MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED
東 方 娛 樂 控 股 有 限 公 司

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

Annual Report 2008

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Ms. Lai Pik Chi, Peggy *(Chairman)*
Ms. Law Kee, Alice *(Chief Executive Officer)*
Mr. Kwok Tsz Wing *(Deputy Chairman)*
Mr. Wong Pak Ming
Mr. Hui Wai Lee, Willy

Independent Non-executive Directors:

Mr. Choy Sze Chung, Jojo
Mr. Tsui Pui Hung
Mr. Chan Tung Tak, Alain

COMPANY SECRETARY

Mr. Li Chi Chung

SOLICITORS

Michael Li & Co.
14th Floor, Printing House
6 Duddell Street
Central
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

PRINCIPAL BANKERS

ICBC (Asia) Limited
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Chong Hing Bank Limited

AUDIT COMMITTEE

Mr. Choy Sze Chung, Jojo *(Chairman)*
Mr. Tsui Pui Hung
Mr. Chan Tung Tak, Alain

REMUNERATION COMMITTEE

Mr. Chan Tung Tak, Alain *(Chairman)*
Mr. Choy Sze Chung, Jojo
Mr. Tsui Pui Hung
Mr. Wong Pak Ming
Mr. Kwok Tsz Wing

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
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1511
No. 9 Queen's Road Central
Hong Kong

CHAIRMAN'S STATEMENT

Dear Shareholders,

Together with our Chief Executive Officer Ms Law Kee, Alice, I was on board on 6 January 2009. We believe the year 2009 is a turning point and milestone for our Group.

Amid unprecedented economic uncertainty, strategic focus is critical. To welcome the new financial year, we have adjusted our business and cost structure in preparation of difficult days ahead while protecting our long-term growth investments, including disposed loss-making advertising business, secured a long-term tenancy for our investment property in Chengdu, Sichuan, the People's Republic of China (the "PRC"), as well changing our Company name and logo to reflect our commitment to our prospective balancing strategy.

Our leadership in filmmaking is again being recognized following our film "Ip Man" won the Best Film of the Year at the 28th Hong Kong Film Awards which also in the year of celebrating 100 years of film-making in Hong Kong.

May I now, on behalf of the Board, present you the Group's financial results for the year ended 31 December 2008.

I believe every of you would agree with me that the year 2008 presented extraordinary challenges. On the one hand, our motherland – the PRC – received the world attention and applause for organizing an unprecedented fantastic Olympic Game in the third quarter that affected most entertainment business in nearby regions. On the other hand, the world was hit by financial tsunami in the fourth quarter that seriously affected economies worldwide and placed tremendous stress on global financial markets.

Against this backdrop, with no exception, our Group recorded a significant loss of HK$228,682,000 for the year ended 31 December 2008 comparing with loss of HK$40,067,000 last year. The Board of Directors recommends no dividend payout for the year ended 31 December 2008 (2007: Nil).

In order to maintain our corporate transparency and to alert our shareholders of the significant loss recorded, in February 2009, we issued a profit warning for the year ended 31 December 2008.

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

The management team harbors no illusions about the uncertainties ahead. Yet we remain confident in the view that times like these are not only full of challenges but opportunities as well. Looking forward, we adhere to our business strategy of leveraging on our leading position in film-making industry and realizing selective growth opportunities in expanding our investment property portfolio. This strategy enables us to continue to produce the free cash flow necessary to maintain a prudent allocation of our capital, all to provide meaningful value to our stockholders.

CHAIRMAN'S STATEMENT

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend our sincere gratitude to all management and staff members for their diligence, dedication and contribution over the past years as well as the unceasing support from our business partners, bankers, and the Group's shareholders. With their continuing support, I believe the Group could achieve better result in the coming year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

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

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

INDUSTRY REVIEW

Film Industry

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

PRC Property Market

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

BUSINESS REVIEW

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

Film production business

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Film processing

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

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

Property investment

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

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

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

Advertising and Promotion business

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Businesses

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

CAPITAL STRUCTURE

On 18 April 2008, the Company issued 3.5 years zero-coupon convertible bonds with a nominal value of HK$70,000,000. The bonds are convertible at the option of the bondholders into fully paid ordinary shares with a par value of HK$0.10 each of the Company on or after 18 April 2008 up to and including 18 October 2011 at an initial conversion price of HK$0.40 per share. The conversion price was subsequently adjusted to HK$0.274 per share on 3 September 2008. The Group has an option to settle the conversion requested by bondholders in cash. The bonds are redeemable at the option of the Company at 100% of their principal amount six months after issue date on 18 April 2008. Any convertible bonds not converted will be redeemed on 18 October 2011 at 100% of their principal amount. Details of the convertible bonds are set out in note 30 to the financial statement.

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

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

BORROWING AND BANKING FACILITIES

As at 31 December 2008, the Group's outstanding short-term bank and other borrowings were approximately HK$25,481,000 (2007: HK$19,882,000). The main purpose of the borrowings was to finance the daily operation of the Group.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

EXPOSURE OF FOREIGN EXCHANGE

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

COMMITMENTS AND CONTINGENT LIABILITIES

Save for those disclosed in note 37 to the financial statements, there were no other capital commitments nor contingent liabilities that the Group is aware of.

STAFF COST, DIRECTOR'S REMUNERATION AND SHARE OPTION SCHEME

Staff cost for the year ended 31 December 2008 was HK$20.8 million (2007: HK$20.5 million) representing an increase of 1.5%. The Group had a workforce of about 89 staff (2007: 84 staff) at the end of 2008. Salaries of employees were maintained at competitive levels while bonuses were granted on a discretionary basis.

The Group has adopted a share option scheme under which the Directors of the Company may, at their discretion, invite eligible person to take up options which entitle them to subscribe for shares representing up to a maximum of 10% of the issued share capital of the company from time to time. For the year ended 31 December 2008, no options were granted. Details of share option scheme are set out in note 34 to the financial statement.

PROSPECTS

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

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

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

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

CORPORATE GOVERNANCE REPORT

(A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2008, all the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited were met by the Company save and except certain deviations as more specifically described below. The application of the relevant principles, and the reasons for the abovementioned deviation from a Code provision, are stated in the following sections.

(B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company who were in office during the financial year ended 31 December 2008, they have confirmed that they have complied with the Model Code during the financial year, except for Mr. Wong Pak Ming ("Mr. Wong").

Mr. Wong confirmed his compliance with the Company's code during the year except for one incident on 11 September 2008 when he, inadvertently and unintentionally, purchased 3,168,000 shares of the Company in the open market at an average price of HK$0.079 per share. This action breached the Model Code that a director should not deal in the shares of the Company during the "blackout period", that is 1 month before the date which the Company announces its results. Mr. Wong reported this mishap to the Stock Exchange on 12 September 2008 and 23 September 2008 in his covering letters filing his disclosure of interests on the purchase.

(C) BOARD OF DIRECTORS

(I) Composition of the Board, number of Board meetings and Directors' attendance

The Company's Board comprises experience and high caliber individuals and a balanced composition of executive and non-executive directors. 20 Board meetings were held during the financial year ended 31 December 2008. The composition of the Board and attendance of the Directors are set out below:

Directors	Attendance at Meetings
Executive Directors:	
Mr. Wong Pak Ming	20 / 20
Ms. Wong Yee Kwan, Alvina *(resigned on 1 April 2009)*	18 / 20
Ms. Law Kee, Alice	20 / 20
Ms. Wong Kit Fong *(resigned on 29 May 2008)*	5 / 5
Mr. Wong Chi Woon, Edmond *(appointed on 3 June 2008 and resigned on 13 February 2009)*	13 / 14
Ms. Lai Pik Chi, Peggy *(appointed on 10 October 2008)*	7 / 7
Independent non-executive Directors:	
Mr. Choy Sze Chung, Jojo	12 / 20
Mr. Tsui Pui Hung	16 / 20
Mr. Tang Kai Kui, Terence *(resigned on 29 May 2008)*	2 / 5
Mr. Chan Tung Tak, Alain *(appointed on 3 June 2008)*	6 / 14

CORPORATE GOVERNANCE REPORT

Each Director has been appointed on the strength of his/her calibre, experience and stature, and his/her potential to contribute to the proper guidance of the Group and its businesses. Apart from formal meetings, matters requiring Board approval were arranged by means of circulation of written resolutions.

(II) Operation of the Board

The Company is headed by an effective Board which takes decisions objectively in the interests of the Company. The Company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. Where these changes are pertinent to the Company or Directors' disclosure obligations, the Directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group.

Newly appointed Directors receive briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Company has also provided appropriate information in a timely manner to the Directors to enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

(D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

As at 31 December 2008, Mr. Wong is both the chairman and founder of the Group. The Company has no such title as the chief executive officer and therefore the daily operation and management of the Company is oversight by Mr. Wong with the assistance of the executive directors as well as the senior management.

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

Ms. Wong Kit Fong is Mr. Wong's sister, Ms. Wong Yee Kwan, Alvina is Mr. Wong's daughter and Mr. Wong Chi Woon, Edmond is Mr. Wong's son.

On 6 January 2009, due to the restructuring of the Board, Mr. Wong Pak Ming has tendered his resignation as the chairman of the Board. Ms. Lai Pik Chi Peggy has been appointed as the chairman of the Board and Ms. Law Kee Alice has been appointed as the chief executive officer of the Company.

(E) NON-EXECUTIVE DIRECTORS

All Non-executive Directors are appointed for a fixed term.

However, they are appointed subject to retirement by rotation and re-election at the general meetings of the Company in accordance with the provisions of the bye-laws of the Company.

(F) REMUNERATION OF DIRECTORS

The Company has set up a remuneration committee (the "Remuneration Committee") consisting of 1 executive Director and 2 independent Non-executive Directors. Mr. Tang Kai Kui, Terence (before 29 May 2008) and Mr. Chan Tung Tak Alain (after 3 June 2008) are the chairmen of the Remuneration Committee.

Meeting of the Remuneration Committee shall be held at least once a year. 2 meetings were held during the financial year ended 31 December 2008 and during the meeting the remuneration policy in remunerating the directors and senior management of the Group was under review and none of the Directors participated in the determination of their own remuneration. Attendance of the Members is set out below:

Members	**Attendance at Meeting**
Mr. Wong Pak Ming	2 / 2
Mr. Tsui Pui Hung	2 / 2
Mr. Tang Kai Kui, Terence *(resigned on 29 May 2008)*	0 / 0
Mr. Chan Tung Tak, Alain *(appointed on 3 June 2008)*	2 / 2

According to the terms of reference of the Remuneration Committee, its major roles and functions, inter alias, include making recommendations to the Board on the Company's policy and structure for all remuneration of directors of the Company and senior management as well as reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Company has adopted a share option scheme on 21 August 2001, which serves as an incentive to attract, retain and motivate staff, including directors. Details of the share option scheme are set out in note 34 to the financial statements. The emolument payable to directors depends on their respective contractual terms under the service contracts (if any), and as recommended by the Remuneration Committee. Details of the directors' emolument are set out in note 8 to the financial statements.

