THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Mandarin Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee. This circular appears for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

CHINA MANDARIN HOLDINGS LIMITED
中國東方實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00009)

(1) PROPOSED CAPITAL REORGANISATION
(2) PROPOSED OPEN OFFER OF 343,318,399 OFFER SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY ONE ADJUSTED SHARE HELD ON THE RECORD DATE;
(3) WHITEWASH WAIVER; AND
(4) NOTICE OF SGM

Financial adviser to the Company

VINCO 域高

Grand Vinco Capital Limited

(A wholly-owned subsidiary of Vinco Financial Group Limited)

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

VEDA | CAPITAL
智略資本

A letter from the Board is set out on pages 9 to 31 of this circular. A letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 33 to 48 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 32 of this circular.

A notice convening the SGM to be held at Room 4101, 41/F., The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong at 10:30 a.m. on Wednesday, 23 May 2012 is set out on pages N-1 to N-4 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire.

The Open Offer is subject to the satisfaction of certain conditions as described under the section headed "Conditions of the Open Offer". In particular, it is subject to the Underwriter not terminating the Underwriting Agreement (see the section headed "Termination of the Underwriting Agreement" herein) on or before the Latest Time for Termination. Accordingly, the Open Offer may or may not become unconditional and may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealings in the Shares or Adjusted Shares up to the date when the conditions of the Open Offer are fulfilled.

30 April 2012

* *For identification purpose only*

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriter shall be entitled to terminate the Underwriting Agreement by notice in writing to the Company on or before the Latest Time for Termination:

(a) in the sole and reasonable opinion of the Underwriter, the success of the Open Offer would be adversely affected by:

(i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the sole and reasonable opinion of the Underwriter adversely affect the business or the financial or trading position or prospects of the Group as a whole or is adverse in the context of the Open Offer; or

(ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generic with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and reasonable opinion of the Underwriter adversely affect the business or the financial or trading position or prospects of the Group as a whole or adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(iii) any adverse change in the business or in the financial or trading position of the Group as a whole; or

(iv) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic or threatened epidemic, terrorism, strike or lock-out; or

(v) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances; or

(vi) the occurrence of any event, or series of events, beyond the control of the Underwriter which, at the sole and reasonable opinion of the Underwriter, have or would have the adverse effect of making the Underwriting Agreement (including the underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Open Offer or pursuant to the underwriting thereof or which have or is likely to have an adverse effect on the Open Offer; or

(b) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the sole and reasonable opinion of the Underwriter is likely to adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(c) there is any change in the circumstances of the Company or any member of the Group which in the sole and reasonable opinion of the Underwriter will adversely affect the business prospects or financial condition of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any member of the Group or the destruction of any material asset of the Group; or

(d) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the announcement or circular relating to the Open Offer or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or

(e) the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the financial condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date thereof been publicly announced or published by the Company and which may in the sole and reasonable opinion of the Underwriter is material to the Group as a whole and is likely to affect adversely the success of the Open Offer or might cause a prudent investor not to accept the Offer Shares provisionally allotted to it.

The Underwriter will be entitled to by notice in writing to the Company rescind the Underwriting Agreement if prior to the Latest Time for Termination or such other earlier date and/or time as the Company and the Underwriters may mutually agree:

(a) any material breach of any of the representations, warranties or undertakings contained in the relevant clause of the Underwriting Agreement comes to the attention of the Underwriter; or

(b) any event or matter arising on or before the Latest Time for Termination which shows any representation or warranty to be or to have been untrue or inaccurate in any material aspect comes to the attention of the Underwriter.

If the Underwriting Agreement is terminated on or before the aforesaid deadline or does not become unconditional, the Open Offer will not proceed.

CONTENTS

In this circular, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

"acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"Adjusted Shares"	Share(s) of HK$0.01 each in the share capital of the Company after the Capital Reorganisation becoming effective
"Announcement"	the announcement of the Company dated 22 February 2012 in relation to the Capital Reorganisation, the change of board lot size, the Open Offer and the Whitewash Waiver
"Application Form(s)"	the application form(s) for use by the Qualifying Shareholders to apply for the Offer Shares
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	any day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for normal business in Hong Kong
"Bye-laws"	the bye-laws of the Company in force from time to time
"Capital Reduction"	the reduction of the nominal value of the issued share capital of the Company from HK$1.00 per Consolidated Share to HK$0.01 per Adjusted Share by way of cancellation of HK$0.99 of the paid up capital on each Consolidated Share
"Capital Reorganisation"	the proposed capital reorganisation of the Company involving the Share Consolidation, Capital Reduction and the Share Subdivision
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Act"	The Companies Act 1981 of Bermuda, as amended from time to time
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time

"Company"	China Mandarin Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consolidated Share(s)"	share(s) of HK$1.00 each in the share capital of the Company after the Share Consolidation but before the Capital Reduction
"Convertible Bond"	the transferable convertible bond, which was originally issued by the Company to the vendor in the VSA Transaction on 26 January 2011 with the maturity date on 26 January 2016 and which is currently held by Mr. Lu Dewei with an outstanding principal amount of HK$52,000,000 convertible into 150,724,637 Shares with a conversion price of HK$0.345 per Share
"Director(s)"	director(s) of the Company
"Excluded Shareholder(s)"	those Overseas Shareholder(s) at the Record Date, to whom the Directors, based on legal opinions provided by the Company's legal advisers and on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider it necessary or expedient not to offer the Offer Shares
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegate(s)
"Existing Share(s)"	the ordinary share(s) of HK$0.10 each in the existing share capital of the Company, before the Capital Reorganisation becoming effective
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Broad comprising the independent non-executive Directors, who have no direct or indirect interest in the Open Offer and the Whitewash Waiver, namely Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chu To, Jonathan, established to advise the Independent Shareholders regarding the Open Offer and the Whitewash Waiver

"Independent Shareholders"	Shareholders other than the Underwriter and parties acting in concert with him and those who are involved in or interested in the Open Offer and the Whitewash Waiver who are required by the Listing Rules or the Takeovers Code to abstain from voting on the relevant resolutions at the SGM
"Independent Third Party(ies)"	independent third party(ies) who is(are) not connected person of the Company as defined in the Listing Rules and is(are) independent of the Company and connected person(s) of the Company
"Irrevocable Undertaking"	the irrevocable undertaking given by the Underwriter pursuant to which the Underwriter has irrevocably undertaken to subscribe for his full entitlement pursuant to the Open Offer
"Last Trading Day"	14 February 2012, being the last trading day on which the Shares were traded on the Stock Exchange before the release of the Announcement
"Latest Lodging Date"	29 May 2012 or such other date as may be determined by the Company, being the latest date for lodging transfer of Adjusted Shares in order to qualify for the Open Offer
"Latest Practicable Date"	27 April 2012, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
"Latest Time for Acceptance"	4:00 p.m. on 19 June 2012 or such other date as may be determined by the Company, being the latest date for acceptance of, and payment for, the Offer Shares
"Latest Time for Termination"	4:00 p.m. on the Settlement Date or such later time to be agreed in writing between the Company and the Underwriter, being the latest time for the Underwriter to terminate the Underwriting Agreement
"Listing Committee"	the listing sub-committee of the board of the Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Offer Shares"	343,318,399 Adjusted Shares to be issued pursuant to the Open Offer

"Open Offer"	the proposed issue of Offer Shares on the basis of one (1) Offer Share for every one (1) Adjusted Share held by the Qualifying Shareholders on the Record Date at the Subscription Price, pursuant to the terms and conditions contained herein and more particularly described in the Prospectus Documents
"Overseas Shareholder(s)"	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company and whose address(es) as shown on such register is(are) in a place outside Hong Kong
"PRC"	The People's Republic of China
"Project"	the property/hotel development project on the land located in the Jinhua Economic Development Zone, Xiangtan, Hunan, the PRC, as more particularly described in the VSA Announcement and the VSA Circular
"Prospectus"	the prospectus to be issued by the Company in relation to the Open Offer
"Prospectus Documents"	the Prospectus and the Application Form
"Prospectus Posting Date"	4 June 2012 or such other date, as the Underwriter may agree in writing with the Company for the despatch of the Prospectus Documents
"Qualifying Shareholder(s)"	the Shareholder(s), other than the Excluded Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date
"Record Date"	1 June 2012, being the date by reference to which entitlements to the Open Offer will be determined
"Registrar"	Tricor Standard Limited, the branch share registrar of the Company in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
"Settlement Date"	the third business day after the Latest Time for Acceptance
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as mended from time to time

"SGM"	a special general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the Capital Reorganisation by the Shareholders, the Open Offer and the Whitewash Waiver by the Independent Shareholders
"Share(s)"	Existing Share(s) or Adjusted Share(s) (as the case may be)
"Share Consolidation"	the proposed consolidation of every 10 issued and unissued Shares of HK$0.10 each into 1 Consolidated Share of HK$1.00 each
"Share Subdivision"	each of the authorised but unissued shares of HK$0.10 each in the share capital of the Company being subdivided into ten Adjusted Shares of HK$0.01 each
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	subscription price of HK$0.538 per Offer Share
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Underwriter" or "Mr. Cheng"	Mr. Cheng Keung Fai, a substantial Shareholder
"Underwriting Agreement"	the underwriting agreement dated 14 February 2012 entered into between the Company and the Underwriter in relation to the Open Offer
"Veda Capital"	Veda Capital Limited, a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Open Offer and the Whitewash Waiver
"VSA Announcement"	the announcement of the Company dated 23 November 2010 in respect of the VSA Transaction
"VSA Circular"	the circular of the Company dated 7 January 2011 in respect of the VSA Transaction
"VSA Transaction"	the very substantial acquisition of the Company relating to the Project as reported in the VSA Announcement and the VSA Circular

"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensation from Rule 26.1 of the Takeovers Code in respect of the Underwriter's obligations to make a mandatory offer under Rule 26.1 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Underwriter and parties acting in concert with him as a result of the transactions contemplated under the Underwriting Agreement
"HK$"	Hong Kong Dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

The expected timetable for the Open Offer set out below is for illustration purpose only.

	2012
Latest time for lodging proxy forms for the SGM	10:30 a.m. on Monday, 21 May
SGM	10:30 a.m. on Wednesday, 23 May
Announcement of results of SGM	Wednesday, 23 May
Expected effective date of the Capital Reorganisation	Thursday, 24 May
Dealings in Adjusted Shares commence	Thursday, 24 May
Original counter for trading in existing Shares in board lots of 6,000 Shares temporarily closes	9:00 a.m. on Thursday, 24 May
Temporary counter for trading in Adjusted Shares in board lots of 600 Adjusted Shares (in the form of existing share certificates) opens	9:00 a.m. on Thursday, 24 May
First day of free exchange of existing share certificates for the new share certificates for Adjusted Shares	Thursday, 24 May
Last day of dealings in the Adjusted Shares on a cum-entitlement basis	Friday, 25 May
First day of dealings in the Adjusted Shares on an ex-entitlement basis	Monday, 28 May
Latest time for lodging transfer of the Adjusted Shares for entitlement to the Open Offer	4:30 p.m. on Tuesday, 29 May
Book closure period (both days inclusive)	Wednesday, 30 May to Friday, 1 June
Record Date	Friday, 1 June
Register of members re-opens	Monday, 4 June
Despatch of the Prospectus Documents	Monday, 4 June
Original counter for trading in Adjusted Shares in board lots of 6,000 Adjusted Shares (in the form of new share certificates) reopens	9:00 a.m. on Thursday, 7 June

Parallel trading in Adjusted Shares (in the form of new share certificates and existing share certificates) commences	9:00 a.m. on Thursday, 7 June
Designated agent to stand in the market to provide matching service to facilitate the odd lots trading commences	9:00 a.m. on Thursday, 7 June
Latest time for payment for and acceptance of the Offer Shares	4:00 p.m. on Tuesday, 19 June
Open Offer becomes unconditional	Friday, 22 June
Announcement of the results of the Open Offer	Monday, 25 June
Certificates for the Offer Shares expected to be despatched on or before	Tuesday, 26 June
Dealings in fully-paid Offer Shares expected to commence	Wednesday, 27 June
Temporary counter for trading in Adjusted Shares in board lots of 600 Adjusted Shares (in the form of existing share certificates) closes	4:00 p.m. on Wednesday, 27 June
Designated agent to stand in the market to provide matching services ends	4:00 p.m. on Wednesday, 27 June
Parallel trading in Adjusted Shares (in the form of new share certificates and existing share certificates) ends	4:00 p.m. on Wednesday, 27 June
Last day for free exchange of existing share certificates for new share certificates for Adjusted Shares	Friday, 29 June

CHINA MANDARIN HOLDINGS LIMITED
中國東方實業集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 00009)

Executive Directors:
Mr. Jin Lei *(Chairman)*
Ms. Law Kee, Alice *(Chief Executive Officer)*
Mr. Hui Wai Lee, Willy

Independent non-executive Directors:
Mr. Tsui Pui Hung
Mr. Tang Ping Sum
Mr. Chu To, Jonathan

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business in Hong Kong:
Room 4101, 41/F
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

30 April 2012

To the Shareholders

Dear Sir or Madam,

(1) PROPOSED CAPITAL REORGANISATION (2) PROPOSED OPEN OFFER OF 343,318,399 OFFER SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY ONE ADJUSTED SHARE HELD ON THE RECORD DATE; (3) WHITEWASH WAIVER; AND (4) NOTICE OF SGM

INTRODUCTION

Reference is made to the Announcement of the Company dated 22 February 2012 in relation to, among other matters, the Capital Reorganisation, the change of board lot size, the Open Offer and the Whitewash Waiver and the announcement of the Company dated 13 April 2012 in relation to the Company's decision that the change of board lot size would not be implemented.

* *For identification purpose only*

The purpose of this circular is to give (i) details of the Capital Reorganisation, the Open Offer and the Whitewash Waiver; (ii) the recommendations of the Independent Board Committee in relation to the Open Offer and the Whitewash Waiver to the Independent Shareholders; (iii) a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, the Underwriting Agreement and the Whitewash Waiver; (iv) a valuation report on the property interests held by the Group; and (v) the notice of the SGM.

PROPOSED CAPITAL REORGANISATION

The Capital Reorganisation will involve the Share Consolidation, Capital Reduction and Share Subdivision.

Share Consolidation

The Share Consolidation will be implemented to consolidate every ten (10) Existing Shares of HK$0.10 each into one (1) Consolidated Share of HK$1.00. As at the Latest Practicable Date, the authorised share capital of the Company was HK$1,000,000,000 divided into 10,000,000,000 Shares of HK$0.10 each. Immediately after the Share Consolidation, the authorised share capital of the Company will be HK$1,000,000,000 divided into 1,000,000,000 Consolidated Shares of HK$1.00 each. As at the Latest Practicable Date, there were 3,433,183,998 Shares in issue and fully paid. On the basis of such issued share capital, there will be 343,318,399 Consolidated Shares of HK$1.00 each in issue once the Share Consolidation becomes effective. The Consolidated Shares will rank *pari passu* in all respects with each other.

