(b) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates (as defined in the Listing Rules) had any interest in a business which compete or may compete either directly or indirectly with the business of the Group.

9. EXPERT AND CONSENT

The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

Name	Qualification
Veda Capital	Veda Capital Limited, a licensed corporation to carry on business in type 6 (advising on corporate finance) regulated activities under the SFO, an independent financial adviser to the Independent Board Committee
Robert Chui & Co.	Certified Public Accountants

1. None of Veda Capital and Robert Chui & Co. has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

2. Each of Veda Capital and Robert Chui & Co. has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion or report in the form and context in which they are included.

3. None of Veda Capital and Robert Chui & Co. had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Group were made up.

10. DETAILS OF THE DIRECTORS TO BE RE-ELECTED

Mr. Wong Chi Woon, Edmond

Mr. E. Wong, aged 29, is a son of Mr. Wong, the chairman of the Company. Mr. E. Wong holds a bachelor degree in social science from McMaster University, Ontario, Canada, majored in economics. He joined the Group in 2002 and is now the creative director of the Group supervising the film production unit. He has over 6 years experience in film industry as scriptwriter and editor.

Mr. E. Wong has signed a service contract with the Company on 3 June 2008 for an initial term of one year commencing from 3 June 2008 and shall continue unless terminated by not less than three month's notice in writing served by either party. Pursuant to his service contract, Mr. E. Wong is entitled to an annual remuneration of HK$300,000 (including any sum receivable as director's fee or other remuneration from any member of the Group) which was determined with reference to his duties and responsibilities with the Company. He is also entitled to a year end bonus equivalent to one month's basic salary payable around Chinese New Year.

As at the Latest Practicable Date, Mr. E. Wong personally holds 2,586,000 Shares, representing approximately 0.344% of the issued share capital of the Company. Save as disclosed above, Mr. E. Wong does not have any other interests in the Shares within the meaning of Part XV of the SFO. Save as disclosed above, Mr. E. Wong does not have any relationship with any other directors, senior management or substantial or controlling Shareholders (as defined in the Listing Rules) of the Company. Other than the present appointment, he did not hold any directorship in other listed companies over the last three years.

There is no information relating to Mr. E. Wong that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules. Save as disclosed above, the Company is not aware of any other matters that need to be brought to the attention of the Shareholders in relation to Mr. E. Wong's appointment as the executive Director.

Mr. Chan Tung Tak, Alain

Mr. Chan, aged 53, is a chartered architect in United Kingdom. He obtained a bachelor degree in architecture from the Polytechnic of North London, United Kingdom. He is also the members of Architects Registration Council in UK, Royal Institute of British Architect in UK and Royal Architectural Institute of Canada.

Mr. Chan has signed an appointment letter with the Company on 3 June 2008 for an initial term of one year commencing from 3 June 2008 which is extendable for such period as Mr. Chan and the Company may agree in writing. Pursuant to his letter of appointment, Mr. Chan's remuneration is fixed at HK$120,000 per annum, which commensurate with his duties and responsibilities as the independent non-executive Director and the prevailing market situation.

Mr. Chan does not have any interest in the Shares within the meaning of Part XV of the SFO. Save as being the cousin of Mr. Choy Sze Chung, Jojo, an independent non-executive Director, Mr. Chan does not have any other relationship with any directors, senior management or substantial or controlling shareholders (as defined in the Listing Rules) of the Company. Other than the present appointment, he did not hold any directorship in other listed companies over the last three years. There is no information relating to Mr. Chan that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

Save as disclosed above, the Company is not aware of any other matters that need to be brought to the attention of the Shareholders of the Company in relation to Mr. Chan's appointment as the independent non-executive Director, the member of audit committee and the chairman of the remuneration committee of the Company.

11. PARTIES INVOLVED IN THE OPEN OFFER AND CORPORATE INFORMATION

Head office and principal place of business	Suite 1511 No.9 Queen's Road Central Hong Kong
Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Underwriter	Orient Securities Limited 28/F, Dah Sing Financial Centre No. 108 Gloucester Road Wanchai Hong Kong
Financial adviser	Grand Vinco Capital Limited Units 4909-10, 49th Floor The Center 99 Queen's Road Central Hong Kong
Independent financial adviser to the Independent Board Committee in relation to the Open Offer	Veda Capital Limited Suite 1302, 13/F, Takshing House 20 Des Voeux Road Central Hong Kong
Legal advisers	*On Hong Kong Law* Michael Li & Co. 14/F Printing House 6 Duddell Street, Central Hong Kong *On Bermuda Law* Conyers Dill & Pearman 2901, One Exchange Square 8 Connaught Place Central Hong Kong
Reporting accountants	Robert Chui & Co. 2109 China Resources Building 26 Harbour Road Wanchai Hong Kong