CORPORATE GOVERNANCE REPORT

(G) NOMINATION OF DIRECTORS

The Company does not have a nomination committee as the role and function of such committee are performed by the Board.

The Board is responsible for the formulation of nomination policies, making recommendations to Shareholders on Directors standing for re-election, providing sufficient biographical details of Directors to enable shareholders to make an informed decision on the re-election, and where necessary, nominating Directors to fill casual vacancies. The Chairman from time to time reviews the composition of the Board with particular regard to ensuring that there is an appropriate number of Directors on the Board independent of management.

The Chairman also identifies and nominates qualified individuals for appointment as new Directors of the Company.

New Directors of the Company will be appointed by the Board. Any and all new Directors are subject to retirement from the Board at the general meetings of the Company immediately following his or her appointment and may stand for re-election at the annual general meeting.

(H) AUDITORS' REMUNERATION

The fees in relation to the audit and other services for the financial year ended 31 December 2008 provided by Ernst & Young, the external auditors of the Company, amounted to HK$1,600,000 and HK$220,000 respectively.

(I) AUDIT COMMITTEE

The Company has set up an audit committee (the "Audit Committee") consisting of 3 independent non-executive Directors. 1 member has appropriate professional qualifications or accounting or related financial management expertise. Mr. Choy Sze Chung, Jojo is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditors of the Company.

2 Audit Committee meetings were held during the financial year ended 31 December 2008. Attendance of the Members is set out below:

Members	**Attendance at Meeting**
Mr. Choy Sze Chung, Jojo	2 / 2
Mr. Tsui Pui Hung	2 / 2
Mr. Tang Kai Kui, Terence *(resigned on 29 May 2008)*	1 / 1
Mr. Chan Tung Tak, Alain *(appointed on 3 June 2008)*	1 / 1

According to the existing terms of reference of the Audit Committee, its major roles and functions, inter alias, is to review the half-year and annual financial statements before submission to the Board and to review the Company's statement on internal control system.

(J) INTERNAL CONTROL

The Directors are ultimately responsible for the internal control system of the Group and, through the Audit Committee, have reviewed the effectiveness of the system. The internal control system comprises a well-defined organizational structure with specified limits of authority in place. Areas of responsibility of each business and operational units are also clearly defined to ensure effective checks and balances.

Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. Such procedures are designed to manage risks of failure in operational systems and can provide reasonable assurance against material errors, losses or fraud.

A review of the effectiveness of the Group's internal control system and procedures covering all controls, including financial, operational and compliance and risk management, was conducted by the Audit Committee and subsequently reported to the Board during the financial year ended 31 December 2008. Based on the result of the review, in respect of the financial year ended 31 December 2008, the Directors considered that the internal control system and procedures of the Group were effective and adequate.

(K) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2008, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flow for the year then ended and in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended 31 December 2008:

(i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;

(ii) prudent and reasonable judgements and estimates are made; and

(iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

CORPORATE GOVERNANCE REPORT

(L) COMMUNICATION WITH SHAREHOLDERS

The Company believes in engaging in regular, effective and fair communication with shareholders and is committed to conveying important and relevant information to shareholders on a timely basis.

The Company takes care to ensure that information is made publicly available on a timely basis.

Disclosure of information is made through announcements to the Stock Exchange, the Company's annual and interim reports, press releases, as well as the corporate website (http://www.capitalfp.com.hk/eng/index.jsp?co=9).

(M) GREATER SHAREHOLDERS' PARTICIPATION

The Company believes in encouraging shareholders' participation at general meetings. The Company's bye-laws (the "Bye-laws") allows a shareholder entitled to attend and vote to appoint a proxy who need not be a shareholder of the Company to attend and vote at general meetings.

The rights of shareholders and the procedures for demanding a poll on resolutions at general meetings are contained in the Bye-laws. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained at each general meeting. Whenever voting by way of a poll is demanded, the detailed procedures for conducting a poll will be explained at the meeting.

Results on any voting conducted by poll will be published in an announcement to be issued on the business day following the general meeting.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting to the shareholders their annual report together with the financial statements for the year ended 31 December 2008.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed on 30 March 2009, the name of the Company will be changed from Mandarin Entertainment (Holdings) Limited to China Mandarin Holdings Limited. The Chinese translation of the Company name for identification purposes will be changed from 東方娛樂控股有限公司 to 中國東方實業集團有限公司.

Approval has been obtained from the Registrar of Company of Bermuda and the new name can be used after the approval from the Hong Kong Companies Registry. As the registration procedures are under processing, further announcement will be made by the Company in relation to the effective date of the change of Company name.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 17 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 27 of the financial statements.

The directors do not recommend the payment of a dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment, and investment property of the Company and the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 33, 34 and 30 to the financial statements, respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2008, the Company does not have any reserve available for distribution to shareholders.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:	
Ms. Lai Pik Chi, Peggy *(Chairman)*	(appointed on 10 October 2008)
Ms. Law Kee, Alice *(Chief Executive Officer)*	
Mr. Kwok Tsz Wing *(Deputy Chairman)*	(appointed as non-executive Director on 1 January 2009 and re-designated as executive Director on 13 February 2009)
Mr. Wong Pak Ming	
Mr. Hui Wai Lee, Willy	(appointed on 6 April 2009)
Ms. Wong Yee Kwan, Alvina	(resigned on 1 April 2009)
Mr. Wong Chi Woon, Edmond	(appointed on 3 June 2008 and resigned on 13 February 2009)
Ms. Wong Kit Fong	(resigned on 29 May 2008)
Independent non-executive directors:	
Mr. Choy Sze Chung, JoJo	
Mr. Tsui Pui Hung	
Mr. Chan Tung Tak, Alain	(appointed on 3 June 2008)
Mr. Tang Kai Kui, Terence	(resigned on 29 May 2008)

In accordance with Bye-law 86(2), Mr. Hui Wai Lee, Willy shall retire from office at the forthcoming annual general meeting; whereas in accordance with Bye-laws 87(1) and 87(2), Mr. Wong Pak Ming and Mr. Choy Sze Chung, Jojo shall retire from office by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election as executive/independent non-executive Directors (as the case may be).

The term of office of each of the independent non-executive Directors is for an initial term of one year and thereafter all of which may be extended for such period as both parties agree in writing and the independent non-executive Directors are subject to retirement by rotation in accordance with the Bye-laws.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules save for the fact that Mr. Choy Sze Chung, Jojo and Mr. Chan Tung Tak, Alain, both are independent non-executive Directors, are cousins to each other. Despite of this, the Company considers all of the independent non-executive Directors are independent.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (continued)

Each of the executive Directors has entered into a service contract with the Company for an initial term of one year, Ms. Law Kee, Alice which commenced on 16 October 2007, Ms. Lai Pik Chi, Peggy which commenced on 10 October 2008, Mr. Wong Pak Ming which commenced on 1 April 2009, Mr. Kwok Tsz Wing which commenced on 13 February 2009, Mr. Hui Wai Lee, Willy which commenced on 6 April 2009 and all of which continue thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2008, the interests of the directors, the chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions

(a) *Ordinary shares of HK$0.10 each of the Company*

Number of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Wong Pak Ming ("Mr. Wong")	Held by controlled corporations (note)	212,570,000	9.76%
	Beneficial owner	14,257,700	0.65%
	Held by spouse	1,191,900	0.05%
		228,019,600	10.46%
Mr. Wong Chi Woon, Edmond	Beneficial owner	7,499,400	0.34%
Ms. Wong Yee Kwan, Alvina	Beneficial owner	9,161,100	0.42%

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY (continued)

Long positions (continued)

(b) Directors' interests in the underlying shares of the share options of the Company

Name of director	Number of Options held	Exercisable Period	Exercise price per share
Mr. Wong	533,548	24.12.2006 to 20.8.2011	HK$0.577
	2,033,340	22.11.2007 to 20.8.2011	HK$0.541
Mr. Wong Chi Woon, Edmond	533,548	24.12.2006 to 20.8.2011	HK$0.577
	2,033,340	22.11.2007 to 20.8.2011	HK$0.541
Ms. Wong Yee Kwan, Alvina	533,548	24.12.2006 to 20.8.2011	HK$0.577
	2,033,340	22.11.2007 to 20.8.2011	HK$0.541
	7,700,664		

Note: These shares are held by Capeland Holdings Limited which is incorporated in the British Virgin Islands and is wholly-owned by Mr. Wong.

Save as disclosed above, as at 31 December 2008, none of the directors, chief executive or their associates had any interests or short positions in shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 34 to the financial statements.

Details of the share options granted under the share option scheme to certain directors of the Company to subscribe for shares in the Company are as follows:

Name of director	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 1.1.2007	Granted during the year	Adjustments	Forfeited during the year	Outstanding as at 1.1.2008	Granted during the year	Adjustments (note)	Forfeited during the year	Outstanding at as 31.12.2008
Mr. Wong	23.6.2006	24.12.2006 to 20.8.2011	0.577	328,000	–	38,048	–	366,048	–	167,500	–	533,548
	10.5.2007	22.11.2007 to 20.8.2011	0.541	–	1,250,000	145,000	–	1,395,000	–	638,340	–	2,033,340
Mr. Wong Chi Woon, Edmond	23.6.2006	24.12.2006 to 20.8.2011	0.577	328,000	–	38,048	–	366,048	–	167,500	–	533,548
	10.5.2007	22.11.2007 to 20.8.2011	0.541	–	1,250,000	145,000	–	1,395,000	–	638,340	–	2,033,340
Ms. Wong Yee Kwan, Alvina	23.6.2006	24.12.2006 to 20.8.2011	0.577	328,000	–	38,048	–	366,048	–	167,500	–	533,548
	10.5.2007	22.11.2007 to 20.8.2011	0.541	–	1,250,000	145,000	–	1,395,000	–	638,340	–	2,033,340
Mr. Tang Kai Kui, Terrence	23.6.2006	24.12.2006 to 20.8.2011	0.577	328,000	–	38,048	–	366,048	–	167,500	(533,548)	–
	10.5.2007	22.11.2007 to 20.8.2011	0.541	–	2,500,000	290,000	–	2,790,000	–	1,276,681	(4,066,681)	–
				1,312,000	6,250,000	877,192	–	8,439,192	–	3,861,701	(4,600,229)	7,700,664

Details of the share options granted under the share option scheme to certain employees of the Company for shares in the Company are as follows:

	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 1.1.2007	Granted during the year	Adjustments	Forfeited during the year	Outstanding as at 1.1.2008	Granted during the year	Adjustments (note)	Forfeited during the year	Outstanding as at 31.12.2008
Employees	23.6.2006	24.12.2006 to 20.8.2011	0.577	656,000	–	76,096	–	732,096	–	335,000	–	1,067,096
	10.5.2007	22.11.2007 to 20.8.2011	0.541	–	2,250,000	261,000	–	2,511,000	–	1,149,012	–	3,660,012
				656,000	2,250,000	337,096	–	3,243,096	–	1,484,012	–	4,727,108

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 nineteen offer shares for every ten existing shares held on 3 September 2008. The exercise prices shown above represent the adjusted exercise prices as at 31 December 2008

REPORT OF THE DIRECTORS

The closing price of the shares of the Company on 23 June 2006 and 10 May 2007, the date of grant of the above options were HK$0.93 and HK$0.88 (before adjustment) per share respectively.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the heading "Share Options", at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long positions

(a) Ordinary shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of ordinary shares held	Percentage of the issued share capital of the Company
Mr. Cheng Keung Fai	Beneficial owner (note 1)	739,765,071	33.97%
Mr. Fong Han Song	Beneficial owner	269,500,000	12.37%
Mr. Wong	Held by controlled corporation (note 2)	212,570,000	9.76%
	Beneficial owner	14,257,700	0.65%
	Held by spouse (note 3)	1,191,900	0.05%
		228,019,600	10.46%
Mr. Kwok Tsz Wing	Held by controlled corporation (note 4)	74,482,182	3.42%
	Beneficial owner	43,973,600	2.02%
		118,455,782	5.44%
Mr. Zhang Xun	Beneficial owner	109,498,400	5.03%

SUBSTANTIAL SHAREHOLDERS (continued)

Long positions (continued)

(b) Share options

Name of shareholder	Capacity	Number of share options	Number of underlying shares
Mr. Wong	Beneficial owner	2,566,888	2,566,888

Notes:

1. These shares include 507,500,000 share beneficially owned by Mr. Cheng Keung Fai and the convertible bonds amounted to HK$63,739,409 conferring rights to subscribe a total of 232,265,071 shares by Mr. Cheng.