Capital Reduction and Share Subdivision

The Capital Reduction of approximately HK$339.89 million will involve (i) the cancellation of any fractional entitlements remaining following the aggregation of all fractional entitlements arising on the Share Consolidation; and (ii) a reduction of the nominal value of the then issued Consolidated Shares from HK$1.00 to HK$0.01 each by cancelling the paid up capital to the extent of HK$0.99 on each of the then issued Consolidated Shares. The Subdivision will involve the sub-division of each authorised but unissued Consolidated Share of HK$1.00 into 100 Adjusted Shares of HK$0.01 each. The credit arising from the Capital Reduction will be credited to the contributed surplus account of the Company. A credit of an aggregate amount of approximately HK$339.89 million will arise in the books of the Company as a result of the Capital Reduction, which will be transferred to the contributed surplus account of the Company, where such credit arising from the Capital Reduction may be utilised in any manner permitted by the laws of Bermuda, the Bye-laws and all applicable laws.

Reasons for the Capital Reorganisation

The Board considers that the Capital Reorganisation will give greater flexibility to the Company in managing its capital and shareholder funds. Other than the expenses incurred in relation to the Capital Reorganisation, the implementation thereof will not alter the underlying assets, investments, management or financial position of the Company or the relative interests or rights of the Shareholders.

The Capital Reorganisation will also reduce the total number of Shares currently in issue. As such, the transaction and handling costs of the Company in relation to the dealings in the Adjusted Shares are expected to be reduced, which will be beneficial to the Company. Moreover, as the market value of each board lot upon the Capital Reorganisation becoming effective will be higher than the market value of each existing board lot, the transaction cost as a proportion of the market value of each board lot will be lower.

The credit arising from the Capital Reorganisation may be utilised in any manner permitted by the applicable laws and the Bye-laws, for example to eliminate the accumulated losses of the Company and thus make the Company in a better position to distribute dividend to the Shareholders. As at the Latest Practicable Date, the Company had nil accumulated loss.

The reduction of the par value of the shares of the Company from HK$1.00 per Consolidated Share to HK$0.01 per Adjusted Share would improve the flexibility in future for the Company to raise fund via issue of Adjusted Shares. The Company has no intention to issue new shares to raise fund.

Taking into consideration the above factors and the fact that the Company will arrange an agent to arrange for matching services regarding the sale and purchase of odd lots of the Adjusted Shares on a best efforts basis during a specified period, the Board has resolved to recommend the proposed Capital Reorganisation to the Shareholder. The Board is of the view that the Capital Reorganisation is fair and reasonable and in the interests of the Shareholders of the Company and the Shareholders as a whole.

Effects of the Capital Reorganisation

Upon completion of the Capital Reorganisation (assuming no further Shares will be issued or repurchased between the Latest Practicable Date and the effective date of the Capital Reorganisation), the effect on the share capital of the Company is summarised as follows:

	Prior to the Capital Reorganisation	Immediately following the Capital Reorganisation becoming effective
Nominal value of each Share/Adjusted Share	HK$0.10	HK$0.01
Number of authorised Shares/Adjusted Shares	10,000,000,000	100,000,000,000
Authorised share capital	HK$1,000,000,000	HK$1,000,000,000
Number of Shares/Adjusted Shares in issue	3,433,183,998	343,318,399
Issued and fully paid-up share capital	HK$343,318,399.8	HK$343,318,399

Based on 3,433,183,998 Shares in issue as at the Latest Practicable Date, a credit of approximately HK$339.89 million will arise as a result of the Capital Reorganisation and will be credited to the contributed surplus account of the Company.

The Adjusted Shares will rank *pari passu* in all respects with each other. Other than the expenses incurred in relation to the Capital Reorganisation, the implementation thereof will not alter the underlying assets, investments, management or financial position of the Company or the relative interests or rights of the Shareholders, save that any fractional Adjusted Shares (if any) will not be issued to the Shareholders but will be aggregated and sold for the benefit of the Company. The Board believes that the Capital Reorganisation will not have any material effect on the financial position of the Company. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Adjusted Shares to be in issue upon the Capital Reorganisation becoming effective.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

(a) the passing of a special resolution by the Shareholders to approve the Capital Reorganisation at the SGM;

(b) compliance with the relevant legal procedures and requirements under the Companies Act to effect the Capital Reorganisation;

(c) the Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Adjusted Shares; and

(d) the obtaining of all necessary approvals from the regulated authorities or otherwise as may be required in respect of the Capital Reorganisation.

Subject to the fulfillment of the conditions of the Capital Reorganisation, the effective date of the Capital Reorganisation is expected to be on Thursday, 24 May 2012.

Application for listing of the Adjusted Shares

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Adjusted Shares to be in issue upon the Capital Reorganisation becoming effective.

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

TRADING OF ODD LOTS

To facilitate the trading of odd lots (if any) of the Adjusted Shares arising from the Capital Reorganisation, the Company has appointed Orient Securities Limited as the agent to arrange for matching services regarding the sale and purchase of odd lots of Adjusted Shares on a best efforts basis, during the period from Thursday, 7 June 2012 to Wednesday, 27 June 2012 (both dates inclusive). Shareholders who wish to take advantage of this facility should contact Mr. Wong Kwan Ho at telephone number (852) 2123-2215 or by fax at (852) 2180-9288 during the period. Shareholders should note that the matching of the sale and purchase of odd lots of Adjusted Shares is not guaranteed.

Exchange of Share certificates

Subject to the Capital Reorganisation becoming effective, Shareholders may submit their existing certificates for the Existing Shares in board lot of 6,000 Existing Shares to the Registrar for exchange from Thursday, 24 May to Friday, 29 June 2012 (both dates inclusive), at the expense of the Company for certificates for the Adjusted Shares in board lot of 6,000 Adjusted Shares. Thereafter, the existing pink certificates for the Existing Shares will be accepted for exchange only on payment of a fee of HK$2.5 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each new yellow share certificate issued for the Adjusted Shares. Nevertheless, the existing pink certificates for the Existing Shares will continue to be good evidence of legal title and be valid for dealings, trading and settlement purpose after parallel trading ended on Wednesday, 27 June 2012 and may be exchanged for new yellow certificates for the Adjusted Shares at any time in accordance with the foregoing.

PROPOSED OPEN OFFER

Issue statistics

Basis of the Open Offer:	One (1) Offer Share for every one (1) Adjusted Share held on the Record Date
Subscription Price:	HK$0.538 per Offer Share
Number of Existing Shares in issue as at the Latest Practicable Date:	3,433,183,998 Existing Shares
Number of Adjusted Shares in issue upon the Capital Reorganisation having become effective:	343,318,399 Adjusted Shares
Number of Adjusted Shares expected to be in issue as at the Record Date:	343,318,399 Adjusted Shares (assuming no issue or repurchase of any Shares on or before the Record Date)

Number of Offer Shares	343,318,399 Offer Shares
Total number of Offer Shares to be underwritten by the Underwriter:	Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the balance of the Offer Shares not being subscribed for by the Qualifying Shareholders on a fully underwritten basis subject to the terms and conditions of the Underwriting Agreement.
Total number of Shares in issue upon completion of the Open Offer:	686,636,798 Adjusted Shares

As at the Latest Practicable Date, the Convertible Bond is held by Mr. Lu Dewei who is an Independent Third Party and is independent of the Underwriter. The Convertible Bond has an outstanding principal amount of HK$52,000,000, which is convertible into 150,724,637 Shares at the existing conversion price of HK$0.345 per Share. Mr. Lu became the beneficial owner of the Convertible Bond after he acquired the convertible bonds from VMS Investment Group Limited, on 1 December 2011. VMS Investment Group Limited and Ms. Mak Siu Hang Viola, its ultimate beneficial owner(s), are Independent Third Parties. Mr. Lu Dewei confirmed that as at the Latest Practical Date, he had no past, present or contemplated business, financial or other relationship with Mr. Lo Chan Kau and the Underwriter. The holder of the Convertible Bond has undertaken to the Company that the Convertible Bond will not be converted into Shares prior to the completion of the Open Offer. As at the Latest Practicable Date, save for the Convertible Bond, the Company has no outstanding convertible securities, options or warrants in issue which would otherwise confer any right to subscribe for, convert or exchange into Shares.

Basis of provisional allotment

The basis of the provisional allotment shall be one (1) Offer Share for every one (1) Adjusted Share held on the Record Date, being 343,318,399 Offer Shares at the Subscription Price of HK$0.538 per Offer Share. Acceptance for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the Application Form and lodging the same with a remittance for the Offer Shares being accepted for.

Qualifying Shareholders

The Company will send (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) the Prospectus, but not the Application Form, to the Excluded Shareholders for information only. The Open Offer is only available to the Qualifying Shareholders. To qualify for the Open Offer, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and not be an Excluded Shareholder.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with the Registrar by no later than 4:30 p.m. on the Latest Lodging Date.

The last day of dealings in the Shares on a cum-entitlement basis is expected to be on Friday, 25 May 2012. The Shares will be dealt with on an ex-entitlement basis from Monday, 28 May 2012.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 30 May 2012 to Friday, 1 June 2012, both days inclusive. No transfer of Shares will be registered during this period.

Rights of the Overseas Shareholders

If there are Overseas Shareholders at the close of business on the Record Date, the Overseas Shareholders may not be eligible to take part in the Open Offer. The Directors will make enquiries pursuant to Rule 13.36(2)(a) of the Listing Rules as to the feasibility of extending the Open Offer to the Overseas Shareholders, if any, taking into consideration of the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange for the issue of Offer Shares to the Overseas Shareholders.

If, after making such enquiry, the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any applicable requirements of the relevant regulatory body or stock exchange in that place, not to offer the Offer Shares to such Overseas Shareholders, the Open Offer will not be extended to the Overseas Shareholders who will become the Excluded Shareholders. The results of the enquiries and the basis of exclusion of the Overseas Shareholders will be included in the Prospectus. The Overseas Shareholders, so long as they are Independent Shareholders, will be entitled to vote at the SGM to consider and, if thought fit, pass the resolution(s) in relation to the Open Offer and the Whitewash Wavier.

The Company will disclose the results of the enquiry in the Prospectus regarding the legal restrictions on the issue and allotment of Offer Shares to the Overseas Shareholders, as applicable. As at the Latest Practicable Date, there is no Overseas Shareholder registered in the Company's register of members.

Subscription Price

The Subscription Price of HK$0.538 per Offer Share will be payable in full upon application for the Offer Shares. The Subscription Price represents:

(i) a discount of approximately 58.29% to the closing price of HK$1.29 per Adjusted Share, based on the closing price of HK$0.129 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

(ii) a discount of approximately 59.43% to the average closing price of approximately HK$1.326 per Adjusted Share, based on the average closing price of HK$0.1326 per Existing Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

(iii) a discount of approximately 59.15% to the average closing price of approximately HK$1.317 per Adjusted Share, based on the average closing price of HK$0.1317 per Existing Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

(iv) a discount of approximately 41.14% to the theoretical ex-entitlement price of approximately HK$0.914 per Adjusted Share, based on the closing price of HK$0.129 per Existing Price as quoted on the Stock exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

(v) a discount of approximately 28.27% to the closing price of approximately HK$0.75 per Adjusted Share, based on the closing price of HK$0.075 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation; and

(vi) a premium of approximately 2.67% over the net asset value per Existing Share of approximately HK$0.524, based on the audited consolidated net asset value of the Group as set out in the Company's audited annual report for the year ended 31 December 2011 over the total number of Shares in issue as at 31 December 2011.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares and the recent market conditions. The Directors consider that the discount offered by the Subscription Price would attract the Shareholders to participate in the Open Offer and accordingly maintain their shareholding in the Company and participate in the future growth of the Group.

The Directors consider the terms of the Open Offer, including that the Subscription Price which has been set as a discount to the recent closing prices of the Shares would encourage Shareholders to take up their entitlements so as to maintain their shareholdings in the Company and share in the potential growth of the Group, to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole. The net price per Offer Share will be approximately HK$0.524.

Fractions of Offer Shares

On the basis of provisional allotment of one (1) Offer Share for every one (1) Adjusted Share held by the Qualifying Shareholders on the Record Date, no fractional entitlements to the Offer Shares will arise under the Open Offer.

No application for excess Offer Shares

After arm's length negotiation with the Underwriter and taking into account the administrative costs to be incurred by excess application arrangement and the discount offered by the Subscription Price would attract Shareholders to participate in the Open Offer, the Board has decided that the Qualifying Shareholders would not be entitled to apply for any Offer Shares which are in excess of their assured entitlements.

The Offer Shares not validly applied for by the Qualifying Shareholders will be taken up by the Underwriter. The absence of excess application and the alternative arrangement for the disposal of the Offer Shares not validly applied for must be specifically approved by the Independent Shareholders at the SGM by way of poll for the purpose of compliance with Rule 7.26A of the Listing Rules.

Status of the Offer Shares

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

Share certificates for the Open Offer

Subject to the fulfilment and/or waiver in whole or in part by the Underwriters of the conditions of the Open Offer, certificates for all fully-paid Offer Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before Tuesday, 26 June 2012.

Application for listing of the Offer Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Offer Shares. The Offer Shares will have the board lot size of 6,000 Adjusted Shares per board lot. Dealings in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty (if any) in Hong Kong and any other applicable fees and charges in Hong Kong. Subject to the granting of the approval for the listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

UNDERWRITING ARRANGEMENT

Irrevocable Undertaking

Save that the Underwriter directly holds 1,233,436,690 Existing Shares as at the Latest Practicable Date, the Underwriter has confirmed that there are no other Existing Shares and voting rights over which he has control or in respect of which he may exercise direction. Pursuant to the Underwriting Agreement, he has undertaken not to transfer or otherwise dispose of any Shares between the date of the Underwriting Agreement and the Latest Time for Acceptance. He has also irrevocably undertaken to the Company to take up and accept 123,343,669 Offer Shares to which he is entitled under the Open Offer.

Save for the undertakings under the Underwriting Agreement as disclosed above, as at the Latest Practicable Date, the Board had not received any information or irrevocable undertakings from any other substantial Shareholder(s) of their intention to take up their assured entitlements under the Open Offer.

Underwriting Agreement

Date:	14 February 2012
Underwriter:	Mr. Cheng Keung Fai
Number of Offer Shares underwritten:	A maximum number of 219,974,730 Offer Shares (being the total number of Offer Shares less the assured entitlement of Offer Shares to the Underwriter) not taken up by the Qualifying Shareholders
Underwriting commission:	2% of the aggregate Subscription Price of the maximum number of Offer Shares underwritten by the Underwriter

Pursuant to the Underwriting Agreement, the Underwriter has undertaken to the Company that if there is an indication that the shareholding of the Company held by the public Shareholders will become less than 25% of the then issued share capital of the Company upon completion of the Open Offer, the Underwriter will procure subscribers who are Independent Third Parties to subscribe or procure placees to place down the Adjusted Shares which have been taken up by himself to maintain or restore the minimum public float requirement of the Company in compliance with the Listing Rules.

The Company, with the assistance of its branch share registrar, will closely monitor the acceptances of the Offer Shares by the Qualifying Shareholders. In the event that there is an indication that the shareholding of the Company held by the public Shareholders will become less than 25% of the then issued share capital of the Company upon completion of the Open Offer, the Company will demand the Underwriter to discharge his contractual obligation and undertaking pursuant to the Underwriting Agreement.

The term of the Underwriting Agreement are agreed after arm's length negotiation between the Company and the Underwriter. The Directors consider that the terms of the Underwriting Agreement are fair and reasonable.