Principal bankers	Bank of China (Hong Kong) Ltd. Wing Lung Bank Ltd. The Hong Kong and Shanghai Banking Corporation Ltd.
Principal share registrar and transfer office	Butterfield Corporate Services Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
Hong Kong branch share registrar and transfer office	Tricor Standard Limited 26/F Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Authorised representatives	Mr. Wong Pak Ming Suite 1511 No.9 Queen's Road Central Hong Kong Ms. Law Kee, Alice Suite 1511 No.9 Queen's Road Central Hong Kong
Company secretary	Li Chi Chung
Qualified accountant	Kam Leung Ming

12. PARTICULARS OF DIRECTORS

The brief biographies of the Directors are set out below:

Executive Directors

Mr. WONG Pak Ming, aged 62, 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 25 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 Yee Kwan, Alvina, aged 32, is a daughter of Mr. Wong Pak Ming, was appointed as executive director of the Company on 1st September, 2003. Ms. Wong holds a Bachelor Degree in arts from University of Toronto and attained a certificate in marketing management issued by The George Brown College of Applied Arts and Technology. Prior to her appointment as executive director of the Company, she has been appointed a director of Chili Advertising & Promotions Limited ("Chili") since 20th August, 2000, the Company's subsidiary which is engaged in provision of promotional services for films. Ms. Wong now supervises Chili's overall operation and is also responsible for coordinating with media reporters and other promotional events organized by Chili.

Ms. LAW Kee, Alice, aged 41, is the Assistant President of the Company. Prior to joining the Group, she worked in several companies as Business Development and Marketing Promotion Executive. Ms. Law has over 15 years experience in Trading & IT-related business. She also has extensive experience in Management and Marketing Promotion areas.

Mr. WONG Chi Woon, Edmond, aged 29, is a son of Mr. Wong, the chairman of the Company. Mr. E. Wong holds a bachelor degree in social science from McMaster University, Ontario, Canada, majored in economics. He joined the Group in 2002 and is now the creative director of the Group supervising the film production unit. He has over 6 years experience in film industry as scriptwriter and editor.

Independent non-executive Directors

Mr. CHOY Sze Chung, Jojo, aged 49, is the Vice Chairman of National Resources Securities Limited. Mr. Choy has extensive experience in the securities industry and business management. Mr. Choy has been invited to various investment seminars. Mr. Choy obtained his Master of Business Administration Degree from University of Wales, Newport and his Master of Business Law Degree from Monash University. Mr. Choy is also the Vice Chairman of the Institute of Securities Dealers Limited, an Independent Non-executive Director of Chengdu PUTIAN Telecommunications Cable Company Limited, an Independent Non-executive Director of Zhaojin Mining Industry Company Limited, an Independent Non-executive Director of Jade Dynasty Group Limited, a Committee Member of Society of Registered Financial Planner Ltd., a Fellow Member of Institute of Financial Accountants, a Fellow Certified Financial Strategist of Hong Kong Institute of Investors, a Fellow Member of the Institute of Compliance Officer, a Member of CPPCC Shantou, a Honorary President of Shantou Overseas Friendship Association and the Committee Member of Rotary Club Kowloon West.

Mr. TSUI Pui Hung, aged 33, is a practicing solicitor of High Court of Hong Kong and an independent non-executive director of B.A.L. Holdings Limited. Mr. Tsui holds the degrees of a Master in Laws from University of London, a Bachelor of Laws (with Honours) from Manchester Metropolitan University, a Bachelor of Science (with Honours) from the Chinese University of Hong Kong, a Postgraduate Certificate in Laws from University of Hong Kong and a Diploma in Translation from the Chinese University of Hong Kong. Mr. Tsui has years of management experience and is familiar with internal control issues and regulatory rules of listed company.

Mr. CHAN Tung Tak, Alain, aged 53, is a chartered architect in United Kingdom. He obtained a bachelor degree in architecture from the Polytechnic of North London, United Kingdom. He is also the members of Architects Registration Council in UK, Royal Institute of British Architect in UK and Royal Architectural Institute of Canada.

13. MISCELLANEOUS

(a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is at Suite 1511, No. 9 Queen's Road Central, Hong Kong.

(c) The Company Secretary of the Company is Mr. Li Chi Chung is a solicitor admitted in Hong Kong.

(d) The qualified accountant of the Company is Mr. Kam Leung Ming, who is a Certified Public Accountant in Hong Kong and a member of The Institute of Chartered Accountants In England and Wales.