2. These shares are held by Capeland Holdings Limited, a company incorporated in the British Virgin Islands and the shares of which is wholly- owned by Mr. Wong.

3. In accordance with SFO, Mr. Wong's spouse is also deemed to be interested in the shares held by Mr. Wong or in which he is interested.

4. These shares are held by Super Grand Enterprises Limited which is wholly-owned by Mr. Kwok Tsz Wing.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 31 December 2008.

DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year ended 31 December 2008, the Group had entered into transactions which constituted connected transactions under the Listing Rules. Details are set out below:

On 20 November 2008, the Group entered into three service agreements with Big Bright Investment Limited, of which the shareholding is beneficially owned by Mr. Wong, a director of the Company, for the executive producer service provided by Mr. Wong. The rental expenses for certain office premises are paid to Pure Project Limited, a related company in which Mr. Wong, a director of the Company has beneficial interest.

The agency fees are charged by 廣州東影影視出品有限公司 ("Tung Ying") and Prime Moon International Limited ("Prime Moon"), in which a brother and a sister of Mr. Wong have beneficial interests, respectively, for the distribution income generated by Tung Ying and Prime Moon on behalf of the Group, in which they acted as the agents to generate that income.

At 31 December 2008, the loans from Mr. Zhang Xun, a substantial shareholder of the Company amounted to approximately HK$13,036,000 (2007: HK$13,036,000) which are unsecured, interest bearing at 1% and 3% per annum and will be repayable on demand. The loan from Mr. Wong, a substantial shareholder of the Company amounted to HK$20,000,000 (2007: Nil), which is unsecured, bears interest at 2% below the Hong Kong prime rate and repayable on or before 10 November 2010.

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

REPORT OF THE DIRECTORS

EMOLUMENT POLICY

The Group remunerates its employees including the directors, based on their performances, experiences and prevailing market rate. Other employee benefits included insurance and medical cover, subsidised training programme as well as share option scheme. Details of the share option scheme are set out in note 34 to the financial statements.

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for 13.09% and 27.15%, respectively, of the Group's total revenue for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for 8.32% and 24.59%, respectively, of the Group's total purchases for the year.

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2008.

POST BALANCE SHEET EVENT

Details of the post balance sheet event of the Group are set out in note 43 to the financial statement.

AUDITOR

During the year, Deloitte Touche Tohmatsu resigned as auditors of the Company and Ernst & Young were appointed by the auditors to fill the casual vacancy so arising. Save as disclosed, there have been no other changes of auditors in the past three years. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Lai Pik Chi, Peggy
Chairman
Hong Kong, 21 April 2009

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. LAI Pik Chi, Peggy, aged 44, an executive Director who is also the Chairman of the Board. Ms. Lai had over 20 years experience in auditing, accounting, financial management and corporate finance spanning a diverse range of business from manufacturing, publishing, distribution and retailing. She is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Ms. LAW Kee, Alice, aged 42, is an executive Director and the Chief Executive Officer of the Company. Ms. Law holds a Bachelor Degree in Business Administration from University of Management and Technology, USA. She has extensive experience in business development and marketing management. She is a member of The Hong Kong Institute of Directors and a member of The Hong Kong Association for the Advancement of Real Estate and Construction Technology Limited.

Mr. KWOK Tsz Wing, aged 51, is the Vice Chairman of the Board and an executive Director who is engaged in manufacturing and sales industry for 28 years. Moreover, he has over 10 years experience in properties investment. He is currently a director of Massino International Limited.

Mr. WONG Pak Ming, aged 63, is the 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 26 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. Mr. Wong is a brother of Ms. Wong Kit Fong, a senior management of the Company.

Mr. HUI Wai Lee Willy, aged 48, is currently a director of Supreme Jewellery Company. He has over 28 years' experience in designing and manufacturing of European-style jewelry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOY Sze Chung, Jojo, aged 50, 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, Australia. 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 (Stock Code:1202), an Independent Non-executive Director of Zhaojin Mining Industry Company Limited (Stock Code: 1818), an independent non-executive director of Sparkle Roll Group Limited (Stock Code: 970), a Committee Member of Society of Registered Financial Planner Ltd., a Fellow Member of Institute of Financial Accountants, a Fellow Member of the Institute of Compliance Officer, a Member of CPPCC Shantou, a Honorary President of Shantou Overseas Friendship Association, a Honorary President of Shantou Overseas Exchanges Association, a Honorary Principal of the school of Chen Po Sum and a Council Member of Rotary Club Kowloon West.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. TSUI Pui Hung, aged 34, 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 54, 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.

OTHER SENIOR MANAGEMENT

Ms. WONG Kit Fong, aged 61, is a sister of Mr. Wong Pak Ming. She joined the Group in 1993. Prior to joining the Group, she worked as an accountant in trading companies in Hong Kong for over 10 years. She is responsible for administrative functions of the Group. She is also a director of a number of subsidiaries of the Company and oversees their overall operations.

Mr. KO Tin Chow, aged 59, is the senior manager responsible for supervising the film processing business of the Group. Mr. Ko has over 36 years of experience in the film processing industry. Prior to joining the Group in 1995, he was the general manager of Hong Kong Color Movielab Limited, a film processing company in Hong Kong. He is the Chairman of the Hong Kong & Kowloon Film Laboratory Merchants' Association Limited.

Mr. CHOW Ming Sang, aged 59, is the production manager responsible for the operation of the printing division of the film processing business of the Group. Mr. Chow joined the Group since its establishment and has over 37 years of experience in the film processing industry.

Mr. FUNG Hon Wah, aged 56, is the production manager responsible for the operation of the special effects division of the film processing business of the Group. Mr. Fung joined the Group since its establishment and has over 34 years of experience in the film processing industry.

Mr. LAU Siu Sun, aged 61, is the production manager supervising the quality control division of the film processing business of the Group. Mr. Lau joined the Group since its establishment and has over 34 years of experience in the film processing industry.

Mr. WONG Tung Ming, aged 61, is the production manager who has overall responsibilities for film processing and film subtitling. Mr. Wong joined the Group since its establishment and has over 38 years of experience in the film processing industry.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永

To the shareholders of Mandarin Entertainment (Holdings) Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Mandarin Entertainment (Holdings) Limited set out on pages 27 to 95, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements
The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
21 April 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	5	**63,229**	76,718
Cost of sales		**(79,942)**	(88,847)
Gross loss		**(16,713)**	(12,129)
Other income and gains	5	**2,187**	4,616
Gain on disposal of available-for-sale investments		**–**	2,173
Fair value gain on derivative component of convertible bonds	30	**14,176**	–
Fair value loss on investments held for trading, net		**(2,898)**	(1,711)
Fair value loss on investment property	14	**(165,654)**	–
Impairment of goodwill	16	**(69,034)**	–
Impairment of interests in jointly-controlled entities		**–**	(3,500)
Administrative expenses		**(26,483)**	(26,362)
Finance costs	6	**(2,598)**	(939)
Share of results of jointly-controlled entities		**(2,992)**	(2,341)
LOSS BEFORE TAX	7	**(270,009)**	(40,193)
Tax	9	**41,327**	126
LOSS FOR THE YEAR		**(228,682)**	(40,067)
Attributable to:			
Equity holders of the Company	10	**(216,317)**	(40,067)
Minority interests		**(12,365)**	–
		(228,682)	(40,067)
DIVIDEND	11	**–**	–
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
– Basic		**HK (18.53) cents**	HK (8.86) cents

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,355**	3,765
Investment property	14	**283,640**	–
Prepaid land lease payments	15	**2,353**	2,428
Interests in jointly-controlled entities	18	**13,672**	16,664
Total non-current assets		**303,020**	22,857
CURRENT ASSETS			
Film rights		**62**	720
Film production in progress		**63,325**	53,202
Prepaid land lease payments	15	**75**	75
Inventories	19	**2,007**	1,853
Properties held for sale	20	**–**	4,561
Investments held for trading	21	**1**	16,350
Trade receivables	22	**5,487**	2,997
Other receivables, prepayments and deposits paid	23	**1,351**	8,511
Loan receivable	24	**–**	5,500
Due from a minority shareholder	40	**12,372**	–
Due from a jointly-controlled entity	40	**–**	1,349
Tax recoverable		**–**	297
Pledged deposits	25	**536**	533
Cash and cash equivalents	25	**15,961**	100,358
Total current assets		**101,177**	196,306
CURRENT LIABILITIES			
Trade payables	26	**4,081**	3,514
Other payables, accruals and deposits received	27	**50,493**	31,706
Loans from shareholders	31	**13,036**	13,036
Due to directors	40	**104**	–
Due to a shareholder	40	**6,991**	–
Interest-bearing bank and other borrowings	28	**12,445**	6,846
Obligations under a finance lease	29	**92**	92
Tax payable		**142**	83
Total current liabilities		**87,384**	55,277
NET CURRENT ASSETS		**13,793**	141,029
TOTAL ASSETS LESS CURRENT LIABILITIES		**316,813**	163,886

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT LIABILITIES			
Convertible bonds	30	**51,538**	–
Interest-bearing bank and other borrowings	28	**166**	537
Loans from shareholders	31	**20,000**	–
Deferred tax liabilities	32	**64,060**	508
Obligations under a finance lease	29	**100**	192
Total non-current liabilities		**135,864**	1,237
Net assets		**180,949**	162,649
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	33	**217,790**	57,600
Reserves	35	**(59,642)**	105,049
		158,148	162,649
Minority interests		**22,801**	–
Total equity		**180,949**	162,649