Termination of the Underwriting Agreement

The Underwriter shall be entitled to terminate the Underwriting Agreement by notice in writing to the Company on or before the Latest Time for Termination:

(a) in the sole and reasonable opinion of the Underwriter, the success of the Open Offer would be adversely affected by:

(i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the sole and reasonable opinion of the Underwriter adversely affect the business or the financial or trading position or prospects of the Group as a whole or is adverse in the context of the Open Offer; or

(ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generic with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and reasonable opinion of the Underwriter adversely affect the business or the financial or trading position or prospects of the Group as a whole or adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(iii) any adverse change in the business or in the financial or trading position of the Group as a whole; or

(iv) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic or threatened epidemic, terrorism, strike or lock-out; or

(v) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances; or

(vi) the occurrence of any event, or series of events, beyond the control of the Underwriter which, at the sole and reasonable opinion of the Underwriter, have or would have the adverse effect of making the Underwriting Agreement (including the underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Open Offer or pursuant to the underwriting thereof or which have or is likely to have an adverse effect on the Open Offer; or

(b) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the sole and reasonable opinion of the Underwriter is likely to adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(c) there is any change in the circumstances of the Company or any member of the Group which in the sole and reasonable opinion of the Underwriter will adversely affect the business prospects or financial condition of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any member of the Group or the destruction of any material asset of the Group; or

(d) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the announcement or circular relating to the Open Offer or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or

(e) the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the financial condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date thereof been publicly announced or published by the Company and which may in the sole and reasonable opinion of the Underwriter is material to the Group as a whole and is likely to affect adversely the success of the Open Offer or might cause a prudent investor not to accept the Offer Shares provisionally allotted to it.

The Underwriter will be entitled to by notice in writing to the Company rescind the Underwriting Agreement if prior to the Latest Time for Termination or such other earlier date and/or time as the Company and the Underwriters may mutually agree:

(a) any material breach of any of the representations, warranties or undertakings contained in the relevant clause of the Underwriting Agreement comes to the attention of the Underwriter; or

(b) any event or matter arising on or before the Settlement Date which shows any representation or warranty to be or to have been untrue or inaccurate in any material aspect comes to the attention of the Underwriter.

If the Underwriting Agreement is terminated on or before the aforesaid deadline or does not become unconditional, the Open Offer will not proceed.

Conditions of the Open Offer

The Open Offer is conditional upon the following conditions having been fulfilled:

(a) the passing of necessary resolutions(s) on a vote taken by way of poll at the SGM to approve (i) the Capital Reorganisation by the Shareholders; and (ii) the Open Offer and the Whitewash Waiver by the Independent Shareholders;

(b) the Capital Reorganisation having become effective;

(c) the Listing Committee of the Stock Exchange granting or agreeing to grant and not having withdrawn or revoked listing of and permission to deal in all the Adjusted Shares;

(d) the filing of the Prospectus Documents with the Registrar of Companies in Bermuda in accordance with the Companies Act;

(e) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the Prospectus Posting Date;

(f) the Executive granting the Whitewash Waiver and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted and such other necessary waiver or consent (if any) of the Executive for the transaction contemplated under the Open Offer;

(g) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Offer Shares by no later than the Prospectus Posting Date;

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

(i) the Underwriting Agreement becoming unconditional and not being terminated;

(j) the performance in full by the Underwriter of his undertakings to take up his entitlements in full; and

(k) compliance with and performance of all the undertakings and obligations of the Company and the Underwriter under the terms of the Underwriting Agreement.

None of the conditions (a) to (j) can be waived. In the event of the conditions (a) to (j) not being fulfilled or condition (k) not being fulfilled or waived on or before the Latest Time for Termination (or such later date or dates as the Company and the Underwriter may agree in writing), no party shall have any rights or be subject to any obligations arising from the Underwriting Agreement, save that all reasonable and properly incurred costs, fees, and other out-of-pocket expenses (excluding underwriting commissions) have been incurred by the Underwriter will be borne by the Company, and the Open Offer will not proceed. As as the Latest Practicable Date, none of the conditions has been fulfilled.

Each of the Company and the Underwriter agrees to use its best endeavours to procure fulfilment of all the said conditions on or before each of the said respective dates.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following is the shareholding structure of the Company immediately before and after completion of the Capital Reorganisation and the Open Offer (assuming no further Shares will be issued or repurchased after the Latest Practicable Date):

Shareholders	As at the Latest Practicable Date		Immediately after Capital Reorganisation		Immediately after completion of the Open Offer (assuming all the Qualifying Shareholders take up their assured entitlement of Offer Shares)		Immediately after completion of the Open Offer (assuming no Qualifying Shareholders except the Underwriter take up their assured entitlement of Offer Shares and all the Offer Shares are taken up by the Underwriter) *(Note)*	
	Number of Existing Shares	*%*	*Number of Adjusted Shares*	*%*	*Number of Adjusted Shares*	*%*	*Number of Adjusted Shares*	*%*
Substantial Shareholders								
Mr. Cheng and parties acting in concert with him	1,233,436,690	35.93%	123,343,669	35.93%	246,687,338	35.93%	466,662,068	67.96%
Mr. Lo Chan Kau	796,414,635	23.19%	79,641,463	23.19%	159,282,926	23.19%	79,641,463	11.60%
Sub-total	2,029,851,325	59.12%	202,985,132	59.12%	405,970,264	59.12%	546,303,531	79.56%
Public Shareholders								
Other public Shareholders	1,403,332,673	40.88%	140,333,267	40.88%	280,666,534	40.88%	140,333,267	20.44%
Total	3,433,183,998	100.00%	343,318,399	100.00%	686,636,798	100.00%	686,636,798	100.00%

Note:

In view of the Underwriter's undertaking to procure subscribers who are Independent Third Parties to subscribe or procure placees to place down the Adjusted Shares, this scenario is for illustration purpose only and would not happen if the public float will become less than 25%.

Mr. Lo Chan Kau is a substantial Shareholder. He has confirmed to the Company that he is a private investor and is independent of the Underwriter (including parties acting in concert with him) and Mr. Lu Dewei (the holder of the Convertible Bond). Mr. Lo Chan Kau confirmed that as at the Latest Practicable Date he did not have any past, present or contemplated business, financial or other relationship with the Underwriter and Mr. Lu Dewei. Mr. Lo owns 90% of the shareholding of Ya Tai (China) Investment Limited, which was the vendor in the VSA Transaction. Part of the consideration of the VSA Transaction was satisfied by the issue of a convertible bond to the vendor, the principal terms of which were disclosed in the VSA Announcement and the VSA Circular. Mr. Lo first became a substantial Shareholder through the conversions of the convertible bond on 21 February 2011 and 16 March 2011 for 49,275,362 Existing Shares and 600,000,000 Existing Shares respectively, whereby he held in aggregate 649,275,362 Existing Shares, representing approximately 21.74% of the then issued share capital of the Company. As at the Latest Practicable Date, Mr. Lo holds 796,414,635 Existing Shares, representing approximately 23.19% of the issued share capital of the Company, which he holds directly in his own name.

The Company will ensure the compliance with the public float requirements under Rule 8.08 of the Listing Rules upon completion of the Open Offer.

Reasons for the Open Offer and the use of proceeds

The Group is principally engaged in property development and rental in the PRC as well as film production and related businesses. The gross proceeds from the Open Offer are approximately HK$185 million. The net proceeds from the Open Offer after deducting expenses are estimated to be approximately HK$180 million.

The Company intends to utilise the net proceeds in the manner as described below.

(1) Construction and development costs of the Project

The Company intends to utilise approximately HK$95 million of the net proceeds from the Open Offer for the construction and development costs of the Project.

The Project involves the property/hotel development on the land located in 湖南省湘潭市九華示範區黃河路以北，濱江路以西 (the northern side of Huanghe Road and the western side of Binjiang Road, Jiuhua Economic Development Zone, Xiangtan, Hunan Province, the PRC). Under the plan as disclosed in the VSA Circular, subject to approval from local authorities, the Project involves the development of low-density residential units with condominiums and townhouses targeting the affluent class of Hunan Province. In addition, a five-star hotel with convention facilities is also planned to be built. As advised by the Directors, the Company has obtained all the permits, including 《國有土地使用權證》(certificate of state-owned land use),《建設用地規劃許可證》(construction land planning permit),《建設工程規劃許可證》(construction works planning permit) and《建築工程施工許可證》(construction permit), for construction and development of the Project.

Xiangtan is a prefecture-level city in central Hunan Province, which lies in the middle reaches of the Xiang River. Xiangtan is only 40 km away from Changsha, the provincial capital of Hunan Province. Jiuhua Economic Development Zone is located in the centre of 長株潭試驗區 (Changsha, Zhuzhou and Xiangtan Comprehensive Reform Experimental Zone, or "Chang-Zhu-Tan City Cluster"). Its development has been supported by the PRC government to build Chang-Zhu-Tan City Cluster into an important engine to drive the economic development in Hunan and make the Xiang River a Rhine in China. It was reported that in an interview conducted by the China National Radio in March 2010, Mr. Zhou Qiang (周強), the then vice secretary of Hunan Provincial Central Committee of the Communist Party of China and the then governor of Hunan Province, disclosed that the Chang-Zhu-Tan City Cluster would be built into the demonstration zone of the "Two-Oriented" Society (兩型社會, a resource-conserving and environment-friendly society) across the country as well as the core growth pole to drive the sound and rapid social and economic development in Hunan Province. In order to achieve the objective, efforts would be made to improve the infrastructure, including but not limited to the advancement of the traffic network construction, energy integration, information sharing, ecological construction and environmental treatment, to lay down refined oil and natural gas pipelines for Changsha, Zhuzhou and Xiangtan, to set up a uniform information platform and to improve the construction of ecology and protection mechanisms.

Under the regional planning of Chang-Zhu-Tan City Cluster and "the Eleventh Five-Year" economic and social development plan of Hunan Province and Xiangtan respectively, Jiuhua Economic Zone has been listed as one of the key development areas in Chang-Zhu-Tan City Cluster. The Project is strategically located within the Chang-Zhu-Tan City Cluster. It is on the west side of Xiang River and opposite to the famous local tourist attraction, namely, Shaoshan Mountain (韶山). It is only 15 kilometres from the city centre of Changsha, 20 kilometres from the city centre of Zhuzhou and 15 kilometres from the city centre of Xiangtan.

As at the Latest Practicable Date, the Directors confirmed that the building survey and the installation of water/power supply and pipe network for the Project had been completed. The Directors also confirmed that the Group had also completed the construction of private circulatory roads and the initial landscape work, and that the foundation work for the hotel was in progress. The townhouses and low-rise condominiums are under construction and pre-sales are expected to be around the fourth quarter of 2012.

(2) Repayment of a short-term loan

The Company intends to utilise approximately HK$75.6 million of the net proceeds from the Open Offer for repayment of a short-term loan which will be due in September 2012. The total principal of the loan is HK$75.6 million with bullet repayment on maturity date and carries an interest rate of 15% per annum. Around the last quarter of 2011, the Directors learnt from the market regarding difficulties of some PRC properties-related companies in raising new capital as well as the associated high interest rates. The Board decided to raise additional funding as reserves, and thus the short-term loan was borrowed for general working capital of the Group. The Board considered that the interest rate of 15% was fair and reasonable based on the recent market lending rates to PRC properties-related companies. Out of that HK$75.6 million loan, approximately HK$30 million was utilised for the acquisition of interests in 成都中發黃河實業

有限公司(Chengdu Zhongfa Real Estate Development Co. Ltd.) as announced by the Company on 11 January 2012 and the remaining amount of approximately HK$45.6 million has been reserved as the general working capital of the Group. As at the Latest Practicable Date, the Directors confirmed that the Group had about HK$40 million general working capital on hand unused. After the completion of the acquisition, Chengdu Zhongfu Real Estate Development Co. has become a wholly-owned subsidiary of the Company. Its principal business is to manage and to lease 民族廣場 (Minzu Plaza) located in Sichuan, the PRC. The creditor of the short-term loan is a private company incorporated in Hong Kong, whose principal business is investment holding. As confirmed by the Directors, the creditor is an Independent Third Party, independent of the Underwriter and not a Shareholder. The creditor has no prior business, financial or other relationship with Mr. Lu Dewei, Mr. Lo Chan Kau and Mr. Cheng Keung Fai.

(3) General Working Capital

The Company intends to utilise the remaining amount of approximately HK$9.4 million for general working capital of the Group.

Since the completion of the VSA Transaction in January 2011, the Group has injected approximately HK$94 million into the Project from its general working capital for construction and development purposes. The Directors estimate that around RMB75 million general working capital would be further injected into the Project in this year before expected pre-sales of townhouses and low-rise condominiums of the Project around the fourth quarter of 2012. Furthermore, the Directors estimate that about HK$2 million would be utilised in film production and related businesses in 2012. As at the Latest Practicable Date, the Group has general working capital of around HK$40 million.

The estimated expense in relation to the Open Offer, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses will be borne by the Company.

The Board considers and has resolved that the Open Offer would be more appropriate than rights issue in the circumstances as the Company does not have to arrange for trading of the nil-paid rights, which would involve additional administration costs to the Group for trading of nil-paid rights and would require certain arrangements to be put in place to facilitate and administer such trading, which, in turn, would require longer time to complete. Additionally, the Open Offer would have the entitlement of Offer Shares firmly attached to the Shares held, and thus it ensures stability in the Company's shareholders base and would allow the existing Shareholders an opportunity to participate in and share the growth of the Company.

The Board considers that the Open Offer is in the interest of the Company and the Shareholders as a whole as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so. **However, those Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted.**

The Directors (excluding the independent non-executive Directors) take the view that the Open Offer is fair and reasonable and in the interests of the Shareholders, having taken into account the following:

– the Open Offer is available to all the Qualifying Shareholders, each of them can enjoy the discount offered by the Subscription Price;

– the Open Offer will have the entitlement of Offer Shares firmly attached to the Shares held, thus it ensures stability in the Company's shareholders base and would allow the existing Shareholders an opportunity to participate in and share the growth of the Company; and

– excess application arrangement will incur administrative costs on the part of the Company and the Directors believe that the discount offered by the Subscription Price would attract Shareholders to participate in the Open Offer. In any event, the absence of excess application and the alternative arrangement for the disposal of the Offer Shares not validly applied for will have to be specifically approved by the Independent Shareholders at the SGM by way of poll for the purpose of compliance with Rule 7.21 (2) of the Listing Rules.

ADJUSTMENTS IN RELATION TO THE CONVERTIBLE BOND

As at the Latest Practicable Date, the Convertible Bond is held by Mr. Lu Dewei, an Independent Third Party with outstanding principal amount of HK$52,000,000, which is convertible into 150,724,637 Existing Shares at the existing conversion price of HK$0.345 per Existing Share.

The issue of the Offer Shares may cause adjustments to the conversion price of the Convertible Bond. The Company will instruct an independent accountant to review and certify the basis of such adjustments as soon as possible. Further announcement(s) will be made by the Company in respect of such adjustments as and when appropriate.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

The Company has not conducted any fund raising activities in the past twelve months before the Latest Practicable Date.

APPLICATION FOR WHITEWASH WAIVER

Whitewash Waiver

The Underwriter is interested in 1,233,436,690 Existing Shares (equivalent to 123,343,669 Adjusted Shares after the Capital Reorganisation) as at the Latest Practicable Date, representing approximately 35.93% of the existing issued share capital of the Company. Pursuant to the Irrevocable Undertaking, the Underwriter has irrevocably undertaken to subscribe in cash all of his entitlement under the Open Offer, being 123,343,669 Offer Shares.