(e) The branch share registrar and transfer office of the Company is Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(f) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company at Suite 1511, No.9 Queen's Road Central, Hong Kong, during the period from the date of this circular up to and including completion of the Open Offer.

(a) the memorandum of association and bye-laws of the Company;

(b) the consolidated audited annual reports of the Group for the two years ended 31 December 2006 and 2007;

(c) the letter from Veda Capital containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Veda Capital" in this circular;

(d) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(e) the written consents referred to in the paragraph headed "Experts and consents" in this appendix;

(f) the letter from Robert Chui & Co. in respect of the pro forma financial information following completion of the Open Offer, the text of which is set out in appendix II to this circular;

(g) the service contract referred to in the paragraph headed "Service Contracts" in this appendix III to this circular;

(h) a copy of each of the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(i) the undertakings given by holders of Share Options in respect of not exercising their respective Share Options before the Latest Lodging Date; and

(j) a copy of each circular issued pursuant to the requirements set out in Chapter 14 and/or 14A which has been issued since 31 December 2007 (the date to which the latest published audited consolidated financial statements of the Group were made up).

MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED
東方娛樂控股有限公司*
(incorporated in Bermuda with limited liability)
(Stock Code: 00009)

NOTICE IS HEREBY GIVEN THAT a special general meeting (the "**SGM**") of Mandarin Entertainment (HOLDINGS) Limited (the "**Company**") will be held at 2:00 p.m. on Monday, 11 August 2008 at Rooms 1801-2, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong for the following purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** conditional upon: (a) the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant (subject to allotment) and not having revoked the listing of and permission to deal in the Offer Shares (as defined below) to be allotted and issued to the shareholders of the Company (the "**Shareholders**") pursuant to the terms and conditions of the Open Offer (as defined below); and (b) the fulfillment of the conditions set out in the underwriting agreement dated 2 July 2008 (the "**Underwriting Agreement**") between the Company and Orient Securities Limited as underwriter becoming unconditional and the Underwriting Agreement not being terminated in accordance with the terms thereof prior to 4:00 p.m. on the third business day after the last day for acceptance of Offer Shares (as defined below),

   (i) the issue by way of open offer (the "**Open Offer**") of not less than 1,426,900,000 shares (the "**Shares**") of HK$0.1 each in the share capital of the Company and not more than 1,569,400,000 Shares (the "**Offer Shares**") to the Shareholders whose names appear on the register of members of the Company on 11 August 2008 (excluding those Shareholders (the "**Prohibited Shareholders**") with registered addresses outside Hong Kong whom the board of directors (the "**Directors**") of the Company consider it necessary or expedient to exclude after making the relevant enquiries regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in the place where those overseas Shareholders reside) on the basis of nineteen Offer Shares for every ten Shares then held and otherwise pursuant to and in accordance with the terms and conditions set out in the circular dated on or before 25 July 2008 despatched by the Company to the Shareholders (a copy of which had been produced to the SGM marked "A" and signed by the chairman of the SGM for the purpose of identification) be and is hereby approved;

* *For identification purposes only*

(ii) the Directors be and are hereby authorised to allot and issue the Offer Shares pursuant to and in connection with the Open Offer notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the existing Shareholders and, in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements or Prohibited Shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company;

(iii) the Underwriting Agreement and the transactions contemplated thereby (including but not limited to the arrangement for the taking up of the unsubscribed Offer Shares, if any, by the Underwriter) be and are hereby approved, confirmed and ratified;

(iv) the absence of arrangements for application for the Offer Shares by the Shareholders in excess of their entitlements under the Open Offer as referred to in Rule 7.26A of the Rules Governing the Listing of Securities on the Stock Exchange be and the same is hereby approved, confirmed and ratified; and

(v) any Directors be and are hereby authorised to sign and execute such documents and do all such acts and things incidental to the Open Offer or as they consider necessary, desirable or expedient in connection with the implementation of or giving effect to the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder."

2. "**THAT** Mr. Wong Chi Woon, Edmond be and is hereby re-elected as executive Director."

3. "**THAT** Mr. Chan Tung Tak, Alain be and is hereby re-elected as independent non-executive Director."

By order of the Board
Mandarin Entertainment (HOLDINGS) Limited
Wong Pak Ming
Chairman

Hong Kong, 25 July 2008

Registered office
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business in Hong Kong:
Suite 1511
No.9 Queen's Road Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the SGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the SGM is enclosed with the circular of the Company dated 25 July 2008. Whether or not you intend to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.

3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.

4. In the case of joint holders of shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.