Lai Pik Chi, Peggy
Director

Law Kee, Alice
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Attributable to equity holders of the Company									
	Issued capital HK$'000	Share premium HK$'000	Exchange fluctuation reserve HK$'000	Investment revaluation reserve HK$'000	Special reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	33,000	34,653	–	1,240	17,926	523	(32,653)	54,689	–	54,689
Transferred to profit or loss on sale of available-for-sale investments	–	–	–	(1,240)	–	–	–	(1,240)	–	(1,240)
Loss for the year	–	–	–	–	–	–	(40,067)	(40,067)	–	(40,067)
Total income and expense for the year	–	–	–	(1,240)	–	–	(40,067)	(41,307)	–	(41,307)
Issue of shares (note 33)	24,600	125,820	–	–	–	–	–	150,420	–	150,420
Transaction costs attributable to issue of shares	–	(3,848)	–	–	–	–	–	(3,848)	–	(3,848)
Transferred to accumulated losses on forfeiture of share options	–	–	–	–	–	(917)	917	–	–	–
Recognition of equity-settled share-based payment expense	–	–	–	–	–	2,695	–	2,695	–	2,695
At 31 December 2007	57,600	156,625	–	–	17,926	2,301	(71,803)	162,649	–	162,649
Exchange realignment	–	–	2,881	–	–	–	–	2,881	(7)	2,874
Total income and expense for the year recognised directly in equity	–	–	2,881	–	–	–	–	2,881	(7)	2,874
Loss for the year	–	–	–	–	–	–	(216,317)	(216,317)	(12,365)	(228,682)
Total income and expense for the year	–	–	–	–	–	–	(216,317)	(216,317)	(12,365)	(228,682)
Acquisition of subsidiaries (note 36)	–	–	–	–	–	–	–	–	19,571	19,571
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	15,602	15,602
Issue of shares (note 33)	160,190	52,500	–	–	–	–	–	212,690	–	212,690
Transaction costs attributable to issue of shares	–	(3,755)	–	–	–	–	–	(3,755)	–	(3,755)
Transferred to accumulated losses on forfeiture of share options	–	–	–	–	–	(627)	627	–	–	–
At 31 December 2008	217,790	205,370*	2,881*	–*	17,926*	1,674*	(287,493)*	158,148	22,801	180,949

Note: 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.

* These reserve accounts comprise the consolidated reserves of HK$59,642,000 (2007: credit of HK$105,049,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(270,009)**	(40,193)
Adjustments for:			
Interest income	5	**(843)**	(1,303)
Dividend income from listed investments held for trading	5	**(239)**	–
Excess over the cost of a business combination	5	**(277)**	–
Gain on disposal of properties held for sale	5	**(988)**	–
Gain on disposal of available-for-sale investments	7	**–**	(2,173)
Interest on bank and other borrowings and finance lease	6	**623**	939
Interest on convertible bonds	6	**1,975**	–
Depreciation	7	**1,313**	1,294
Amortisation of prepaid land lease payments	7	**75**	75
Impairment of trade receivables	7	**3,881**	3,289
Impairment of goodwill		**69,034**	–
Impairment of interests in jointly-controlled entities		**–**	3,500
Impairment of film production in progress	7	**19,743**	16,827
Fair value loss on investment property		**165,654**	–
Impairment of an amount due from a jointly-controlled entity	7	**1,349**	–
Loss on disposal of items of property, plant and equipment	7	**–**	200
Fair value loss on investments held for trading, net		**2,898**	1,711
Fair value gain on derivative component of convertible bonds		**(14,176)**	–
Write-back of impairment of trade receivables	7	**(6,059)**	(1,153)
Equity-settled share-based payment expenses		**–**	2,695
Share of results of jointly-controlled entities		**2,992**	2,341
		(23,054)	(11,951)
Increase in film rights and film production in progress		**(29,208)**	(30,663)
Increase in inventories		**(154)**	(173)
Purchase of properties held for sale		**(4,899)**	(4,561)
Proceeds from disposal of properties held for sale		**10,448**	–
Decrease (Increase) in investments held for trading		**13,881**	(18,061)
Decrease (Increase) in trade receivables		**(311)**	1,154
Increase in other receivables, prepayments and deposits paid		**7,192**	802
Increase in an amount due to a jointly-controlled entity		**–**	(747)
Decrease in an amount due from a related company		**–**	5,042
Increase in trade payables		**567**	994
Decrease in other payables, accruals and deposits received		**(128,666)**	(1,134)
Increase in amounts due to directors		**104**	–
Cash used in operations		**(154,100)**	(59,298)
Hong Kong profits tax refunded		**250**	157
Hong Kong profits tax paid		**(10)**	(191)
Net cash outflow from operating activities		**(153,860)**	(59,332)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	36	**(102,721)**	–
Decrease (Increase) in loan receivable		**5,500**	(5,500)
Purchases of items of property, plant and equipment		**(592)**	(2,323)
Capital contribution to a jointly-controlled entity		**–**	(1,685)
Increase in an amount due from a minority shareholder		**(12,372)**	–
Proceeds from disposal of available-for-sale investments		**–**	4,729
Interest received	5	**843**	1,303
Dividend received	5	**239**	–
Decrease (Increase) in pledged bank deposits with original maturity of less than three months		**(3)**	1,023
Net cash outflow from investing activities		**(109,106)**	(2,453)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	33	**142,690**	150,420
Expenses on issue of shares		**(3,755)**	(3,848)
Loans from shareholders		**20,000**	–
Capital contribution from a minority shareholder		**15,602**	–
New bank loans and other borrowings		**5,673**	7,080
Repayment of bank loans and other borrowings		**(7,050)**	(5,234)
Interest paid		**(623)**	(939)
Capital element of finance lease rental payments		**(92)**	(92)
Net cash inflow from financing activities		**172,445**	147,387
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(90,521)**	85,602
Cash and cash equivalents at beginning of year		**100,358**	14,756
Effect of foreign exchange rate changes, net		**(481)**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**9,356**	100,358
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**15,961**	100,358
Bank overdraft	28	**(6,605)**	–
		9,356	100,358

BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**6,172**	6,172
CURRENT ASSETS			
Due from subsidiaries	17	**213,143**	154,969
Prepayments	23	**90**	–
Cash and cash equivalents	25	**103**	30,397
Total current assets		**213,336**	185,366
CURRENT LIABILITIES			
Accruals	27	**246**	96
Due to a director	40	**62**	–
Due to a subsidiary	40	**450**	–
Interest-bearing bank and other borrowings	28	**3,655**	–
Total current liabilities		**4,413**	96
NET CURRENT ASSETS		**208,923**	185,270
TOTAL ASSETS LESS CURRENT LIABILITIES		**215,095**	191,442
NON-CURRENT LIABILITIES			
Convertible bonds	30	**51,538**	–
Loans from shareholders	31	**20,000**	–
Total non-current liabilities		**71,538**	–
Net assets		**143,557**	191,442
EQUITY			
Issued capital	33	**217,790**	57,600
Reserves	35	**(74,233)**	133,842
Total equity		**143,557**	191,442

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 9 May 2001 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Suite 1511, No.9 Queen's Road, Central, Hong Kong.

Pursuant to a special resolution on 30 March 2009 the name of the Company will be changed from Mandarin Entertainment (Holdings) Limited to China Mandarin Holdings Limited. The Chinese translation of the Company name for identification purposes will be changed from 東方娛樂控股有限公司 to 中國東方實業集團有限公司.

Approval has been obtained from the Registrar of Company of Bermuda and the new name can be used after the approval from the Hong Kong Companies Registry.

The Company acts as an investment holding. The principal activities of its subsidiaries are shown in note 17.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

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

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

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

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

1 Effective for accounting periods beginning on or after 1 January 2009
2 Effective for accounting periods beginning on or after 1 January 2010
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, an investment property, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.5%
Furniture and fixtures	20%
Leasehold improvements	Over the shorter of the lease terms and 20%
Motor vehicles	20% to 30%
Plant, machinery and equipment	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividend on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities at amortised cost (including interest-bearing bank and other borrowings and convertible bonds)

Financial liabilities including trade and other payables, amounts due to the directors and a shareholder, a finance lease, interest-bearing bank and other borrowings, and convertible bonds are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Convertible bonds

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Properties held for sale

Properties held for sale are stated at the lower of cost and estimated market value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "finance costs" in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Borrowing costs

Borrowing costs are expensed as incurred.

Employee benefits

Share-based payment transactions

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes option pricing model, further details of which are given in note 34 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as an additional share dilution in the computation of earnings per share.

Retirement benefits schemes

The Group continues to operate a defined contribution scheme (the "Scheme") for its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. When an employee leaves the Scheme before his/her interest in the employer contributions vests fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

Apart from the Scheme, the Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits schemes (continued)

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government. These subsidiaries are required to contribute certain percentages of their payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the production and distribution of films, when the production is completed and the film is 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;

(c) from the licensing of the distribution and broadcasting rights over films and television series, when the Group'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;

(d) from the provision of film processing service, when the services are provided;

(e) from advertising and promotional services, when the services are rendered;

(f) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(g) rental income, on a time proportion basis over the lease terms; and

(h) dividend income, when the shareholder's right to receive payment has been established.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared. Interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Judgement (continued)

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Operating lease commitments - Group as lessor

The Group has entered into a commercial property lease on its investment property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of this property which is leased out on an operating lease.

Estimation uncertainty

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, are discussed below.

Estimation of fair value of its buildings and investment property

As described in notes 13 and 14, the buildings and investment property of the Group were revalued at the balance sheet date on an open market value, existing state basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgments, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Valuation of share options

The fair value of options granted under the Company's share option scheme is determined using the Black-Scholes option pricing model. The significant inputs to the model were share price at the grant date, exercise price, risk-free interest rate, dividend yield, expected volatility and suboptimal exercise factor. When the actual results of the inputs differ from the management's estimate, it will have an impact on share option expense and the related share option reserve of the Company.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of trade receivables and an amount due from a jointly-controlled entity

Management regularly reviews the recoverability and/or ageing of trade receivables and an 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 flows expected to receive discounted using the original effective interest rate and their 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 the income statement 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 flows expected to be received. Impairment is recognised based on the higher of estimated future cash flows and estimated market value.

Presentation of convertible bonds and fair value of derivative component of convertible bonds

Convertible bonds of the Group are presented as the derivative component and the liability component of the convertible bonds in accordance with HKAS 39. This requires an initial recognition of the derivative component and the liability component at fair value.

The derivative component initially recognised and subsequently measured at fair value is determined by a binomial model.

The amount of liability component initially recognised is determined with reference to the net proceeds from the issuance of the convertible bonds and the fair value of derivative component at initial recognition. The liability component is subsequently measured at amortised cost using the effective interest rate method until it is extinguished on conversion or redemption.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

4. SEGMENT INFORMATION

Business segments

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

Segment information about these businesses is presented below.