As at the Latest Practicable Date and save as disclosed in the above paragraph, the Underwriter confirmed that:

(a) there was no existing holding of voting rights and rights over Shares,

  (1) which was owned or controlled or directed by the Underwriter or any person acting in concert with him; or

  (2) in respect of which the Underwriter or any person acting in concert with him held convertible securities, warrants or options of the Company; and

(b) there was no outstanding derivative in respect of securities in the Company entered into by the Underwriter and parties acting in concert with him.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the balance of the Offer Shares in cash which are not subscribed by the Qualifying Shareholders on a fully underwritten basis. Assuming the Underwriter would have to take up his maximum underwriting obligation pursuant to the Underwriting Agreement, the Underwriter will increase his shareholding from approximately 35.93% of the existing issued share capital of the Company to 67.96% of the then enlarged issued share capital of the Company upon completion of the Open Offer.

Under Rule 26.1 of the Takeovers Code, the Underwriter and parties acting in concert with him will be required to make an unconditional mandatory general offer for all the issued Shares not already owned or agreed to be subscribed by them. An application will be made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensation from Rule 26.1 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders by way of a poll. If the Whitewash Waiver is not granted by the Executive, the Open Offer will lapse and will not proceed.

As the Underwriter would hold more than 50% of the voting rights of the Company, the Underwriter may increase his shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer. On the other hand, there may be circumstances where there are changes in the make-up of a group acting in concert with the Underwriter that effectively result in a new group being formed or the balance of the group being changed significantly. In such circumstances, a general offer obligation may be triggered.

INFORMATION ON THE UNDERWRITER

The Underwriter is a controlling Shareholder who is a private investor not engaged in the business of underwriting. As at the Latest Practicable Date, the Underwriter holds approximately 35.93% of the issued share capital of the Company, which he holds directly in his own name.

As confirmed by the Underwriter, neither he nor any of the parties acting in concert with him has acquired any Shares or dealt in any of the relevant securities of (as defined in Note 4 to Rule 22 of the Takeovers Code) the Company in the six months prior to and up to the Latest Practicable Date. Save for the undertaking by the Underwriter to apply for his assured entitlement of Offer Shares, the Underwriter or parties acting in concert with him have not received any irrevocable commitment to vote for or against the Open Offer and/or the Whitewash Waiver. There is no arrangement (whether by way of option, indemnity or otherwise) under Note 8 to Rule 22 of the Takeovers Code in relation to the Shares entered into by the Underwriter or any parties acting in concert with him and which might be material to the Open Offer and the Whitewash Waiver.

There is no agreement or arrangement to which the Underwriter or any party acting in concert with him is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Open Offer (other than those listed under "Conditions of the Open Offer") and the Whitewash Waiver. There is no relevant securities (as defined in Note 4 to Rule 22 of the Takeover Codes) in the Company which the Underwriter or any party acting in concert with him has borrowed or lent.

The Company used its best endeavor and had approached several potential underwriters including, SFC licensed corporation and high net worth individual for underwriting the Open Offer, but none of the potential underwriters was interested, except Mr. Cheng who was confident in the prospect of the Company and agreed to underwrite the Open Offer. The Open Offer was initiated by the Company in view of the funds needed for the purposes as disclosed in this circular. Failing to secure other parties as the underwriter, the Company chose Mr. Cheng to underwrite the Open Offer.

WARNING OF THE RISKS OF DEALING IN THE SHARES

The Open Offer is subject to the satisfaction of certain conditions as described in the section headed "Conditions of the Open Offer". In particular, it is subject to the Capital Reorganisation becoming effective, the approval of the Open Offer and the Whitewash Waiver by the Independent Shareholders at the SGM, the Whitewash Waiver having been granted by the Executive, and the Underwriting Agreement having become unconditional and not having been terminated (see the section headed "Termination of the Underwriting Agreement" above). Accordingly, the Open Offer may or may not proceed.

Any dealing in the Shares from the Latest Practicable Date up to the date on which all the conditions of the Open Offer are fulfilled will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. The Shareholders and potential investors of the Company should therefore exercise extreme caution when dealing in the Shares, and if they are in any doubt about their positions, they should consult their own professional advisers.

IMPLICATION UNDER THE LISTING RULES

As at the Latest Practicable Date, the Underwriter is interested in 1,233,436,690 Existing Shares, representing approximately 35.93% of the entire issued share capital of the Company. The Underwriter is a controlling Shareholder and is therefore a connected person of the Company as defined under the

Listing Rules. Accordingly, the transaction between the Underwriter and the Company contemplated under the Underwriting Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules. Pursuant to the Rule 14A.31(3)(c) of the Listing Rules, the allotment and issue of the underwritten Offer Shares to the Underwriter is exempted from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, the payment of the underwriting commission to the Underwriter constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the underwriting commission to be received by the Underwriter pursuant to the Underwriting Agreement is approximately HK$2.4 million and the relevant percentage ratios as defined in the Listing Rule are less than 5% and the total underwriting commission payable to the Underwriter is more than HK$1 million, payment of underwriting commission by the Company to the Underwriter is therefore subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirements under the Rule 14A.32 of the Listing Rules.

BUSINESS REVIEW AND FINANCIAL AND TRADING PROSPECTS

The Group is principally engaged in property development and rental in the PRC as well as film production and related businesses.

As set out in the Company's annual report for the year ended 31 December 2011, the Directors believe that the property market in Hunan is expected to enjoy a stable market growth in midst of macroeconomic adjustments in the country. With the help of booming economy, higher household income has given rise to the purchasing power of the people in the PRC. Demand for high-end residential buildings and shopping arcades remains strong in second-, third- and even fourth-tier cities with prosperous prospects, given rapid development in these areas. Serving such focused markets, the Group will continue to look for investment opportunities in the property market of the PRC, with an ultimate aim to bring along better performance to the Shareholders. In January 2011, the Group completed the acquisition process of the entire interest of 湖南九華國際新城開發建設有限公司(Hunan Jiuhua International City Development Construction Company Limited) to develop the Project. The blueprint for the development of the Project, which comprises low-density residential units and a five-star hotel, has been finalised (details of the Project can be referred to the sub-section headed "Construction and development costs of the Project" of this circular).

In view of the preliminary stage of the Project, the revenue generated from the property business was attributed to the rental income of the commercial property in Chengdu, the PRC. The proportion of the property rental income to the total income of the Group for the year ended 31 December 2011 was approximately 30.32%. The property rental income grew by 8.79% to approximately HK$16.53 million for the year ended 31 December 2011. In February 2012, a tenant operating a department store in the commercial property negotiated for a termination of tenancy agreement with the Group and both parties agreed on a compensation of RMB6.5 million payable to the Group for the termination. The compensation was paid in February 2012 and will be booked in the Group's accounts for the year 2012. The Directors believe that the revenue from property business will not be materially affected by the termination as the Group, is actively looking for new tenant for the vacant premises and the Group will benefit from the revenue from property business upon completion of the residential parts of the Project, which target to be ready for sale at around the fourth quarter of 2012.

The Group will stick to its twin-line business strategy: property and film. According to statistics from the State Administration of Radio Film and Television released on 17 January 2012, the box office in the PRC hits another historical high to RMB13.11 billion, up 28.93% comparing with 2010. Turnover from domestic films amounted to RMB7.03 billion and accounted for 53.61% of the total turnover. The rapid growth shows enormous development opportunities of the film market in the PRC.

The film "Floating City" produced by the Group and the film "The Monkey King" invested by the Group are expected to go on screen in May 2012 and July 2013 respectively and start to contribute at that time. The Group will continue to produce more high quality films that suit the demand in the market.

Looking ahead, the Group will build on a sound portfolio which generates stable cash inflow and is complemented by selected investments that offer particular potential. The Group will exploit the ups and downs of the market continuously to the benefit of the shareholders in a long run. As at the Latest Practicable Date, the Group has not yet identified any suitable investment opportunities.

The Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2011, being the date to which the latest audited consolidated financial statements of the Group were made up.

SGM

There is set out on pages N-1 to N-4 in this circular a notice convening the SGM to be held on Wednesday, 23 May 2012 at 10:30 a.m. at Room 4101, 41/F., The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong, at which resolutions will be proposed to the Shareholders (where applicable, the Independent Shareholders) to consider and, if thought fit, to approve the Capital Reorganisation, the Open Offer and the Whitewash Waiver.

The Capital Reorganisation is subject to the approval of a special resolution passed by the Shareholders on a vote taken by way of poll at the SGM. As none of the Shareholders is interested in the Capital Reorganisation, no Shareholder is required to abstain from voting at the SGM.

The Underwriter and parties acting in concert with him and those who are involved in or interested in the Open Offer and the Whitewash Waiver and their respective associates, together holding 1,233,436,690 Existing Shares, are required to abstain from voting on resolutions approving the Open Offer and the Whitewash Waiver. Save as aforesaid, no Shareholders have material interest in the Open Offer and the Whitewash Waiver and are required to abstain from voting on the relevant resolutions at the SGM.

The Open Offer and the Whitewash Waiver are conditional upon, among other things, approval from the Independent Shareholders and the Capital Reorganisation becoming effective. All resolutions proposed to be voted at the SGM will be conducted by way of poll.

A form of proxy for the SGM is enclosed with this circular. If you are unable to attend the SGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish.

RECOMMENDATION

The Board is of the opinion that the Capital Reorganisation, the Open Offer and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend you to vote in favour of the resolutions to be proposed in the SGM.

Your attention is drawn to the letter from the Independent Board Committee set out on page 32 of this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM regarding the Open Offer and Whitewash Waiver and the letter received from Veda Capital which contains its advice to the Independent Board Committee and Independent Shareholders as regards the Open Offer, the Whitewash Waiver and the principal factors and reasons considered by it in arriving thereat. The text of the letter from Veda Capital is set out on pages 33 to 48 of this circular.

ADDITIONAL INFORMATION

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

By order of the Board
Jin Lei
Chairman

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Open Offer and the Whitewash Waiver for the purpose of incorporation in this circular.

CHINA MANDARIN HOLDINGS LIMITED

中國東方實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00009)

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED OPEN OFFER OF ADJUSTED SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY ONE ADJUSTED SHARE HELD ON THE RECORD DATE AND WHITEWASH WAIVER

We refer to the circular of the Company dated 30 April 2012 (the "**Circular**") of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the Open Offer and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable so far as the Company and the Independent Shareholders are concerned and to recommend the Independent Shareholders whether to vote for or against the Open Offer and the Whitewash Waiver. Veda Capital has been appointed as the independent financial adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice from Veda Capital, as set out in its letter of advice to you and us on pages 33 to 48 of the Circular, we are of the opinion that the Open Offer and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned.

Accordingly, we recommend you to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Open Offer and the Whitewash Waiver.

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

Mr. Tsui Pui Hung	**Mr. Tang Ping Sum**	**Mr. Chu To, Jonathan**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

* *For identification purpose only*

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer and the Whitewash Waiver prepared for the purpose of inclusion in this circular.

VEDA | CAPITAL
智 略 資 本

Veda Capital Limited
Suite 3214, 32/F., COSCO Tower
183 Queen's Road Central, Hong Kong

30 April 2012

To the Independent Board Committee and the Independent Shareholders of China Mandarin Holdings Limited

PROPOSED OPEN OFFER OF 343,318,399 OFFER SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY ONE ADJUSTED SHARE HELD ON THE RECORD DATE AND WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Board Letter**") in the Company's circular dated 30 April 2012 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 22 February 2012, the Company announced, among others, that the Company proposed to raise approximately HK$185 million, before expenses, by issuing 343,318,399 Offer Shares to the Qualifying Shareholders by way of the Open Offer at the Subscription Price of HK$0.538 per Offer Share on the basis of one Offer Share for every one Adjusted Share held on the Record Date and payable in full on acceptance. Pursuant to the Underwriting Agreement, the Offer Shares will be fully underwritten by the Underwriter subject to the conditions set out in the Underwriting Agreement.

The Open Offer is conditional upon, among other matters, the Capital Reorganisation becoming effective, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof, and approval of the Open Offer and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Offer Shares and the Whitewash Waiver, by the Independent Shareholders at the SGM.

The Independent Board Committee comprising the independent non-executive Directors, who have no direct or indirect interest in the Open Offer and the Whitewash Waiver, namely Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chu To, Jonathan, established to advise the Independent Shareholders regarding the Open Offer and the Whitewash Waiver. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Open Offer and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and whether the Open Offer and the Whitewash Waiver are in the interests of the Company and the Independent Shareholders as a whole and to advise the Independent Shareholders whether to vote for or against the Open Offer and the Whitewash Waiver. The appointment of Veda Capital has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

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

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associated companies, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Open Offer and the Whitewash Waiver. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of Open Offer and the Whitewash Waiver and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

A. Financial highlights of the Group

The Group is principally engaged in property development and rental in the PRC as well as film production and related businesses.

Set out below are the financial highlights of the Group showing the financial performance of the Group in the recent financial periods:

1. Annual results for the year ended 31 December 2011

As set out in the Company's annual report for the year ended 31 December 2011 (the "**AR 2011**"), the Group achieved a consolidated revenue of approximately HK$54.51 million, a decrease of approximately 56.93% in comparison with year ended 31 December 2010. As shown in the AR 2011, the drop in revenue was mainly due to the reduction on revenue of the Group's film production, distribution and licensing businesses, which account for 30% of the Group's turnover.

For the year ended 31 December 2011, the Group recorded profit for the year attributable to owners of the Company of approximately HK$54.80 million, representing a slight decrease from the restated profits recorded for the previous financial year ended 31 December 2010 of approximately HK$55.17 million. As mentioned in the AR 2011, the profits recorded for the year ended 31 December 2010 was restated due to a change in the accounting policy for measurement of land and buildings from revaluation model to cost model. As advised by the Company, such decrease in profits was due to the increase in the interest expenses after capitalisation derived from the bank and other borrowings, loans from a shareholder and obligations under finance lease as well as the convertible bonds.

2. Annual results for the year ended 31 December 2010

As set out in the Company's annual report for the year ended 31 December 2010 (the "**AR 2010**"), the Group achieved a consolidated revenue of approximately HK$126.57 million, an increase of approximately 5.92% in comparison with year ended 31 December 2009. As advised by the Company, the increase in revenue was mainly due to the increase in turnover from film production, distribution and licensing businesses.

For the year ended 31 December 2010, the Group recorded profit for the year attributable to owners of the Company of approximately HK$54.80 million, representing a substantial increase from the profits recorded for the previous financial year ended 31 December 2010 of approximately HK$6.37 million. As noted from the AR 2010, such substantial increase in profits were attributable to (i) the achievement in film production, distribution and licensing businesses; (ii) the increase in property rental income in the PRC; (iii) the disposal of subsidiaries holding film rights and (iv) a valuation gain on the commercial property in Chengdu.

B. Reasons for the Open Offer

The gross proceeds from the Open Offer are approximately HK$185 million. The net proceeds from the Open Offer after deducting for expenses are estimated to be approximately HK$180 million. The Company intends to utilise (i) approximately HK$95 million of the net proceeds from the Open Offer for the construction and development costs of the Project; (ii) approximately HK$75.6 million of the net proceeds from the Open Offer for repayment of a short-term loan (the "**Loan**") which will be due in September 2012; and (iii) the remaining amount of approximately HK$9.4 million for general working capital of the Group.

The Board considers that the Open Offer is in the interest of the Company and the Shareholders as a whole as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so.

As noted from the AR 2011, the Company's cash on hand was approximately HK$48.13 million while the interest-bearing bank and other borrowings amounted to approximately HK$108.72 million as at 31 December 2011.