Year ended 31 December 2008

	Film distribution and licensing HK$'000	Film processing HK$'000	Advertising and promotional services HK$'000	Property investment HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:						
External revenue	33,235	18,301	10,705	988	–	63,229
Inter segment revenue	1,720	2,616	5,041	–	(9,377)	–
Total revenue	34,955	20,917	15,746	988	(9,377)	63,229
Segment results	(33,152)	2,628	(228)	(234,442)	–	(265,194)
Other income						1,128
Excess over the cost of a business combination						277
Unallocated corporate expenses						(11,547)
Fair value gain on derivative component of convertible bonds						14,176
Gain on disposal of properties held for sale						988
Fair value loss on investments held for trading, net						(2,898)
Impairment of an amount due from a jointly-controlled entity						(1,349)
Share of results of jointly-controlled entities						(2,992)
Finance costs						(2,598)
Loss before tax						(270,009)
Tax						41,327
Loss for the year						(228,682)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2008

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2007

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2007

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

4. SEGMENT INFORMATION (continued)

Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

2008

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

2007

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

5. REVENUE, AND OTHER INCOME AND GAINS

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

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

6. FINANCE COSTS

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

7. LOSS BEFORE TAX

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

	2008 **HK$'000**	2007 HK$'000
Employee benefit expenses (excluding directors' remuneration – note 8):		
Wages and salaries	**15,898**	12,560
Retirement benefit scheme contributions	**1,029**	596
Equity-settled share option expense	**–**	505
	16,927	13,661
Auditor's remuneration	**1,600**	1,001
Depreciation	**1,313**	1,294
Amortisation of prepaid land lease payments	**75**	75
Impairment of trade receivables	**3,881**	3,289
Impairment of film production in progress *	**19,743**	16,827
Impairment of amount due from a jointly-controlled entity	**1,349**	–
Cost of inventories recognised as expenses *	**42,071**	50,778
Loss on disposal of items of property, plant and equipment	**–**	200
Minimum lease payments under operating leases	**3,073**	2,335
Foreign exchange differences, net	**2,203**	(340)
Interest income	**(843)**	(1,303)
Dividend income from listed investments held for trading	**(239)**	–
Net rental income	**(939)**	–
Gain on disposal of available-for-sale investments	**–**	(2,173)
Write-back of impairment of trade receivables	**(6,059)**	(1,153)

* The impairment of film production in progress and the cost of inventories recognised as expenses for the year are included in "Cost of sales" on the face of the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Fees	**360**	446
Other emoluments:		
Salaries, allowances and benefits in kind	**3,417**	4,102
Equity-settled share option expense	**–**	2,190
Retirement benefit scheme contributions	**74**	62
	3,851	6,800

In the prior year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair value of such options which was recognised in the consolidated income statement in last year, was determined as at the date of grant and the amount was included in the above directors' remuneration disclosures.

2008

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Mr. Wong Pak Ming ("Mr. Wong")	–	1,950	–	12	1,962
Ms. Wong Kit Fong	–	168	–	5	173
Ms. Wong Yee Kwan, Alvina	–	579	–	12	591
Mr. Wong Chi Woon, Edmond	–	200	–	7	207
Ms. Law Kee, Alice	–	370	–	27	397
Ms. Lai Pik Chi, Peggy	–	150	–	11	161
	–	3,417	–	74	3,491

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' remuneration (continued)

2008

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
Independent non-executive directors:					
Mr. Tang Kai-Kui, Terence	**50**	**–**	**–**	**–**	**50**
Mr. Choy Sze Chung, Jojo	**120**	**–**	**–**	**–**	**120**
Mr. Tsui Pui Hung	**120**	**–**	**–**	**–**	**120**
Mr. Chan Tung Tak, Alain	**70**	**–**	**–**	**–**	**70**
	360	**–**	**–**	**–**	**360**
	360	**3,417**	**–**	**74**	**3,851**

2007

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Mr. Wong	–	1,938	281	12	2,231
Ms. Wong Kit Fong	–	1,299	281	12	1,592
Ms. Wong Yee Kwan, Alvina	–	393	281	12	686
Mr. Ko Tin Chow	–	380	561	19	960
Ms. Law Kee, Alice	–	92	–	7	99
	–	4,102	1,404	62	5,568

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' remuneration (continued)

2007

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
Independent non-executive directors:					
Mr. Lai Voon Wai	80	–	–	–	80
Mr. Wan Ngar Yin, David	166	–	225	–	391
Mr. Tang Kai-Kui, Terence	120	–	561	–	681
Mr. Choy Sze Chung, Jojo	40	–	–	–	40
Mr. Tsui Pui Hung	40	–	–	–	40
	446	–	786	–	1,232
	446	4,102	2,190	62	6,800

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

(b) Emoluments of highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2007: 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 (2007: two) highest paid individuals were as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other benefits	**964**	892
Retirement benefit scheme contributions	**48**	24
	1,012	916

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

9. TAX

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

	Group	
	2008	2007
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**142**	–
Overprovision in prior years	**(26)**	(163)
Deferred (note 32)	**(41,443)**	37
Total tax credit for the year	**(41,327)**	(126)

A reconciliation of the tax credit applicable to loss before tax using the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Loss before tax	**(270,009)**	(40,193)
Tax at the statutory tax rates	**(64,725)**	(7,034)
Expenses not deductible for tax	**17,506**	945
Income not subject to tax	**(1,302)**	(1,099)
Adjustments in respect of current tax of previous periods	**(26)**	(163)
Tax losses not recognised	**6,472**	6,815
Profits and losses attributable to jointly-controlled entities	**748**	410
Tax credit at the Group's effective rate	**(41,327)**	(126)

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2008 includes a loss of HK$256,820,000 (2007: HK$3,451,000) which has been dealt with in the financial statements of the Company (note 35).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

11. DIVIDEND

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

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	**Furniture and fixtures** HK$'000	**Leasehold improvements** HK$'000	**Motor vehicles** HK$'000	**Plant, machinery and equipment** HK$'000	**Total** HK$'000
Cost or valuation:						
At 1 January 2007	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 31 December 2007 and 1 December 2008	885	5,789	2,759	1,202	21,229	31,864
Additions	–	10	262	238	82	592
Acquisition of subsidiaries (note 36)	–	–	–	292	18	310
Exchange realignment	–	–	–	6	–	6
Deficit on revaluation	(96)	–	–	–	–	(96)
At 31 December 2008	789	5,799	3,021	1,738	21,329	32,676
Comprising:						
At cost	–	5,799	3,021	1,738	21,329	31,887
At valuation - 2008	789	–	–	–	–	789
	789	5,799	3,021	1,738	21,329	32,676

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings HK$'000	**Furniture and fixtures** HK$'000	**Leasehold improvements** HK$'000	**Motor vehicles** HK$'000	**Plant, machinery and equipment** HK$'000	**Total** HK$'000
Depreciation and amortisation:						
At 1 January 2007	633	5,056	2,854	115	19,965	28,623
Provided for the year	96	241	202	145	610	1,294
Disposals	–	–	(1,054)	–	(35)	(1,089)
Write-back of revaluation	(729)	–	–	–	–	(729)
At 31 December 2007 and 1 January 2008	–	5,297	2,002	260	20,540	28,099
Provided for the year	96	134	593	259	231	1,313
Write-back of revaluation	(96)	–	–	–	–	(96)
Exchange realignment	–	–	–	5	–	5
At 31 December 2008	–	5,431	2,595	524	20,771	29,321
Carrying value:						
At 31 December 2008	789	368	426	1,214	558	3,355
At 31 December 2007	885	492	757	942	689	3,765

The Group's buildings were revalued at 31 December 2008 by RHL Appraisal Limited ("RHL Appraisal"), independent professional qualified valuers, on depreciated replacement cost approach. 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 vehicle of HK$722,000 (2007: HK$942,000) is held under a finance lease.

The buildings of the Group are situated in Hong Kong and are held under medium terms.

At 31 December 2008, had 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$792,000 (2007: HK$888,000).

As at 31 December 2008, the Group's buildings with a net book value of HK$789,000 (2007: HK$885,000) was pledged to secure banking facilities granted to the Group (note 39).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

14. INVESTMENT PROPERTY

	Group 2008 HK$'000	2007 HK$'000
Carrying amount at 1 January	**–**	–
Acquisition of subsidiaries (note 36)	**445,087**	–
Net loss from a fair value adjustment	**(165,654)**	–
Exchange realignment	**4,207**	
Carrying amount at 31 December	**283,640**	–

The Group's investment property is situated in No. 19, Yongling Road, Jinniu District Chengdu City Sichuan Province, the PRC, and is held under medium lease terms.

The Group's investment property was revalued on 31 December 2008 by RHL Appraisal, at HK$283,640,000 on an open market, existing use basis. The investment property is leased to third parties under operating leases, further summary details of which are included in note 37 to the financial statements.

15. PREPAID LAND LEASE PAYMENTS

	Group 2008 HK$'000	2007 HK$'000
Carrying amount at 1 January	**2,503**	2,578
Recognised during the year	**(75)**	(75)
Carrying amount at 31 December	**2,428**	2,503
Current portion	**(75)**	(75)
Non-current portion	**2,353**	2,428

The Group's prepaid land lease payments represent a medium-term lease land in Hong Kong and was pledged to secure banking facilities granted to the Group (note 39).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

16. GOODWILL

	Group 2008 HK$'000	2007 HK$'000
Cost at 1 January	**–**	–
Acquisition of subsidiaries (note 36)	**69,034**	–
Impairment during the year	**(69,034)**	–
Carrying amount at 31 December	**–**	–

Subsequent to the acquisition of the investment property (the "Investment Property") by the Group in April 2008, there was economic turmoil in most global financial markets in the fourth quarter of the year and the property rental business in Mainland China was adversely affected. This has been reflected in the decline in the carrying value of the Investment Property which was based on the revaluation performed by RHL Appraisal. In view of this, the directors considered that the carrying amount of the goodwill attributable to the property rental business in Mainland China of HK$69,034,000 was fully impaired. Accordingly, an impairment of goodwill of HK$69,034,000 was charged to the consolidated income statement in the year.

17. INVESTMENTS IN SUBSIDIARIES

	Company 2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**6,172**	6,172

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries of the Company at 31 December 2008 and 2007 are as follows:

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company 2008	2007	Principal activities
Adore Capital Limited	British Virgin Islands ("BVI")	US$1	**100**	100	Investment holding
Chili Advertising & Promotions Limited ("Chili")*	Hong Kong	HK$10,000	**100**	100	Provision of advertising and promotional services

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

17. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company 2008	2007	Principal activities
Ease Brilliant Limited	Hong Kong	HK$1	**100**	100	Property trading
Good Phase Limited	Hong Kong	HK$1	**100**	100	Property trading
Fame Sight Investment Limited	Hong Kong	HK$1	**100**	100	Investment holding and provision of management services
Grimston Limited	BVI/Hong Kong	US$10,000	**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	**100**	100	Distribution of films produced or purchased by the Group
Mandarin Films Limited	Hong Kong	HK$100	**100**	100	Production and distribution of films
Mandarin Laboratory Limited	Hong Kong	HK$10,000	**100**	100	Investment holding
Mandarin Laboratory (International) Limited	Hong Kong	HK$1,000,000	**100**	100	Film processing and storage of films
Mandarin Motion Picture Limited	Hong Kong	HK$500,000	**100**	100	Production of films
Mega Fame Corporation Limited	Hong Kong	HK$1	**100**	100	Investment holding
Sino Step Inc.	BVI	US$1	**100**	100	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

17. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company 2008	2007	Principal activities
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	**100**	100	Securities trading
Profit Source International Limited ("Profit Source")#	Hong Kong	HK$1	**100**	–	Investment holding
成都中發實業有限公司 ("成都中發")#^@	PRC	RMB161,145,347	**90**	–	Property holding
Prosper China Limited#	BVI	US$100	**100**	40	Investment holding
北京東方新青年文化發展有限公司#	PRC	HK$10,000,000	**100**	40	Provision of cultural education courses

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.

* Subsequent to the balance sheet dated on 27 March 2009, the Group has disposed the entire equity interest of Chili (the "Disposal"). Details of the post balance sheet event are disclosed in note 43.

\# The Group acquired the entire equity interest of these companies during the year. Details of the acquisitions are disclosed in note 36.

^ 成都中發 is registered as a sino-foreign-owned joint venture enterprises under PRC law.

@ Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

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 has issued any debt securities during the year or at the end of the year.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	2008 HK$'000	2007 HK$'000
Unlisted investments, at cost	**26,141**	26,141
Impairment	**(3,500)**	(3,500)
Share of post-acquisition losses	**(8,969)**	(5,977)
	13,672	16,664
Loan to a jointly-controlled entity	**10,927**	10,927
Impairment	**(10,927)**	(10,927)
	–	–

At 31 December 2008, the Group had interests in the following jointly-controlled entities:

Name of entity	Form of business structure	Place of incorporation/ operations	Percentage of nominal value of issued share capital/ registered capital held indirectly by the Company 2008	2007	Nature of business
浙江東方國際發展有限公司 ("浙江東方")	Incorporated	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 (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	BVI	**50**	50	Investment holding

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

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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:

	2008 HK$'000	2007 HK$'000
Share of jointly-controlled entities assets and liabilities:		
Non-current assets	**37,369**	34,227
Current assets	**20,337**	45,414
Current liabilities	**(14,287)**	(33,227)
Non-current liabilities	**(26,247)**	(26,250)
Net assets	**17,172**	20,164
Share of the jointly-controlled entities' results:		
Revenue and other income	**12,457**	12,437
Expenses	**(15,449)**	(14,775)
Income tax expense	**–**	(3)
Loss for the year	**(2,992)**	(2,341)

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:

	2008 HK$'000	2007 HK$'000
Unrecognised share of losses of jointly-controlled entities for the year	**(221)**	(210)
Accumulated unrecognised share of losses of jointly-controlled entities	**(561)**	(801)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

19. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**1,994**	1,812
Work in progress	**13**	41
	2,007	1,853

20. PROPERTIES HELD FOR SALE

During the year, the Group disposed of the properties held for sale to independent third parties at a consideration of HK$10,448,000 and a gain of HK$988,000 has been recognised in the consolidated income statement for the year.

21. INVESTMENTS HELD FOR TRADING

At 31 December 2008, investments held for trading represent equity securities listed outside Hong Kong. In the prior year, the balance represented equity securities listed in Hong Kong.

22. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**18,267**	17,955
Impairment	**(12,780)**	(14,958)
	5,487	2,997

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

22. TRADE RECEIVABLES (continued)

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

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

Ageing of trade receivables which are past due but not impaired is as follows:

	2008	2007
	HK$'000	HK$'000
91 – 180 days	**882**	12
More than 180 days	**1,078**	108
	1,960	120

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

The trade receivables 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. The Group does not hold any collateral over these balances.

Movements in the provision for impairment of trade receivables are as follows:

	2008	2007
	HK$'000	HK$'000
At 1 January	**14,958**	12,822
Impairment recognised	**3,881**	3,289
Impairment reversed	**(6,059)**	(1,153)
At 31 December	**12,780**	14,958

The impairment loss recognised on trade receivables is mainly for customers who have financial difficulties.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

23. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other receivables	**186**	6,608	**–**	–
Prepayments	**212**	932	**90**	–
Deposits	**953**	971	**–**	–
	1,351	8,511	**90**	–

In the prior year, included in other receivables were deposits paid in respect of film production and artists' fees of HK$3,126,000.

24. LOAN RECEIVABLE

The amount was unsecured, bore interest at 8.4% per annum and was repaid during the year.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**13,604**	19,479	**103**	347
Time deposits with original maturity of less than three months	**2,357**	80,879	**–**	30,050
	15,961	100,358	**103**	30,397
Pledged deposits with original maturity of less than three months	**536**	533	**–**	–
	16,497	100,891	**103**	30,397

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$3,614,000 (2007: HK$283,000). The RMB is not freely convertible into the other currencies, however, under Mainland China's Foreign Exchange Control Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

26. TRADE PAYABLES

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

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

27. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits in advance	**28,330**	17,731	**–**	–
Other payables	**17,160**	10,727	**–**	–
Accruals	**5,003**	3,248	**246**	96
	50,493	31,706	**246**	96

Other payables are non-interest-bearing and have an average term of three months.

Deposits in advance mainly represent the amount received from distributors which are unsecured, interest-free and have no fixed terms of repayment. The directors have determined that the carrying amounts of the balances reasonably approximate to their fair values.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2008 HK$'000	Group 2007 HK$'000	Company 2008 HK$'000	Company 2007 HK$'000
Current						
Bank loans – secured	4.75–7.5	2008	–	6,359	–	–
Bank overdrafts – secured	5–7	On demand	**6,605**	–	**3,655**	–
Other borrowings – unsecured	1 – 5.58	2008	**5,840**	487	–	–
			12,445	6,846	**3,655**	–
Non-current						
Bank loans – secured	4.75–7.5	2010	**166**	537	–	–
			12,611	7,383	**3,655**	–

	Group 2008 HK$'000	Group 2007 HK$'000	Company 2008 HK$'000	Company 2007 HK$'000
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year	**6,605**	6,359	**3,655**	–
In the second year	**166**	537	–	–
	6,771	6,896	**3,655**	–
Other borrowings repayable:				
Within one year	**5,840**	487	–	–
	12,611	7,383	**3,655**	–

The Group's bank overdrafts are secured by the building and the prepaid land lease payments of the Group with aggregate carrying values of approximately HK$789,000 (note 13) and HK$2,428,000 (note 15), respectively. All bank overdrafts were subsequently settled in April 2009.

The carrying amounts of the Group's interest-bearing bank and other borrowings approximate to their fair values.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

29. OBLIGATIONS UNDER A FINANCE LEASE

The Group leases its motor vehicle for its business use. The lease is classified as a finance lease and has a remaining lease term of three years. Interest rate underlying all obligations under the 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.

Group

	Minimum lease payments		**Present value of minimum lease payments**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**110**	110	**92**	92
In the second year	**110**	110	**92**	92
In the third to fifth years, inclusive	**11**	121	**8**	100
Total minimum finance lease payments	**231**	341	**192**	284
Future finance charges	**(39)**	(57)		
Total net finance lease payables	**192**	284		
Portion classified as current liabilities	**(92)**	(92)		
Non-current portion	**100**	192		

30. CONVERTIBLE BONDS

As part of the consideration for the acquisition of Profit Source International Limited ("Profit Source") and its subsidiary (note 36), the Company issued zero coupon convertible bonds due on 18 October 2011 up to an aggregate principal amount of HK$70,000,000 of which HK$40,000,000 could be reduced on a dollar to dollar basis shall the Group has to settle in cash for several litigations more than a settlement amount of RMB130,956,000 as accrued by the Profit Source Group upon its disposal. The bonds are convertible at the option of the bondholders into fully paid ordinary shares with a par value of HK$0.10 each of the Company at any time from the date of the issue of the bonds up to and including 18 October 2011 at an initial conversion price of HK$0.4 per share (subject to adjustment). Pursuant to the open offer of 1,426,900,000 new ordinary shares by the Company (note 33), the conversion price was adjusted to HK$0.274 per share. The Group has an option to settle the conversion requested by bondholders in cash. The bonds are redeemable at the option of the Company at 100% of their principal amount six months after the issuance. Any convertible bonds not converted will be redeemed on 18 October 2011 at 100% of their principal amount.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

30. CONVERTIBLE BONDS (continued)

The Group has entered into settlement agreement with the relevant counterparties to the several litigations against the Profit Source Group, pursuant to which the Group has paid an aggregate amount of RMB136,464,000 which exceeded the amount of RMB130,956,000 as disclosed in the circular dated 12 March 2008 to the relevant counterparties being full and final settlement. The Group is then entitled to deduct the exceeding amount of RMB5,508,000 (equivalent to approximately HK$6,261,000) from the principal amount of HK$40,000,000 convertible bond. Accordingly, a new convertible bond certificate of HK$33,739,000 has been issued and delivered to the bondholders thereafter.

The fair value of the derivative component was estimated at the issuance date using a binomial model and the change in fair value of that component is recognised in the consolidated income statement. The residual amount is assigned as the liability component.

The convertible bonds issued in the current year had been split as to the derivative and liability components, and the movements in the derivative and liability components were as follows:

	HK$'000
Nominal value of convertible bonds issued during the year	63,739
Derivative component	(20,916)
Liability component at the issuance date	42,823
Interest expense (note 6)	1,975
Liability component at 31 December 2008	44,798
Derivative component at the issuance date	20,916
Fair value gain recognised during the year	(14,176)
Derivative component at 31 December 2008	6,740

31. LOANS FROM SHAREHOLDERS

Loans from shareholders represent loan balances of HK$13,036,000 (2007: HK$13,036,000) from Mr. Zhang Xun, which were unsecured, bears interest at 1% to 3% per annum and repayable on demand and a loan balance of HK$20,000,000 (2007: Nil) from Mr. Wong, as at the balance sheet date. The loan from Mr. Wong is unsecured, bears interest at 2% below the Hong Kong prime rate and repayable on or before 10 November 2010.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

32. DEFERRED TAX

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

	Temporary differences arising from the acquisition of subsidiaries HK$'000	**Accelerated tax depreciation** HK$'000	**Total** HK$'000
At 1 January 2007	–	471	471
Deferred tax debited to consolidated income statement during the year (note 9)	–	37	37
At 31 December 2007 and 1 January 2008	–	508	508
Effect on opening deferred tax of decrease in tax rate (note 9)	–	(29)	(29)
Acquisition of subsidiaries (note 36)	104,142	–	104,142
Deferred tax credited to the consolidated income statement during the year (note 9)	(41,414)	–	(41,414)
Exchange realignment	853	–	853
At 31 December 2008	63,581	479	64,060

At 31 December 2008, the Group had unused tax losses of approximately HK$116,266,000 (2007: HK$77,042,000) available indefinitely for offsetting against future profits of the companies in which the losses arose. No deferred tax asset in respect of such losses has been recognised due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

33. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
10,000,000,000 (2007: 1,000,000,000) ordinary shares of HK$0.10 each (note a)	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2007	330,000,000	33,000
Issue of shares (note b)	30,000,000	3,000
Open Offer (note c)	180,000,000	18,000
Issue of shares (note d)	36,000,000	3,600
At 31 December 2007 and 1 January 2008	576,000,000	57,600
Issue of shares (note e)	175,000,000	17,500
Open Offer (note f)	1,426,900,000	142,690
At 31 December 2008	2,177,900,000	217,790

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

Notes:

(a) Pursuant to an ordinary resolution passed on 29 May 2008, the authorised share capital of the Company was increased from HK$100,000,000 to HK$1,000,000,000 by the creation of 9,000,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

(b) On 29 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.