As further noted from the AR 2011, the Group acquired the entire interest of Hunan Jiuhua International City Development Construction Company Limited ("**Hunan Jiuhua**"), which owns a parcel of land in Jiuhua district in Xiangtan city, in the year 2011. This area, as aforementioned, is used for the development of the Project. As set out in the Board Letter, the Project involves the property/hotel development on the land located in 湖南省湘潭市九華示範區黃河路以北，濱江路以西 (the northern side of Huanghe Road and the western side of Binjiang Road, Jiuhua Economic Development Zone, Xiangtan, Hunan Province, the PRC). According to the Hunan Province official website (www.hunan.gov.cn), Xiangtan is a prefecture-level city in central Hunan Province, which lies in the middle reaches of the Xiang River, 40 kilometers away from Changsha, the provincial capital, or Zhuzhou, which makes a "golden triangle" of politics, economy and culture in Hunan Province. There are over 100 scenic spots including not only plentiful marvelous natural beauty such as mountains and water, clear lakes, water-eroded caves, but also rich human resources since Xiangtan is the birthplace of some great revolutionists. Supported by the excellent geographical location, abundant natural and human resources, as well as the rounded linkage to the nearby cities, Xiangtan was selected as a development zone of a two-oriented society.

We also noted from the Board Letter that the development of Xiangtan city has been supported by the PRC government, by aiming to build Changsha, Zhuzhou and Xiangtan (Chang-Zhu-Tan City Cluster) into an important engine to drive the economic development in Hunan and make the Xiang River a Rhine in China.

As noted from the official website of the Chang-Zhu-Tan City Cluster (www.czt.gov.cn), the PRC government has introduced different types of projects into the area, i.e. natural resources, infrastructure, environmental, and is on a continuing basis. It is also noted that the Chang-Zhu-Tan City Cluster development project has achieved excellent result during the Eleventh Five Year Plan of the PRC, by reaching a GDP of RMB1,255 billion in 2010, which has contributed approximately 41.9% to the Hunan Province. Outlined in the Twelfth Five Year Plan, the PRC government will continue to emphasize the development of the cluster, anticipating the GDP level of the Chang-Zhu-Tan City Cluster to reach RMB2,100 billion by 2015. Also, we noted from the Hunan Province official website (www.hunan.gov.cn) that the urbanization level of Chang-Zhu-Tan area will have ranged from 60% to 62%, with the population in the core with an area of 4500 square kilometers from 7,000,000 to 7,500,000 and GDP per person will have reached RMB80,000, and Chang-Zhu-Tan area will have become one of the important grouped super-urbanized areas in Central China and been of strong competition capacity at home by 2020.

As advised by the Directors, the Company has obtained all the permits for construction and development of the Project. As set out in the Board Letter, the building survey and the installation of water/power supply and pipe network for the Project had been completed. The Directors also confirmed that the Group had also completed the construction of private circulatory roads and the initial landscape work and that the foundation work for the hotel is currently in progress.

We have reviewed the permits for construction and development of the Project including《國有土地使用權證》(certificate of state-owned land use),《建設用地規劃許可證》(construction land planning permit),《建設工程規劃許可證》(construction works planning permit) and《建築工程施工許可證》(construction permit). As advised by Tian Yuan Law Firm, the Company's PRC legal adviser, the Company has obtained relevant approval and all the required permits for construction and development of the Projects.

The Company has mentioned in the AR 2011 that the Group will continue to focus on two major business segments (i) film production and related businesses; and (ii) property investment and development to increase its market share. The Group will continue to seek greater synergies within its existing business operations by utilizing its expertise in film production and property investment and development.

Having considered (i) the nature of the business of the Group and the Group will continue to focus on two major business segments of film production and related businesses and property investment and development; (ii) the existing cash level of the Group is unable to repay the Loan; (iii) the optimal prospect of the Project in view of the regional planning of Chang-Zhu-Tan City Cluster and economic and social development plan of Hunan Province and Xiangtan supported from the PRC government and the advantage of the geographical location of Xiangtan City as mentioned above and further funding is required for the development of the Project which part of the construction works have been completed while part of them are currently in progress; and (iv) that all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer and to take up their entitlement in full at the same price to maintain their respective shareholdings in the Company, we concur with the view of the Directors that the Open Offer is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

C. The Open Offer

The Open Offer is on the basis of one Offer Share for every one Adjusted Share held on the Record Date, being 343,318,399 Offer Shares at the Subscription Price of HK$0.538 per Offer Share. The Subscription Price represents:

(i) a discount of approximately 58.29% to the closing price of HK$1.29 per Adjusted Share, based on the closing price of HK$0.129 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

(ii) a discount of approximately 59.43% to the average closing price of approximately HK$1.326 per Adjusted Share, based on the average closing price of HK$0.1326 per Existing Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

(iii) a discount of approximately 59.15% to the average closing price of approximately HK$1.317 per Adjusted Share, based on the average closing price of HK$0.1317 per Existing Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

(iv) a discount of approximately 41.14% to the theoretical ex-entitlement price of approximately HK$1.29 per Adjusted Share, based on the closing price of HK$0.129 per Existing Price as quoted on the Stock exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

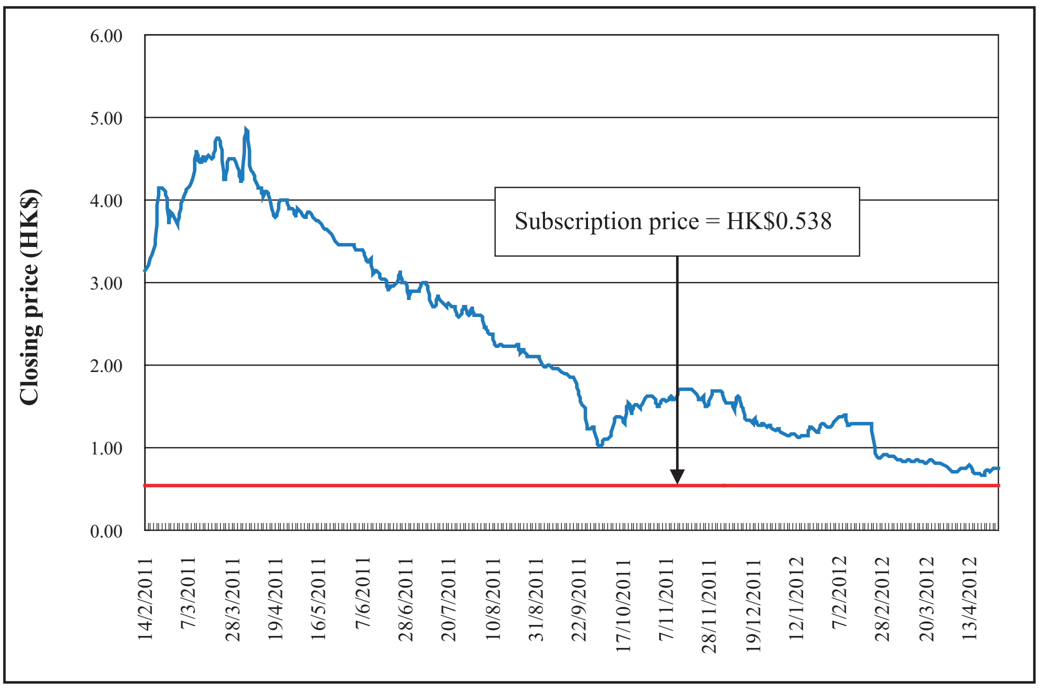
(v) a discount of approximately 28.27% to the closing price of approximately HK$0.75 per Adjusted Share, based on the closing price of HK$0.075 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation; and

(vi) a premium of approximately 2.67% over the net asset value per Existing Share of approximately HK$0.524, based on the unaudited consolidated net asset value of the Group as set out in the Company's audited annual report for the year ended 31 December 2011 over the total number of Shares in issue as at 31 December 2011.

As set out in the Board Letter, the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares and the recent market conditions. The Directors consider the terms of the Open Offer, including that the Subscription Price which has been set as a discount to the recent closing prices of the Shares would encourage Shareholders to take up their entitlements so as to maintain their shareholdings in the Company and share in the potential growth of the Group, to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

1. Historical closing prices

We have reviewed the trading price of the Shares for the period from 14 February 2011, being the 12-month period prior to the date of the Underwriting Agreement, up to and including the Latest Practicable Date (the "**Review Period**"). As the Subscription Price represents the price to subscribe for each Offer Share, which is adjusted by the effect of Capital Reorganisation, we have also adjusted the closing prices of the Shares during the Review Period by the effect of the Capital Reorganisation (assuming the Capital Reorganisation have become effective on 14 February 2011) for comparison purpose and details are set out below:



Source: website of the Stock Exchange (www.hkex.com.hk)

Notes:

1) *The trading of the Shares was suspended on 26 April 2011 and 15 – 22 February 2012.*

2) *The closing prices of the Shares were multiplied by ten, based on the adjustment of the Capital Reorganisation, e.g. HK$0.102 × 10 = HK$1.02*

The closing prices of the Shares (as adjusted for the effect of the Capital Reorganisation) ranged from the lowest of HK$0.660 (as adjusted for the effect of the Capital Reorganisation) on 19 April 2012 to the highest of HK$4.850 (as adjusted for the effect of the Capital Reorganisation) on 4 April 2011 during the Review Period. The closing prices of the Shares illustrates a continuous decreasing trend starting from April 2011.

We noted that it is a common market practice that, in order to enhance the attractiveness of an open offer exercise and to encourage the existing shareholders to participate in an open offer, the subscription price of an open offer normally represents a discount to the prevailing market prices of the relevant shares. And in view that the closing prices of the Shares (as adjusted for the effect of the Capital Reorganisation) have been traded in a continuous decreasing trend, we concur with the Directors that the Subscription Price being set as lower than the prevailing market prices of the Shares (as adjusted for the effect of the Capital Reorganisation) is in line with general practice and is acceptable.

2. Comparison with open offer comparables

In assessing the fairness of the Subscription Price, we have compared the Open Offer with an exhaustive list which includes all the samples within our parameters, the identified 10 open offers and whitewash waiver applications (the "**Comparables**") conducted by companies that are listed on the Main Board or the Growth Enterprise Market of the Stock Exchange, which announced the respective open offers and whitewash waiver applications from 14 February 2011 up to and including 14 February 2012, being the date of the Underwriting Agreement. Among the Comparables, there are 3 companies that have conducted open offers and whitewash waiver applications with the underwriter being the substantial shareholder and without excess application (the "**Subset Comparables**"). As the terms of the Comparables are determined under similar market conditions and sentiments as the Open Offer and the Comparables represent a greater sample size than the Subset Comparables, we believe that the Comparables may reflect the recent trend of the open offer transactions including whitewash waiver applications in the market and consider Comparables are fair and representative samples. Details of the Comparables and the Subset Comparables are summarized in the following table:

Comparable (stock code)	Date of announcements	Basis of entitlement	Premium/(discount) of subscription price over/(to) the closing price on the last trading day %	Premium/(discount) of subscription price over (to) the theoretical ex-entitlement price %	Maximum dilution *(Note)* %	Underwriting commission %	Excess Application
The Comparables							
Yue Da Mining Holdings Limited (629)	15/12/2011	1 for 3	(30.56)	(24.81)	25.00	2.00	Yes
Victory Group Limited (1139)	23/11/2011	110 for 1	(95.60)	(16.67)	99.10	2.50	No
China Electric Power Technology Holdings Limited (8053)	23/11/2011	4 for 1	(77.53)	(40.84)	80.00	2.00	Yes

Comparable (stock code)	Date of announcements	Basis of entitlement	Premium/(discount) of subscription price over/(to) the closing price on the last trading day %	Premium/(discount) of subscription price over (to) the theoretical ex-entitlement price %	Maximum dilution *(Note)* %	Underwriting commission %	Excess Application
New City (China) Development Limited (456)	15/11/2011	23 for 3	(77.36)	(64.47)	88.46	2.50	No
Sunlink International Holdings Limited (2336)	11/11/2011	2 for 1	(85.71)	(92.59)	66.67	3.00	No
Sino Gas Group Limited (260)	9/11/2011	1 for 2	(14.90)	(10.30)	33.33	1.70	Yes
Ocean Grand Holdings Limited (1220)	8/8/2011	2 for 3	(95.61)	(84.35)	40.00	0.00	No
China Water Property Group Limited (2349)	5/8/2011	2 for 5	(54.95)	(46.58)	28.57	0.00	No
Finet Group Limited (8317)	25/3/2011	4 for 1	(83.33)	(50.00)	80.00	1.50	No
Smart Union Group (Holdings) Limited (2700)	18/3/2011	22 for 5	(83.84)	(84.62)	81.48	Not Mentioned	No
Maximum discount			**(95.61)**	**(92.59)**			
Minimum discount			**(14.90)**	**(10.30)**			
Mean discount			**(69.94)**	**(51.52)**			
Minimum					**25.00**	**0.00**	
Maximum					**99.10**	**3.00**	
Mean					**62.26**	**1.69**	
Company			**(58.29)**	**(41.14)**	**50.00**	**2.00**	

Comparable (stock code)	Date of announcements	Basis of entitlement	Premium/(discount) of subscription price over/(to) the closing price on the last trading day %	Premium/(discount) of subscription price over (to) the theoretical ex-entitlement price %	Maximum dilution *(Note)* %	Underwriting commission %	Excess Application
The Subset Comparables							
Victory Group Limited (1139)	23/11/2011	110 for 1	(95.60)	(16.67)	99.10	2.50	No
China Water Property Group Limited (2349)	5/8/2011	2 for 5	(54.95)	(46.58)	28.57	0.00	No
Finet Group Limited (8317)	25/3/2011	4 for 1	(83.33)	(50.00)	80.00	1.50	No
Maximum discount			**(95.60)**	**(50.00)**			
Minimum discount			**(54.95)**	**(16.67)**			
Mean discount			**(77.96)**	**(37.75)**			
Minimum					**28.57**	**0**	
Maximum					**99.10**	**2.50**	
Mean					**69.22**	**1.33**	
Company			**(58.29)**	**(41.14)**	**50.00**	**2.00**	

Source: website of the Stock Exchange (www.hkex.com.hk)

Note:

Maximum dilution effect of each open offer is calculated as: (number of offer shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the offer shares under the basis of entitlement + number of offer shares), e.g. for open offer with basis of 4 offer shares for every existing share held, the maximum dilution effect is calculated as 4/(1+4)= 80%.

As shown in the above table, the discount represented by the subscription prices to the closing prices of shares of the Comparables on the last trading days prior to the release of the respective open offer and whitewash waiver announcements ranged from discount of approximately 95.61% to a discount of approximately 14.90% (the "**LTD Market Range**") and at the mean of a discount of approximately 69.94% (the "**LTD Mean**"). The discount of approximately 58.29% as represented by the Subscription Price to the closing price of the Adjusted Share on the Last Trading Day falls within the LTD Market Range and is less discount as compared to LTD Mean.

We have also made reference to the Subset Comparables. As shown in the second part of the above table, the discount represented by the subscription prices to the closing prices of shares of the Subset Comparables on the last trading days prior to the release of the respective open offer and whitewash waiver announcements ranged from discount of approximately 95.60% to a discount of approximately 54.95% (the "**Subset LTD Market Range**") and at the mean of a discount of approximately 77.96% (the "**Subset LTD Mean**"). The discount of approximately 58.29% as represented by the Subscription Price to the closing price of the Adjusted Share on the Last Trading Day falls within the Subset LTD Market Range and is less discount as compared to the Subset LTD Mean.

The discount represented by the subscription prices to the theoretical ex-entitlement prices of the shares ranged from discount of approximately 92.59% to a discount of approximately 10.30% (the "**TEP Market Range**") and the mean of a discount of approximately 51.52% (the "**TEP Mean**"). The discount of approximately 41.14% as represented by the Subscription Price to the theoretical ex-entitlement price falls within the TEP Market Range and is less discount as compared to the TEP Mean.

For the Subset Comparables, the discount represented by the subscription prices to the theoretical ex-entitlement prices of the shares of the Subset Comparables ranged from discount of approximately 50.00% to a discount of approximately 16.67% (the "**Subset TEP Market Range**") and the mean of a discount of approximately 37.75% (the "**Subset TEP Mean**"). The discount of approximately 41.14% as represented by the Subscription Price to the theoretical ex-entitlement price falls within the Sub Group TEP Market Range and is just slightly above the Subset TEP Mean.

In general, we consider that it is common for the listed issuers in Hong Kong to issue offer shares at a discount to the market price in order to enhance the attractiveness of an open offer transaction. Having considered that (i) the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter; (ii) the discount represented by the Subscription Price to the closing price of the Shares on the Last Trading Day falls within both group of last trading days market range and is less discount as compared to last trading days mean; (iii) the discount represented by the Subscription Price to the theoretical ex-entitlement price falls within both theoretical ex-entitlement prices market range and is less discount as compared to the TEP Mean, and just slightly above the Subset TEP Mean; (iv) the closing prices of the Shares illustrated a continuous decreasing trend; and (v) all Qualifying Shareholders are offered an equal opportunities to subscribe for the Offer Shares, we consider the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

3. Underwriting commission

The underwriting commission, after arm's length negotiation between the Company and the Underwriter, is 2.0% for the Open Offer. As advised by the Company, the Company had approached several securities firms to underwrite any Offer Shares not taken up by the Qualifying Shareholders, however, no positive response has been received. Mr. Cheng, a substantial Shareholder, is the only one who has expressed his strong confidence in the prospect of the Group's businesses, and the willingness to support and underwrite the Open Offer. We noted that the underwriting commission of 2.0% is slightly above the mean commission of the Comparables of approximately 1.69% and the Subset Comparables of approximately 1.33%. Given that (i) the underwriting commission of 2.0% falls within the range of the underwriting commissions of the Comparables and the Subset Comparables; (ii) the Company is unable to find other underwriters apart from Mr. Cheng; and (iii) the immediate funding needs for repayment of the Loan and the development of the Project, we consider that Mr. Cheng as the Underwriter is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole and the underwriting commission of 2.0% is still in line with the market and is fair and reasonable as far as the Independent Shareholders are concerned.

4. Application for excess Offer Shares

As set out in the Board Letter, after arm's length negotiation with the Underwriter and taking into account the administrative costs to be incurred by excess application arrangement and the discount by the Subscription Price would attract Shareholder to participate in the Open Offer, the Board has decided that the Qualifying Shareholders would not be entitled to apply for any Offer Shares which are in excess of their assured entitlements. We have reviewed the excess application procedure for fund raising activities and noticed that adopting excess application would induce extra arrangement for the share registrar and hence, additional costs to the Open Offer and at this stage, after discussing with the Board, the Directors concluded that it is more necessary to minimize the costs and maximize the efficiency of the Open Offer. We also found that amongst the Comparables, 7 out of 10 companies did not adopt excess application when they conduct open offer for fund raising.

We noted that the Company has set the Subscription Price at a considerable discount to the prevailing market price of the Shares so as to encourage the Qualifying Shareholders, who are positive to the future development of the Company, to exercise its rights to subscribe for the Offer Shares. We consider that the absence of the excess application arrangement may not be desirable from the point of view of those Qualifying Shareholders who wish to take up additional Offer Shares in excess of their assured entitlements and would result in the Underwriter taking up all the untaken Offer Shares at deep discount to the prevailing market price of the Shares. However, we consider that the aforesaid should be balanced against the fact that the terms of the Open Offer are structured with an intention to encourage all the Qualifying Shareholders to take up their respective assured allotment of the Offer Shares as the Subscription Price is set at a deep discount to the prevailing market price of the Shares which provides reasonable incentives to all the Qualifying Shareholders to participate in the Open Offer. As such, it is reasonable to expect that the majority of the Qualifying Shareholders who are positive about the prospects of the Company will apply for the Offer Shares and the Offer Shares available for excess application will be minimal. The absence of excess application arrangement therefore may not be considered material to the Qualifying Shareholders.

In view of the above, although it is beneficial to have excess application for the Qualifying Shareholders who wish to take up additional Offer Shares, we consider that the Open Offer has already enable the Qualifying Shareholders to maintain their proportionate interests in the

Company should they so wish by applying the Offer Shares according to their shareholding in the Company, which we consider to be fair and reasonable. Therefore, the absence of the excess application arrangement is acceptable.

D. Alternatives

We are advised by the Board that they have considered rights issue. As noted from the Board Letter, the Board considered that conducting open offer over rights issue allows the Company to avoid the arrangement for trading of the nil-paid rights, which would involve additional administration costs to the Group for trading of nil-paid rights and would require certain arrangements to be put in place to facilitate and administer such trading, which in turn would require longer time to complete. We have reviewed the procedure of rights issue and noticed that the time needed for rights issue is longer than open offer as the dealings in nil-paid rights shares is involved, i.e. the trading period for the nil paid rights cannot be less than five business days and with three business days for the clearing and settlement procedure. Also, higher costs will be incurred for the trading arrangement of the nil-paid rights such as the administrative costs and the extra costs charged by the share registrar. We are advised by the Board that they have considered other methods of fund raisings such as placement of new Shares or other convertible securities and bank borrowing. Taking into account that:

(i) rights issue has a higher cost and take a longer time to complete as compared to open offer because of additional administrative costs and expenses of the Company in arranging trading arrangement of the nil-paid rights with the share registrar and additional time for trading of nil-paid rights shares;

(ii) the Company has immediate funding needs for repayment of the Loan which will be due in September 2012 and for the construction and development costs of the Project;

(iii) the Open Offer will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro-rata shareholding interests in the Company;

(iv) the uncertainty of the existence of a market to trade the nil-paid entitlements and the un-economical trading cost which may be incurred by a qualifying shareholder;

(v) debt financing and bank borrowing will create interest payment obligations on the Group and increase the gearing and incur further interest burden to the Company;

(vi) any placing of new Shares will inevitably cause massive dilution to the interests of the existing Shareholders as they will not be able to participate on an equitable basis; and

(vii) the Open Offer will enable the Shareholders to maintain their proportionate interests in the Company should they so wish.

E. Financial effect of the Open Offer

1. Net asset value

Based on the statement of unaudited pro forma financial information set out in Appendix II to the Circular, the audited adjusted consolidated net tangible assets of the Group attributable to owners of the Company amounts to approximately HK$900.56 million as at 31 December 2011. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company amounts to approximately HK$1,080.56 million upon completion of the Open Offer.

2. Working capital

The Open Offer shall have a positive effect on the Group's working capital upon completion as the proceeds from the Open Offer will bring in a net cash inflow of at least approximately HK$9.4 million to the Group.

In light of the enhancement on the net tangible assets and the working capital as a result of the Open Offer, we are of the opinion that the Open Offer is in the interests of the Company and the Independent Shareholders as a whole.

F. Potential dilution

As the Open Offer is offered to all Qualifying Shareholders on the same basis, the Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments under the Open Offer in full. Any Qualifying Shareholders who choose not to take up in full their assured entitlements under the Open Offer will have their shareholdings in the Company diluted by up to a maximum of approximately 50.00% from their shareholding interest upon completion of the Open Offer.

In all cases of open offers, the dilution on the shareholding of those qualifying shareholders who do not take up in full their assured entitlements under the open offers is inevitable. In fact, the dilution magnitude of any open offers depends mainly on the extent of the basis of entitlement under such exercises since the higher offering ratio of new shares to existing shares is the greater the dilution on the shareholding would be.

Having taken into account:

(i) the Open Offer would enlarge the capital base of the Company;

(ii) the Company has not conducted any fund raising activities in the past twelve months before the Latest Practicable Date;

(iii) the funding needs for the repayment of the Loan and development of the Project;

(iv) the Open Offer is on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportional interests in the Company and allows the Qualifying Shareholders to participate in the growth of the Company;

(v) the inherent dilutive nature of Open Offer in general;

(vi) debt financing or bank loans will incur further interest burden to the Company; and

(vii) the positive impact on the financial position of the Group as a result of the Open Offer,

we consider the potential dilution effect on the shareholding which may only happen to the Qualifying Shareholders who decide not to accept the Open Offer is acceptable.

G. Whitewash Waiver

As at the Latest Practicable Date, the Underwriter is interested in 1,233,436,690 Existing Shares (equivalent to 123,343,669 Adjusted Shares after the Capital Reorganisation), representing approximately 35.93% of the existing issued share capital of the Company. Pursuant to the Irrevocable Undertaking, the Underwriter has irrevocably undertaken to subscribe in cash all of his entitlement under the Open Offer, being 123,343,669 Offer Shares.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the balance of the Offer Shares in cash which are not subscribed by the Qualifying Shareholders on a fully underwritten basis. Assuming the Underwriter would have to take up his maximum underwriting obligation pursuant to the Underwriting Agreement, the Underwriter will increase his shareholding from approximately 35.93% of the existing issued share capital of the Company to 67.96% of the then enlarged issued share capital of the Company upon completion of the Open Offer.

Under Rule 26.1 of the Takeovers Code, the Underwriter and parties acting in concert with him will be required to make an unconditional mandatory general offer for all the issued Shares not already owned or agreed to be subscribed by them. An application will be made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensation from Rule 26.1 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders by way of a poll. If the Whitewash Waiver is not granted by the Executive, the Open Offer will lapse and will not proceed.

Based on our analysis of the terms of the Open Offer, we consider that the Open Offer is in the interests of the Company and the Independent Shareholders as a whole. If the Whitewash Waiver is not approved by the Independent Shareholders at the SGM, the Open Offer will not proceed and the Company will lose all the benefits that are expected to be brought by the completion of the Open Offer i.e. the funding for the development of the Project and film production. Accordingly, we are of the view that for the purposes of implementing the Open Offer, we consider the terms of the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATIONS

We noted that odd lots may be created as a result of the Capital Reorganisation. We are of the view that the creation of odd-lot holdings by the Shareholders is unavoidable under the Capital Reorganisation. The appointment of a designated broker to match the purchase and sale of odd lots of the Adjusted Shares by the Company can facilitate the Shareholders in trading with odd lots. Despite the values of the odd lots are not substantial amounts, trading of odd-lot Shares on the market may not be desirable in terms of the cost per Share.

Taking into account the factors and reasons as mentioned above, which include (i) the reasons for the Open Offer and the use of proceeds; (ii) the principal terms of the Open Offer; (iii) the absence of excess application arrangement; (iv) alternatives to the Open Offer including but not limited to the absence of nil-paid rights trading; (v) potential dilution effect on the shareholding interests; and (vi) financial effects of the Open Offer, we consider that, the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interests of the Company and the Independent Shareholders as a whole. We would therefore advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Open Offer to be proposed at the SGM.

The Open Offer is conditional upon the approval of the Whitewash Waiver. If the Whitewash Waiver is not approved, the Open Offer will not become unconditional and will not proceed. Having taken into account our recommendation on the Open Offer above, we consider the terms of Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned and the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would advise the Independent Shareholders and the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolution to approve the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Veda Capital Limited
Julisa Fong
Managing Director

1. SUMMARY OF THE FINANCIAL INFORMATION OF THE GROUP

A summary of the audited results and the assets and liabilities of the Group for the last three financial years ended 31 December 2009, 2010 and 2011, as extracted from the annual reports of the Company for the three years ended 31 December 2011 are as follows:

Consolidated Income Statement

	For the year ended 31 December		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Continuing operations			
Revenue	54,510	126,566	119,488
Cost of sales	(27,577)	(89,218)	(89,716)
Gross profit	26,933	37,348	29,772
Other income	4,672	1,310	3,132
Gain on disposal of subsidiaries	–	30,262	17,622
Fair value gain on derivative component of convertible bonds	–	–	9
Loss on redemption of convertible bonds	–	–	(7,050)
Fair value gain on investments held for trading, net	–	–	1
Fair value gain on an investment property	26,532	16,451	–
(Loss)/gain on disposal of property, plant and equipment	–	(2)	39
Gain on disposal of property held for sale	41,328	–	–
Administrative expenses	(30,406)	(22,220)	(24,879)
Operating Profit			
Financial income	802	354	–
Finance costs	(1,533)	(89)	(6,207)
Share of results of:			
jointly-controlled entities	–	–	(4,038)
an associate	(57)	(85)	–
Profit before tax from continuing operations	68,271	63,329	8,401
Income tax expense	(10,507)	(6,527)	(1,236)
Profit for the year from continuing operations	57,764	56,802	7,165
Discontinued operation			
Loss for the year from a discontinued operation	–	–	(211)
Profit for the year	57,764	56,802	6,954

	For the year ended 31 December		
	2011	2010	2009
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Attributable to:			
Equity holders of the Company	54,798	55,171	6,368
Non-controlling interests	2,966	1,631	586
	57,764	56,802	6,954
Earnings per share attributable to equity holders of the Company			
Basic			
– For profit for the year	HK1.86 cents	HK3.32 cents	HK0.49 cent
– For profit from continuing operations	HK1.86 cents	HK3.32 cents	HK0.51 cent
Diluted			
– For profit for the year	HK1.62 cents	N/A	N/A
– For profit from continuing operations	HK1.62 cents	N/A	N/A

No qualified opinion has been issued by Ernst & Young and PricewaterhouseCoopers, the auditors of the Company, for each of the two financial years ended 31 December 2010 and for the financial year ended 31 December 2011 respectively.

No dividend was paid or proposed for each of the three financial years ended 31 December 2011.

There were no other extraordinary nor exceptional items during each of the three financial years ended 31 December 2011.

Consolidated Balance Sheet

	As at 31 December		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Non-current assets			
Goodwill	194,285	–	–
Property, plant and equipment	41,444	6,147	5,354
Land use right	326,055	–	–
Investment property	351,827	310,223	283,801
Investment in an associate	66,038	47,095	–
Deposits paid	1,786	161,666	1,666
Film rights	101	101	–
Total non-current assets	981,536	525,232	290,821
Current assets			
Film rights	–	–	1
Film production in progress	18,957	5,339	55,767
Property development in progress	428,867	–	–
Property held for sale	–	2,500	–
Inventories	1,243	2,005	2,237
Trade receivables	7,043	7,644	7,320
Other receivables, prepayments and deposits paid	81,212	495	1,786
Cash and cash equivalents	48,133	64,764	32,892
	585,455	82,747	100,003
Assets of a disposal group classified as held for sale	–	–	686
Total current assets	585,455	82,747	100,689
Current liabilities			
Trade payables	8,618	1,604	1,027
Other payables, accruals and deposits received	24,740	19,256	70,365
Interest-bearing bank and other borrowings	108,721	1,789	1,958
Obligations under a finance lease	1,034	–	92
Loan from a shareholder	14,640	–	–
Tax payable	3,263	666	1
	161,016	23,315	73,443
Liabilities directly associated with the assets classified as held for sale	–	–	134
Total current liabilities	161,016	23,315	73,577

	As at 31 December		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Net current assets	424,439	59,432	27,112
Total assets less current liabilities	1,405,975	584,664	317,933
Non-current liabilities			
Convertible bonds	39,304	–	–
Deposits received	1,514	1,445	1,078
Deferred tax liabilities	265,788	73,512	65,474
Obligations under a finance lease	4,398	–	8
Total non-current liabilities	311,004	74,957	66,560
Net assets	1,094,971	509,707	251,373
Equity			
Equity attributable to equity holders of the Company			
Issued capital	343,318	209,078	261,348
Reserves	721,226	274,417	(33,709)
	1,064,544	483,495	227,639
Non-controlling interests	30,427	26,212	23,734
Total equity	1,094,971	509,707	251,373

2. AUDITED FINANCIAL STATEMENTS

Set out below the audited financial statements together with the relevant notes thereto as extracted from the annual report of the Company for the year ended 31 December 2011.