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 31 May 2007 and rank pari passu with the then existing shares in issue in all respects.

(c) On 14 September 2007, the Company completed an 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 per share. The proceeds were used to further strengthen its financial position and expand its capital base and business.

33. SHARE CAPITAL (continued)

Notes: (continued)

(d) On 17 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. 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.

(e) On 18 April 2008, 175,000,000 ordinary shares of HK$0.10 each were allotted and issued, credited as fully paid at an issue price of HK$0.40 per share, in consideration of and in exchange for the acquisition of the Profit Source Group (note 36).

(f) On 3 September 2008, the Company completed the open offer by issuing 1,426,900,000 shares ("Open share(s)") on the basis of nineteen Open shares for every ten existing shares, at the subscription price at HK$0.10 each per share. The proceeds were used for the repayment of the outstanding debts of the Group, including the litigation against the Profit Source Group and the general working capital and the future investment of the Group.

34. SHARE OPTIONS

The Company's share option scheme was adopted pursuant to a resolution passed on 21 August 2001 (the "Scheme"). Under the Scheme, the board of directors of the Company may grant options to full-time employee of the Company or any subsidiary including any executive director and non-executive director of the Company and its subsidiaries (the "Eligible Person"), to subscribe for shares in the Company. The Scheme was further amended pursuant to Shareholders' resolutions passed on 27 May 2004 (the "Amended Scheme") of which the existing categories of the Eligible Person were expanded by adding new classes of persons.

(i) any employee (whether full time or part time including executive director) of any member of the Group or any entity in which the Group holds an equity interests ("Invested Entity");

(ii) any non-executive director (including independent non-executive Directors) of any member of the Group or any Invested Entity;

(iii) any consultant, adviser or agent engaged by any member of the Group or any Invested Entity, who, under the terms of relevant engagement with the Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company; and

(iv) any vendor, supplier of goods or services or customer of or to any member of the Group or Invested Entity who, under the terms of relevant agreement with the Group or the relevant Invested Entity, is eligible to participate in a share option scheme of 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

34. SHARE OPTIONS (continued)

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

Name of director	Date of grant	Exercise period	Exercise price per share HK$	Outstanding at 1.1.2007	Granted during the year	Adjustments (note 1)	Forfeited during the year	Outstanding at 1.1.2008	Granted during the year	Adjustments (note 2)	Forfeited during the year	Outstanding at 31.12.2008
Mr. Wong	23.6.2006	24.12.2006 to 20.8.2011	0.577	328,000	–	38,048	–	366,048	–	167,500	–	533,548
	10.5.2007	22.11.2007 to 20.8.2011	0.541	–	1,250,000	145,000	–	1,395,000	–	638,340	–	2,033,340
Ms. Wong Chi Woon, Edmond	23.6.2006	24.12.2006 to 20.8.2011	0.577	328,000	–	38,048	–	366,048	–	167,500	–	533,548
	10.5.2007	22.11.2007 to 20.8.2011	0.541	–	1,250,000	145,000	–	1,395,000	–	638,340	–	2,033,340
Ms. Wong Yee Kwan, Alvina	23.6.2006	24.12.2006 to 20.8.2011	0.577	328,000	–	38,048	–	366,048	–	167,500	–	533,548
	10.5.2007	22.11.2007 to 20.8.2011	0.541	–	1,250,000	145,000	–	1,395,000	–	638,340	–	2,033,340
Mr. Tang Kai Kui, Terrence	23.6.2006	24.12.2006 to 20.8.2011	0.577	328,000	–	38,048	–	366,048	–	167,500	(533,548)	–
	10.5.2007	22.11.2007 to 20.8.2011	0.541	–	2,500,000	290,000	–	2,790,000	–	1,276,681	(4,066,681)	–
				1,312,000	6,250,000	877,192	–	8,439,192	–	3,861,701	(4,600,229)	7,700,664
Employees	23.6.2006	24.12.2006 to 20.8.2011	0.577	656,000	–	76,096	–	732,096	–	335,000	–	1,067,096
	10.5.2007	22.11.2007 to 20.8.2011	0.541	–	2,250,000	261,000	–	2,511,000	–	1,149,012	–	3,660,012
				656,000	2,250,000	337,096	–	3,243,096	–	1,484,012	–	4,727,108
				1,968,000	8,500,000	1,214,288	–	11,682,288	–	5,345,713	(4,600,229)	12,427,772

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

34. SHARE OPTIONS (continued)

Note 1: The number and exercise price of the share options were adjusted as a result of the completion of the Open Offer in the proportion of one Open share for every two existing shares held on 24 August 2007. The exercise prices shown above represent the adjusted exercise prices as at 31 December 2007.

Note 2: The number and exercise price of the share options were adjusted as a result of the completion of the Open Offer in the proportion of nineteen Open shares for every ten existing shares held on 3 September 2008. The exercise prices shown above represent the adjusted exercise prices as at 31 December 2008.

The closing price of the shares of the Company on 23 June 2006 and 10 May 2007, date of grant of the above options were HK$0.93 and HK$0.88 (before adjustment) per share respectively.

No share option was granted by the Company during the year ended 31 December 2008. The estimated fair values of the options granted in 2007 was HK$2,695,000, which was fully recognised as expenses in the prior year.

The Company forfeited 4,600,229 share options during the year and the estimated fair value of share options being transferred to accumulated losses was HK$627,000.

These fair values were calculated using the Black-Scholes option pricing (the “Model”). The inputs to the Model were as follows:

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

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 behavioural considerations.

The fair values were calculated by Greater China Appraisal Limited, independent professionally qualified valuers. 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.

At the balance sheet date, the Company had 12,427,772 share options outstanding under the Scheme. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 12,427,772 additional ordinary shares of the Company and additional share capital of approximately HK$1,243,000 and share premium account of approximately HK$5,577,000 (before issue expenses).

Subsequent to the balance sheet date and at the date of approval of these financial statements, the Company had 12,427,772 share options outstanding under the Scheme, which represented approximately 0.57% of the issued share capital of the Company as at that date.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

35. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007		34,653	44,072	523	(66,622)	12,626
Loss for the year	10	–	–	–	(3,451)	(3,451)
Issue of shares		125,820	–	–	–	125,820
Share issue expenses		(3,848)	–	–	–	(3,848)
Transferred to accumulated losses on forfeiture of share options		–	–	(917)	917	–
Equity-settled share option arrangements		–	–	2,695	–	2,695
At 31 December 2007 and 1 January 2008		156,625	44,072	2,301	(69,156)	133,842
Loss for the year	10	–	–	–	(256,820)	(256,820)
Issue of shares	33	52,500	–	–	–	52,500
Share issue expenses		(3,755)	–	–	–	(3,755)
Transferred to accumulated losses on forfeiture of share options		–	–	(627)	627	–
At 31 December 2008		205,370	44,072	1,674	(325,349)	(74,233)

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.

36. BUSINESS COMBINATION

(a) Acquisition of the Profit Source Group

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

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

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

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

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

As described in note 30 to the financial statements, the cash consideration has been increased from HK$100,000,000 to HK$106,261,000 while the principal amount of the convertible bonds is reduced to HK$63,739,000. However, the total purchase consideration remains the same.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

36. BUSINESS COMBINATION (continued)

(a) Acquisition of the Profit Source Group (continued)

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

	Notes	Fair value recognised on Acquisition HK$'000	Previous carrying amount HK$'000
Property, plant and equipment	13	304	304
Investment property		445,087	445,087
Investment held for trading		430	430
Cash and bank balances		474	474
Shareholder's loan		(31,766)	(31,766)
Other payables and accruals (including provision for litigations of RMB130,956,000)		(146,655)	(138,336)
Deferred tax liabilities		(104,142)	–
Minority interests		(19,571)	(30,816)
		144,161	245,377
Goodwill	16	69,034	
		213,195	
Satisfied by:			
Cash		106,261	
Consideration Shares		70,000	
Convertible bonds	30	63,739	
Costs associated with the Acquisition		4,961	
Shareholder's loan		(31,766)	
		213,195	

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

36. BUSINESS COMBINATION (continued)

(a) Acquisition of the Profit Source Group (continued)

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

Since the Acquisition, the Profit Source Group contributed HK$988,000 to the Group's revenue and HK$193,113,000 to the consolidated loss for the year ended 31 December 2008.

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

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

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

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

	Notes	**Fair value recognised on acquisition** HK$'000	**Previous carrying amount** HK$'000
Property, plant and equipment	13	6	6
Cash and bank balances		1,036	1,036
Trade receivables		1	1
Prepayments and other receivables		32	32
Other payables and accruals		(798)	(798)
		277	277
Excess over the cost of a business combination	5	(277)	
		–	
Satisfied by:			
Cash consideration of HK$1		–	

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

36. BUSINESS COMBINATION (continued)

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

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

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

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

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

37. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment property under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2008 **HK$'000**	2007 HK$'000
Within one year	**1,221**	–
In the second to fifth years, inclusive	**375**	–
	1,596	–

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

37. OPERATING LEASE COMMITMENTS (continued)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years.

At 31 December 2008, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2008	2007
	HK$'000	HK$'000
Within one year	**2,283**	3,004
In the second to fifth years, inclusive	**327**	2,610
	2,610	5,614

38. OTHER COMMITMENTS

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

	2008	2007
	HK$'000	HK$'000
Production of a film	**2,592**	1,822
Artists' fees	**1,000**	4,859
	3,592	6,681

The Company did not have any other significant commitments at the balance sheet date (2007: Nil).

b) At the balance sheet date, the Group had contract for capital commitments in respect of a sino-foreign-owned joint venture enterprises in the PRC amounting to HK$4,500,000 (2007: Nil).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

39. BANKING FACILITIES AND PLEDGE OF ASSETS

At 31 December 2008, the Group's banking facilities are secured by the following:

(1) a corporate guarantee given by the Company;

(2) a personal guarantee given by a director of the Company;

(3) certain of the Group's buildings and prepaid land lease payments with carrying values of HK$789,000 (2007: HK$885,000) and HK$2,428,000 (2007: HK$2,503,000), respectively; and

(4) bank deposits of HK$536,000 (2007: HK$533,000) as set out in note 25.

40. RELATED PARTY DISCLOSURES

(i) Related party transactions and connected transactions

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

Nature of transactions	Notes	2008 HK$'000	2007 HK$'000
Agency fees paid	(a)	**266**	568
Rental expenses paid	(b)	**614**	983
Production expenses paid	(c)	**300**	–

Notes:

(a) The agency fees are charged by 廣州東影影視出品有限公司 ("Tung Ying") and Prime Moon International Limited ("Prime Moon"), in which a brother and a sister of Mr. Wong have beneficial interests, respectively, for the distribution income generated by Tung Ying and Prime Moon on behalf of the Group, in which they acted as the agents 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, a director of the Company has beneficial interest.