Consolidated Income Statement
Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (restated)
Revenue	5	54,510	126,566
Cost of sales	7	(27,577)	(89,218)
Gross profit		26,933	37,348
Other income	5	4,672	1,310
Gain on disposal of subsidiaries	34	–	30,262
Fair value gain on an investment property	15	26,532	16,451
Loss on disposal of property, plant and equipment		–	(2)
Gain on disposal of property held for sale	19	41,328	–
Administrative expenses	7	(30,406)	(22,220)
Operating profit		69,059	63,149
Finance income	6	802	354
Finance cost	6	(1,533)	(89)
Share of results of an associate	17	(57)	(85)
Profit before income tax		68,271	63,329
Income tax expense	9	(10,507)	(6,527)
Profit for the year		57,764	56,802
Attributable to:			
Equity holders of the Company		54,798	55,171
Non-controlling interests		2,966	1,631
		57,764	56,802
Earnings per share attributable to equity holders of the Company	12		
Basic			
– For profit for the year		HK1.86 cents	HK3.32 cents
Diluted			
– For profit for the year		HK1.62 cents	N/A

Details of the dividend are disclosed in note 11 of the below sub-section headed "Notes to the Financial Statements".

Consolidated Statement of Comprehensive Income
Year Ended 31 December 2011

	2011	2010
	HK$'000	*HK$'000*
		(restated)
Profit for the year	57,764	56,802
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	41,810	7,762
Total comprehensive income for the year	99,574	64,564
Attributable to:		
Equity holders of the Company	95,183	62,086
Non-controlling interests	4,391	2,478
	99,574	64,564

Consolidated Statement of Financial Position
31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (restated)
Non-current assets			
Goodwill	33	194,285	–
Property, plant and equipment	13	41,444	6,147
Land use right	14	326,055	–
Investment property	15	351,827	310,223
Investment in an associate	17	66,038	47,095
Deposits paid	22	1,786	161,666
Film rights		101	101
Total non-current assets		981,536	525,232
Current assets			
Film production in progress		18,957	5,339
Property development in progress	18	428,867	–
Property held for sale	19	–	2,500
Inventories	20	1,243	2,005
Trade receivables	21	7,043	7,644
Other receivables, prepayments and deposits paid	22	81,212	495
Cash and cash equivalents	23	48,133	64,764
Total current assets		585,455	82,747
Current liabilities			
Trade payables	24	8,618	1,604
Other payables, accruals and deposits received	25	24,740	19,256
Interest-bearing bank and other borrowings	26	108,721	1,789
Obligations under a finance lease	27	1,034	–
Loan from a shareholder	30	14,640	–
Tax payable		3,263	666
Total current liabilities		161,016	23,315

	Notes	2011 HK$'000	2010 HK$'000 (restated)
Net current assets		424,439	59,432
Total assets less current liabilities		1,405,975	584,664
Non-current liabilities			
Convertible bonds	28	39,304	–
Deposits received		1,514	1,445
Deferred tax liabilities	29	265,788	73,512
Obligations under a finance lease	27	4,398	–
Total non-current liabilities		311,004	74,957
Net assets		1,094,971	509,707
Equity			
Equity attributable to equity holders of the Company			
Issued capital	31	343,318	209,078
Reserves	32	721,226	274,417
		1,064,544	483,495
Non-controlling interests		30,427	26,212
Total equity		1,094,971	509,707

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company										
	Issued capital HK$'000	Share premium HK$'000	Contributed surplus** HK$'000	Asset revaluation reserve HK$'000 (restated)	Equity component of the convertible bonds HK$'000	Exchange reserve HK$'000	Special reserve*** HK$'000	Retained profits/ (Accumulated losses) HK$'000 (restated)	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010 as previously reported	261,348	224,095	–	9,727	–	2,998	17,926	(278,259)	237,835	23,734	261,569
Effect on changes in accounting policies *(note 2.1(c))*	–	–	–	(9,727)	–	–	–	(469)	(10,196)	–	(10,196)
At 1 January 2010 (restated)	261,348	224,095	–	–	–	2,998	17,926	(278,728)	227,639	23,734	251,373
Exchange differences arising on translation of foreign operations	–	–	–	–	–	6,915	–	–	6,915	847	7,762
Profit for the year (restated)	–	–	–	–	–	–	–	55,171	55,171	1,631	56,802
Total comprehensive income for the year	–	–	–	–	–	6,915	–	55,171	62,086	2,478	64,564
Capital reorganisation *(note 31(b))*	(235,213)	(224,095)	459,308	–	–	–	–	–	–	–	–
Setting off accumulated losses *(note 31(b))*	–	–	(340,146)	–	–	–	–	340,146	–	–	–
Issue of shares *(note 31(c))*	182,943	16,465	–	–	–	–	–	–	199,408	–	199,408
Transaction costs attributable to issue of shares	–	(5,638)	–	–	–	–	–	–	(5,638)	–	(5,638)
At 31 December 2010	209,078	10,827*	119,162*	–	–	9,913*	17,926*	116,589*	483,495	26,212	509,707
At 1 January 2011 as previously reported	209,078	10,827	119,162	14,051	–	9,913	17,926	116,683	497,640	26,212	523,852
Effect on changes in accounting policies *(note 2.1(c))*	–	–	–	(14,051)	–	–	–	(94)	(14,145)	–	(14,145)
At 1 January 2011 (restated)	209,078	10,827	119,162	–	–	9,913	17,926	116,589	483,495	26,212	509,707
Exchange differences arising on translation of foreign operations	–	–	–	–	–	40,385	–	–	40,385	1,425	41,810
Profit for the year	–	–	–	–	–	–	–	54,798	54,798	2,966	57,764
Total comprehensive income for the year	–	–	–	–	–	40,385	–	54,798	95,183	4,391	99,574
Issue of convertible bonds	–	–	–	–	149,228	–	–	–	149,228	–	149,228
Issue of shares *(note 31(e))*	134,240	336,386	–	–	(134,164)	–	–	–	336,462	–	336,462
Acquisition of non-controlling interests	–	–	–	–	–	–	–	176	176	(176)	–
At 31 December 2011	343,318	347,213*	119,162*	–	15,064*	50,298*	17,926*	171,563*	1,064,544	30,427	1,094,971

* *These reserve accounts comprise the consolidated reserves of HK$721,226,000 (2010: HK$274,417,000) in the consolidated statement of financial position.*

** *The contributed surplus of the Group was arising from the Company's capital reorganisation on 6 September 2010.*

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

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (restated)
Cash flows from operating activities			
Profit before income tax		68,271	63,329
Adjustments for:			
Bank interest income	6	(131)	(146)
Gain on disposal of subsidiaries	34	–	(30,262)
Interest on bank and other borrowings, loans from a shareholder and a finance lease, and commitment fee	6	1,533	89
Depreciation	7, 13	2,985	2,475
Fair value gain on an investment property	15	(26,532)	(16,451)
Loss on disposal of property, plant and equipment		56	2
Gain on disposal of a property held for sale	19	(41,328)	–
Write-back of impairment of trade receivables	7	(813)	(1,858)
Share of results of an associate	17	57	85
		4,098	17,263
(Increase) Decrease in film rights and film production in progress		(13,618)	50,328
Decrease in inventories		762	232
Increase in properties development in progress		(7,324)	–
Decrease in trade receivables		1,414	1,534
Increase (Decrease) in other receivables, prepayments and deposits paid		(79,389)	1,291
Increase in trade payables		7,014	577
Increase (Decrease) in other payables, accruals and deposits received		748	(51,742)
Cash (used in) generated from operations		(86,295)	19,483
Hong Kong profits tax paid		(296)	(75)
PRC profits tax paid		(398)	(231)
Net cash flows (used in) generated from operating activities		(86,989)	19,177

	Notes	2011 HK$'000	2010 HK$'000 (restated)
Cash flows from investing activities			
Increase in investment of an associate		(19,000)	(47,180)
Purchases of property, plant and equipment		(24,360)	(5,802)
Proceeds from disposal of a property held for sale, net of direct expenses attributable to the disposal		43,828	–
Proceeds from disposal of property, plant and equipment		200	41
Acquisition of a subsidiary, net of cash acquired	33	1,710	–
Proceeds from disposal of subsidiaries	34	–	31,814
Deposit paid for the acquisition of a subsidiary	22	–	(160,000)
Interest received	6	131	146
Net cash flows generated from (used in) investing activities		2,509	(180,981)
Cash flows from financing activities			
Proceeds from issue of shares	31(c)	–	199,408
Transaction costs attributable to issue of shares		–	(5,638)
Bank loans and other borrowings		51,200	–
Repayment of bank loans and other borrowings		(176)	(169)
Loans from a shareholder		60,000	–
Repayment to a shareholder		(45,360)	–
Interest paid		(1,163)	(89)
Capital element of finance lease rental payments		(168)	(100)
Net cash flows generated from financing activities		64,333	193,412
Net (decrease) increase in cash and cash equivalents		(20,147)	31,608
Cash and cash equivalents at beginning of year		64,764	32,892
Effect of foreign exchange rate changes, net		3,516	264
Cash and cash equivalents at end of year		48,133	64,764
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the consolidated statement of financial position	23	48,133	64,764

Notes to the Financial Statements

Year ended 31 December 2011

1. CORPORATE INFORMATION

China Mandarin Holdings Limited ("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 Room 4101, 41st Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

The Company acts as an investment holding company. The principal activities of Company and its subsidiaries (together "the Group") which consist of film production and related business, film processing and rental of property. In addition, the Group is also involved in property development.

These financial statements have been approved for issue by the Board of Directors on 30 March 2012.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention, except for an investment property, which has been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The areas involving a high degree of judgement or complexity, and areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

As at 31 December 2011, the Group had outstanding borrowings from a bank and others amounting to approximately HK$124 million which would be due for repayment in the coming twelve months and cash and cash equivalents of approximately HK$48 million. The Group recorded a profit before tax of HK$68 million for the year ended 31 December 2011 and the cash outflow from operating activities for the year was approximately HK$88 million.

The Group meets its day to day working capital requirements, capital expenditure and financial obligations through cash inflow from operating activities and the facilities obtained from banks and others. The directors closely monitor the Group's liquidity position and financial performance and have initiated measures to improve the Group's cash flows. These measures include raising additional capital; extending existing loan facilities; obtaining additional financing from bank and others; and realising certain assets held by the Group through disposal, if considered necessary.

Based on the director's review of the Group's cash flow projection, taking into account the reasonable possible changes in the operational performance and the measures on securing additional funds, the Group is expected to be able to generate sufficient cash flows to cover its operating costs and to meet its financial obligations as and when they fall due in the coming twelve months from the date of these financial statements. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

(a) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- HKAS 24 (Revised), 'Related Party Disclosures', effective for annual period beginning on or after 1 January 2011.

- Amendment to HKAS 32, 'Classification of Rights Issues', effective for annual period beginning on or after 1 February 2010.

- Amendment to HKFRS 1, 'Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopter', effective for annual period beginning on or after 1 July 2010.

- Amendment to HK(IFRIC) – Int 14, 'Prepayments of a Minimum Funding Requirement', effective for annual period beginning on or after 1 January 2011.

- HK(IFRIC) – Int 19, 'Extinguishing Financial Liabilities with Equity Instruments', effective for annual period beginning on or after 1 July 2010.

- Third improvements to HKFRS (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011.

(b) New standards, amendments and interpretations that have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

- Amendment to HKAS 1, 'Presentation of Items of Other Comprehensive Income', effective for annual period beginning on or after 1 July 2012.

- Amendment to HKAS 12 Amendment, 'Deferred Tax: Recovery of Underlying Assets', effective for annual period beginning on or after 1 July 2012.

- HKAS 19 (2011), 'Employee Benefits', effective for annual period beginning on or after 1 January 2013.

- HKAS 27 (2011), 'Separate Financial Statements', effective for annual period beginning on or after 1 January 2013.

- HKAS 28 (2011), 'Investments in Associates and Joint Ventures', effective for annual period beginning on or after 1 January 2013.

- Amendment to HKAS 32, 'Offsetting Financial Assets and Financial Liabilities', effective for annual period beginning on or after 1 January 2014.

- Amendment to HKFRS 1, 'Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters', effective for annual period beginning on or after 1 July 2011.

- Amendment to HKFRS 7, 'Disclosures – Transfers of Financial Assets', effective for annual period beginning on or after 1 July 2011.

- Amendment to HKFRS 7, 'Disclosures – Offsetting Financial Assets and Financial Liabilities', effective for annual period beginning on or after 1 January 2013.

- HKFRS 9, 'Financial Instruments', effective for annual period beginning on or after 1 January 2015.

- HKFRS 10, 'Consolidated Financial Statements', effective for annual period beginning on or after 1 January 2013.

- HKFRS 11, 'Joint Arrangements', effective for annual period beginning on or after 1 January 2013.

- HKFRS 12, 'Disclosure of Interests in Other Entities', effective for annual period beginning on or after 1 January 2013.

- HKFRS 13, 'Fair Value Measurement', effective for annual period beginning on or after 1 January 2013.

The Group is in the process of making an assessment of the impact of adoption of the above new standards, amendments and interpretations that have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted, but is not yet in a position to state whether these new standards or amendments would have a significant impact on its results of operations and financial position.

(c) Change in accounting policy

The Group has changed its accounting policy for measurement of land and buildings from revaluation model to cost model such that land and buildings are now stated at cost less accumulated depreciation and impairment provision. The directors are of the opinion that the change in the accounting policy is consistent with the new business that the Group is entered into as a hotel developer and manager.

The cost model can better reflect the performance of our business. By adopting the cost model, the Group's financial statements will not be affected by the cyclical volatility of the property market in the PRC and the Group's financial performance can be more comparable on a year-on-year basis.

In addition, the change in the accounting policy is also consistent with industry practice and will benefit to respective stakeholders, including shareholders, potential investors and analysts. By adopting the cost model, the financial ratios of the Group will be more comparable to those of other hotel operators in the market. It will be easier for the stakeholders to analyse and compare the Group's performance with other industry players.