(c) The production expenses were paid to Mr. Wong, a director of the Company, for his executive producer service provided to the Group in accordance with three service agreements entered into on 20 November 2008 between the Group and Big Bright Investment Limited, of which the shareholding is beneficially owned by Mr. Wong.

(ii) Compensation of key management personnel

The directors are the key management personnel of the Group. Details of their remuneration are disclosed in note 8(a) to the financial statements.

(iii) Outstanding balances with related parties:

Except for loans from shareholders (note 31), the balances with a shareholder, a minority shareholder, jointly-controlled entities and directors are unsecured, interest-free and have no fixed terms of repayment.

41. FINANCIAL INSTRUMENTS

Categories of financial instruments

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
(a) Financial assets at fair value through profit or loss				
– Investments held for trading	**1**	16,350	**–**	–
(b) Loans and receivables				
– Trade receivables	**5,487**	2,997	**–**	–
– Other receivables	**186**	6,608	**–**	–
– Loan receivable	**–**	5,500	**–**	–
– Due from a minority shareholder	**12,372**	–	**–**	–
– Due from a jointly-controlled entity	**–**	1,349	**–**	–
– Pledged deposits	**536**	533	**–**	–
– Cash and cash equivalents	**15,961**	100,358	**103**	30,397
	34,542	117,345	**103**	30,397
	34,543	133,695	**103**	30,397
Financial liabilities				
(a) Financial liabilities at amortised cost				
– Trade payables	**4,081**	3,514	**–**	–
– Other payables	**17,160**	10,727	**–**	–
– Due to directors	**104**	–	**62**	–
– Due to a subsidiary	**–**	–	**450**	–
– Due to a shareholder	**6,991**	–	**–**	–
– Interest-bearing bank and other borrowings	**12,611**	7,383	**3,655**	–
– Obligations under a finance lease	**192**	284	**–**	–
– Convertible bonds	**44,798**	–	**44,798**	–
– Loans from shareholders	**33,036**	13,036	**20,000**	–
	118,973	34,944	**68,965**	–
(b) Financial liabilities at fair value through profit or loss				
– Derivative component of convertible bonds	**6,740**	–	**6,740**	–
	125,713	34,944	**75,705**	–

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, equity price risk, foreign currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks which are summarised below.

Interest rate risk

The Group's financial instruments are short term in nature. The carrying amounts of these financial instruments reported on the balance sheet approximate to their fair values, and hence there is no interest rate risk exposure in relation to these instruments.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the values of Company's own equity instruments underlie the fair values of derivatives. As at the balance sheet date, the Group was exposed to this risk through the conversion rights attached to the convertible bonds (note 30) issued by the Company.

As at 31 December 2008, the carrying value of the derivatives was HK$6,740,000 (2007: Nil) and if the market price of the Company's own shares at that date had been 5% lower, with all other variables held constant and before any impact on tax, the loss before tax for the year would have been HK$198,000 lower; and if the market price of the Company's own shares at that date had been 5% higher, with all other variables held constant and before any impact on tax, the loss before tax for the year would have been HK$1,174,000 higher.

Foreign currency risk

The Group carries on its sales and purchases transactions mainly in Hong Kong dollars, the United States dollars and RMB. As the foreign currency risk generated from the sales and purchases can be set off with each other, the foreign currency risk is minimal for the Group. It is the policy of the Group to continue maintaining the balance of its sales and purchases in the same currency. The Group does not use derivative financial instruments to protect against the volatility associated with foreign currency transactions and other financial assets and liabilities created in the ordinary course of the business. However, as the Group's net profit is reported in Hong Kong dollars, there will be a translation gain as a result of the RMB appreciation, and vice versa. Certain of the Group's operating assets are located in Mainland China and are denominated in RMB.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit after tax and equity (due to changes in the fair value of monetary assets and liabilities).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase (decrease) in RMB rate	**Increase (decrease) in profit before tax**
	%	HK$'000
2008		
If Hong Kong dollar weakens against RMB	**5**	**2,769**
If Hong Kong dollar strengthens against RMB	**(5)**	**(2,769)**
2007		
If Hong Kong dollar weakens against RMB	5	8
If Hong Kong dollar strengthens against RMB	(5)	(8)

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and on an individual basis. Each of the customers has been attached with a trading limit and any excess to the limit must be approved by the general manager of the operation unit. Under the tight control of the credit term and detailed assessment to the creditworthiness of individual customers, the Group's exposure to bad debts is maintained as minimal.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, an amount due from minority shareholder, a jointly-controlled entity, a loan receivable and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the financial statements.

Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. The Group's objectives are to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain a contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirement.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

		Group	
	Less than one year	**Over one year**	**Total**
	HK$'000	HK$'000	HK$'000
2008			
Trade payables	**4,081**	**–**	**4,081**
Other payables	**17,160**	**–**	**17,160**
Due to directors	**104**	**–**	**104**
Due to a shareholder	**6,991**	**–**	**6,991**
Interest-bearing bank and other borrowings	**12,445**	**166**	**12,611**
Obligations under a finance lease	**92**	**100**	**192**
Convertible bonds	**–**	**63,739**	**63,739**
Loans from shareholders	**13,036**	**20,000**	**33,036**
	53,909	**84,005**	**137,914**
2007			
Trade payables	3,514	–	3,514
Other payables	10,727	–	10,727
Interest-bearing bank and other borrowings	6,846	537	7,383
Obligations under a finance lease	92	192	284
Loans from shareholders	13,036	–	13,036
	34,215	729	34,944

		Company	
	Less than one year	**Over one year**	**Total**
	HK$'000	HK$'000	HK$'000
2008			
Due to a director	**62**	**–**	**62**
Due to a subsidiary	**450**	**–**	**450**
Interest-bearing bank and other borrowings	**3,655**	**–**	**3,655**
Convertible bonds	**–**	**63,739**	**63,739**
Loans from shareholders	**–**	**20,000**	**20,000**
	4,167	**83,739**	**87,906**

The Company did not have any financial liabilities as at 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2008

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 2007.

The Group monitors capital using a current ratio, which is total current assets divided by total current liabilities. The Group's policy is to keep the current ratio above 1.

Fair value

The Company's financial instruments are short-term in nature and therefore their carrying values as at 31 December 2008 approximate to their fair values.

43. POST BALANCE SHEET EVENT

Save as disclosed elsewhere in these financial statements, the Group also had the following significant post balance sheet event:

On 27 March 2009, a share purchase agreement (the "Share Purchase Agreement") was entered into between Grimston Limited ("Grimston"), a wholly-owned subsidiary of the Company and Mr. Lam Sze Ho ("Mr. Lam"), an independent third party. Pursuant to the Share Purchase Agreement, Grimston shall dispose of and Mr. Lam shall acquire the entire 10,000 issued and fully paid ordinary shares of HK$1 each in the share capital of Chili Advertising & Promotion Limited ("Chili"), a wholly-owned subsidiary of Grimston, at a total consideration of HK$2,276,000 which was settled by a cash consideration of approximately HK$500,000 and the remaining will be offset by the loan outstanding from Grimston to Chili, amounted to an aggregate of approximately HK$1,776,000 (the "Disposal"). The preliminary estimated gain arising from the Disposal is approximately HK$100,000. Further details of the Disposal are set out in an announcement made by the Company on 27 March 2009.

44. COMPARATIVE AMOUNTS

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

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 21 April 2009.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**63,229**	76,718	77,165	43,256	53,192
Profit (Loss) before tax	**(270,009)**	(40,193)	784	(19,863)	(55,877)
Tax	**41,327**	126	889	1,244	(466)
Profit (Loss) for the year	**(228,682)**	(40,067)	1,673	(18,619)	(56,343)
Attributable to:					
Equity holders of the Company	**(216,317)**	(40,067)	1,673	(18,619)	(56,269)
Minority interests	**(12,365)**	–	–	–	(74)
	(228,682)	(40,067)	1,673	(18,619)	(56,343)

	At 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**404,197**	219,163	109,885	122,614	113,529
Total liabilities	**(223,248)**	(56,514)	(55,196)	(70,240)	(43,469)
	180,949	162,649	54,689	52,374	70,060
Attributable to:					
Equity holders of the Company	**158,148**	162,649	54,689	52,374	69,872
Minority interests	**22,801**	–	–	–	188
	180,949	162,649	54,689	52,374	70,060

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an annual general meeting of Mandarin Entertainment (Holdings) Limited (the "**Company**") will be held at 5/F, Cheung Fai Industrial Building, 131 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on Wednesday, 3 June 2009 at 11:00 a.m., to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors (the "**Directors**") and auditors of the Company for the year ended 31 December 2008;

2. (a) to re-elect Mr. Wong Pak Ming as executive Director;

   (b) to re-elect Mr. Hui Wai Lee Willy as executive Director;

   (c) to re-elect Mr. Choy Sze Chung, Jojo as independent non-executive Director;

   (d) to authorise the board of Directors to fix the Directors' remuneration;

3. to re-appoint Ernst & Young as the auditors of the Company and to authorise the board of Directors to fix their remuneration;

and, as special business, consider and, if thought fit, passing the following resolutions as ordinary resolutions:

4. **"THAT:**

   (a) subject to paragraph (c) below, pursuant to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with unissued shares of the Company (the "**Shares**") and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

NOTICE OF ANNUAL GENERAL MEETING

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the exercise of any options granted under the existing share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the bye-laws of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and

(bb) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of resolution no. 5),

and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purposes of this resolution:

"**Relevant Period**" means the period from the date of the passing of this resolution until whichever is the earliest of:

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

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1981 of Bermuda (as amended) (the "**Companies Act**") or any other applicable laws of Bermuda to be held; or

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution;

"**Rights Issue**" means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong)."

NOTICE OF ANNUAL GENERAL MEETING

5. **"THAT:**

(a) the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to purchase the Shares on the Stock Exchange or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange, the Companies Act and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(c) for the purposes of this resolution, "**Relevant Period**" means the period from the date of the passing of this resolution until whichever is the earliest of:

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

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

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution."

6. "**THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution."

Yours faithfully
For and on behalf of
the board of directors of
Mandarin Entertainment (Holdings) Limited
Lai Pik Chi, Peggy
Chairman

Hong Kong, 29 April 2009

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Bermuda

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Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the annual general meeting convened by the above notice 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 annual general meeting 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. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the Hong Kong branch share registrar of the Company, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the annual general meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a shareholder of the Company from attending in person and voting at the annual general meeting or any adjournment thereof, should he/she/it so wish.

3. In relation to proposed resolutions nos. 4 and 6 above, approval is being sought from the shareholders for the grant to the Directors of the Company of a general mandate to authorise the allotment and issue of shares of the Company under the Listing Rules. The Directors have no immediate plans to issue any new shares of the Company other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by shareholders.

4. In relation to proposed resolution no. 5 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase Shares in circumstances which they deem appropriate for the benefit of the shareholders of the Company. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed resolution as required by the Listing Rules is set out in Appendix I to the AGM circular dated 29 April 2009.