This change in accounting policy has been accounted for retrospectively and the comparative figures for the prior periods have been restated. The effect of change in accounting policy on the consolidated income statement is as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Increase in gain on disposal of property held for sales	13,100	–
Decrease in depreciation charged	186	375
Total increase in profit for the year	13,286	375
Increase in basic earnings per share (HK cents per share)	0.45	0.02
Increase in diluted earnings per share (HK cents per share)	0.39	N/A

The effect of change in accounting policy on the consolidated statement of financial position is as follows:

	As at 31 December 2011	**As at 31 December 2010**	**As at 1 January 2010**
	HK$'000	*HK$'000*	*HK$'000*
Decrease in properties, plant and equipment	6,391	4,663	12,960
Decrease in property held for sales	–	13,100	–
Decrease in deferred tax liabilities	1,125	3,618	2,764
Decrease in asset revaluation reserve	5,697	14,051	9,727
Increase in accumulated losses/Decrease in retained profits	431	94	469

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Subsidiaries

Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. The financial information of subsidiaries has been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(2) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(3) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of loss of associates' in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The financial information of associates has been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

(4) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified collectively as the board of directors that makes strategic decisions.

(5) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

All foreign exchange gains and losses are presented in the consolidated income statement within 'finance costs'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

(c) Group companies

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each consolidated income statement are translated at average exchange rates; and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operation, and of relevant borrowings, are taken to other comprehensive income. When a foreign operation is partially disposed or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

(6) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(7) Property, plant and equipment and depreciation

Leasehold land classified as finance lease and all other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows

Leasehold land under finance leases	Over the lease terms
Buildings	2.5%
Furniture and fixtures	20%
Leasehold improvements	Over the shorter of the lease terms and 20%
Motor vehicles	20% – 50%
Plant, machinery and equipment	20% – $33^1/_3$%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.2(10)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

(8) Land use rights

The up-front prepayments made for land use rights are expensed in the consolidated income statement on a straight-line basis over the periods of the land use right. When there is impairment, the impairment is expensed in the consolidated income statement.

(9) Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated income statement.

(10) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(11) Financial assets

(a) Classification

The Group classifies its financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in currents assets, except for the amounts that are settled or expected to be settle more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'other receivables' and 'cash and cash equivalents' in the consolidated statement of financial position.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transactions costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investment have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

(12) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(13) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(14) Film rights and film 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 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.

(15) Properties development in progress

Properties under development and held for sale are stated at the lower of cost and net realisable value. Development cost of properties comprises cost of land use rights, construction costs and borrowing costs incurred during the construction period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Properties under development and held for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

(16) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(17) Inventories

Inventories, mainly comprise materials used in film production process, 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.

(18) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(19) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, 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, which 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.

(20) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(21) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(22) Convertible bonds

Convertible bonds are mandatorily redeemable on a specific date. The fair value of the liability component of the convertible bond is determined using a market interest rate for an equivalent non-convertible bond. The liability component is subsequently stated at amortised cost until extinguished on conversion or maturity of the bonds. The residual amount, representing the value of the equity conversion component, is accounted for as a conversion option reserve included in shareholder's equity.

Upon conversion of convertible bonds to ordinary shares, the liability component and equity component of respective convertible bonds are reclassified to share capital and share premium.

The interests on these convertible bonds are recognised in the income statement as interest expense.

(23) Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.

(24) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(25) Employee benefits

Retirement benefits schemes

The Group continues to operate a defined contribution scheme (the "Defined Contribution Scheme") for its employees in Hong Kong, 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 Defined Contribution Scheme. When an employee leaves the Defined Contribution 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 Defined Contribution 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 in Hong Kong. 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.

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

(26) 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) rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease;

(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; and

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

(27) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for the future operating losses.

(28) Leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the consolidated income statement on a straight-line basis over the lease period.

(29) Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's and Company's financial statements in the year in which the dividends are approved by the Company's shareholders.

(30) Financial guarantee contracts

Financial guarantee contracts under which the Group accepts significant risk from a third party by agreeing to compensate that party on the occurrence of a specified uncertain future event are accounted for in a manner similar to insurance contracts. Provisions are recognised when it is probable that the Group has obligations under such guarantees and an outflow of economic resources will be required to settle the obligations.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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 end of the reporting period. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The estimates and assumptions 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.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy set out in note 2.2(6).

The recoverable amount of an asset or a cash-generating unit has been determined based on its fair value less cost to sell. These calculations require the use of estimates.

The fair value less cost to sell calculations primarily use cash flow projections based on financial budgets, in general covered five years, approved by management and estimated terminal values at the end of the five-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected operating margin, growth rates and selection of discount rates, to reflect the risks-involved and the earnings multiple that can be realised for the estimated terminal value.

Management prepared the financial budgets reflecting actual performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the result of the impairment reviews.

Estimation of fair value of its investment property

As described in note 15, the investment property of the Group was revalued at the end of the reporting period on an open market, existing use basis by independent professional qualified valuers. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgements, 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 the end of each reporting period.

Impairment of trade receivables

Management regularly reviews the recoverability and/or ageing of trade receivables. Appropriate impairment for estimated irrecoverable amounts is recognised in the income statement 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.

Impairment of 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 is 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.

Net realisable value of properties development in progress

The Group writes down properties development in progress to net realisable value based on assessment of the realisability of properties development in progress which takes into account cost to completion based on management's experience and net sales value based on prevailing market conditions. If there is an increase in cost to completion or a decrease in net sales value, the net realisable value will decrease which may result in writing down properties development in progress to net realisable value. Write-downs are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value of properties development in progress is adjusted in the period in which such estimate is changed.

Income taxes

The Group is subject to income taxes mainly in statutory jurisdictions of Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Impairment of investment in an associate

Management regularly review the recoverability of the Group's investment in an associate, in particular, they consider objective evidence of impairment exists, such as a significant or prolonged decline the fair value of the investment in an associate, significant adverse changes in the market environment and customers' taste to the film production in progress held by the associate. Appropriate impairment for estimated irrecoverable amounts is recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

The recoverable amount of the investment in an associate is the higher of its value in use and fair value less cost to sell. In determining value in use, an entity estimates either: (a) its share of the present value of the estimated future cash flows expected to be generated by the associate and proceeds on disposal, or (b) the present value of estimated future cash flows expected to arise from dividends to be received and proceeds on disposal. Any impairment loss is recognised by writing down the investment in an associate.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into four business units – property rental, film distribution and licensing, film processing and property and hotel development.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit (loss), which is a measure of adjusted profit before income tax. The profit before income tax is measured consistently with the Group's profit before income tax except that finance income, gain on disposal of subsidiaries, gain on disposal of a property held for sale, loss on disposal of property, plant and equipment, fair value gain on investment property, finance costs, as well as head office and corporate expenses, and certain other income are excluded from such measurement.

Segment assets exclude cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude obligations under a finance lease and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2011

	Property rental	Film distribution and licensing	Film processing	Property and hotel development	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
External revenue	16,529	16,279	21,702	–	–	54,510
Inter-segment revenue	–	–	165	–	(165)	–
Total revenue	16,529	16,279	21,867	–	(165)	54,510
Segment results	11,721	(3,393)	2,968	(3,801)	–	7,495
Other income						210
Unallocated corporate expenses						(6,563)
Finance income						802
Gain on disposal of a property held for sale						41,328
Fair value gain on an investment property						26,532
Finance costs						(1,533)
Profit before income tax						68,271
Income tax expense						(10,507)
Profit for the year						57,764

	Property rental	Film distribution and licensing	Film processing	Property and hotel development	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities						
Segment assets	354,531	88,570	10,557	1,057,049	56,284	1,566,991
Segment liabilities	90,604	8,037	4,573	298,762	70,044	472,020
Other segment information:						
Capital expenditure	2,269	7	47	18,453	7,980	28,756
Write-back of impairment of trade receivables	–	–	(813)	–	–	(813)
Uncollectible trade receivables recovered	–	–	(78)	–	–	(78)
Depreciation	154	1,205	448	477	701	2,985

Year ended 31 December 2010 (restated)

	Property rental	Film distribution and licensing	Film processing	Property and hotel development	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
External revenue	15,193	88,947	22,426	–	–	126,566
Inter-segment revenue	–	–	2,695	–	(2,695)	–
Total revenue	15,193	88,947	25,121	–	(2,695)	126,566
Segment results	8,397	9,690	5,491	(959)	–	22,619
Other income						32
Unallocated corporate expenses						(6,298)
Finance income						354
Gain on disposal of subsidiaries						30,262
Loss on disposal of property, plant and equipment						(2)
Fair value gain on an investment property						16,451
Finance costs						(89)
Profit before income tax						63,329
Income tax expense						(6,527)
Profit for the year						56,802

	Property rental HK$'000	Film distribution and licensing HK$'000	Film processing HK$'000	Property and hotel development HK$'000	Unallocated HK$'000	Total HK$'000
Assets and liabilities						
Segment assets	312,231	57,022	13,272	160,000	65,454	607,979
Segment liabilities	78,210	12,137	4,262	–	3,663	98,272
Other segment information:						
Capital expenditure	13	2,758	1,651	–	1,380	5,802
Write-back of impairment of trade receivables	–	–	(1,858)	–	–	(1,858)
Uncollectible trade receivables recovered	–	–	(1,134)	–	–	(1,134)
Depreciation	36	1,315	434	–	690	2,475

(a) Geographical information

2011

	Hong Kong HK$'000	People's Republic of China ("PRC") HK$'000	Others HK$'000	Total HK$'000
Revenue	21,771	23,912	8,827	54,510
Non-current assets	79,250	902,286	–	981,536
Capital expenditure	8,034	20,722	–	28,756

2010

	Hong Kong HK$'000	PRC HK$'000	Others HK$'000	Total HK$'000
Revenue	42,527	52,743	31,296	126,566
Non-current assets (restated)	54,762	470,470	–	525,232
Capital expenditure	5,789	13	–	5,802

(b) Information about major customers

Revenue of HK$7,050,000 (2010: HK$34,145,000) and HK$15,427,000 (2010: HK$13,558,000) were derived from a customer of the film distribution and licensing segment and a tenant of property rental.

5. REVENUE AND OTHER INCOME

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 rental income received and receivable from its investment property less business tax during the year.

An analysis of revenue and other income is as follows:

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Property rental income	16,529	15,193
Film distribution and licensing income	16,279	88,947
Film processing income	21,702	22,426
	54,510	126,566
Other income		
Scrap sales	4,199	882
Others	473	428
	4,672	1,310

6. FINANCE INCOME AND COSTS

An analysis of finance income and costs is as follows:

	2011	2010
	HK$'000	*HK$'000*
Finance costs:		
Interest on bank and other borrowings wholly repayable within five years	626	71
Interest on loans from a shareholder	497	–
Interest on a finance lease	40	18
Commitment fee for short-term loan	370	–
Interest on other borrowings	7,052	–
Interest on convertible bonds *(note 28)*	10,858	–
	19,443	89
Less: amounts capitalised on qualifying assets	(17,910)	–
Total finance costs	1,533	89
Finance income:		
Interest income on short-term bank deposits	(131)	(146)
Foreign exchange difference, net	(671)	(208)
Total finance income	(802)	(354)
Net finance costs (income)	731	(265)

Borrowing costs of the loans used to finance the property development projects of the Group have been capitalised at a capitalisation rate of 92% during the year (2010: Nil).

7. EXPENSES BY NATURE

	2011	2010
	HK$'000	*HK$'000*
		(restated)
Employee benefit expenses (excluding directors' remuneration – *note 8*):		
Wages and salaries	13,204	11,848
Retirement benefit scheme contributions	573	500
	13,777	12,348
Auditors' remuneration	1,680	1,500
Depreciation	2,985	2,475
Cost of inventories recognised as expenses*	19,450	78,038
Written off inventories	939	–
Minimum lease payments under operating leases	5,469	4,308
Direct operating expenses of an investment property	1,471	4,392
Write-back of impairment of trade receivables	(813)	(1,858)
Uncollectible trade receivables recovered	(78)	(1,134)
Professional fees	2,897	2,569
Loss on disposal of property, plant and equipment	56	–
Others	10,150	8,800
Total cost of sales and administrative expenses	57,983	111,438

* *The cost of inventories recognised as expenses for the year is included in "Cost of sales" on the face of the consolidated income statement.*

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	
	2011	2010
	HK$'000	*HK$'000*
Fees	316	391
Other emoluments:		
Salaries, allowances and benefits in kind	1,731	1,629
Retirement benefit scheme contributions	120	102
	2,167	2,122

2011

	Fees	Salaries, allowances and benefits in kind	Retirement benefit scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Mr. Jin Lei	–	420	23	443
Ms. Lai Pik Chi, Peggy	–	263	18	281
Ms. Law Kee, Alice	–	866	65	931
Mr. Hui Wai Lee, Willy	–	182	14	196
	–	1,731	120	1,851
Independent non-executive directors:				
Mr. Tsui Pui Hung	120	–	–	120
Mr. Chan Tung Tak, Alain	20	–	–	20
Mr. Tang Ping Sum	96	–	–	96
Mr. Chu To, Jonathan	80	–	–	80
	316	–	–	316
	316	1,731	120	2,167

2010

	Fees	Salaries, allowances and benefits in kind	Retirement benefit scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Ms. Lai Pik Chi, Peggy	–	736	47	783
Ms. Law Kee, Alice	–	686	43	729
Mr. Kwok Tsz Wing	–	25	–	25
Mr. Hui Wai Lee, Willy	–	182	12	194
	–	1,629	102	1,731
Non-executive director:				
Mr. Sin Kwok Lam	25	–	–	25
	25	–	–	25
Independent non-executive directors:				
Mr. Choy Sze Chung, Jojo	110	–	–	110
Mr. Tsui Pui Hung	120	–	–	120
Mr. Chan Tung Tak, Alain	120	–	–	120
Mr. Tang Ping Sum	16	–	–	16
	366	–	–	366
	391	1,629	102	2,122

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, two (2010: two) were directors of the Company, whose emoluments are included in the disclosure set out in note (a) above. The emoluments of the remaining three (2010: three) highest paid individuals are as follows:

	2011	2010
	HK$'000	*HK$'000*
Salaries and other benefits	1,933	1,675
Retirement benefit scheme contributions	31	33
	1,964	1,708

The emoluments of the three (2010: three) individuals with the highest emoluments are within the following bands:

	2011 Number of individuals	2010 Number of individuals
Nil – 1,000,000	2	3
1,000,001 – 1,500,000	1	–

9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the PRC income tax rate is unified to 25% for all enterprises. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2011	2010
	HK$'000	*HK$'000* (restated)
Group:		
Current – Hong Kong		
Charge for the year	826	232
Overprovision in prior years	(61)	–
Current – PRC		
Charge for the year	2,650	610
Underprovision in prior years	–	129
Deferred *(note 29)*	7,092	5,556
Total tax charge for the year	10,507	6,527

A reconciliation of the tax expense applicable to profit before income tax at 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 rate is as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
		(restated)
Profit before income tax	68,271	63,329
Tax at the statutory tax rates	14,273	12,554
Expenses not deductible for tax	1,282	1,193
Income not subject to tax	(7,098)	(5,634)
(Overprovision) Underprovision in prior years	(61)	129
Tax losses not recognised	2,101	272
Tax losses utilised from previous periods	–	(1,987)
Profits and losses attributable to an associate	10	–
Total tax charge	10,507	6,527

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 December 2011 includes a loss of HK$13,587,000 (2010: loss of HK$2,489,000) which has been dealt with in the financial statements of the Company (note 32).

11. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2011 and 2010, nor has any dividend been proposed since the end of the reporting period.

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

The calculation of basic earnings per share amounts is based on the profit for the year of HK$54,798,000 (restated 2010: HK$55,171,000), attributable to equity holders of the Company, and the weighted average number of ordinary shares of 2,948,831,000 (2010: 1,662,108,000) in issue during the year.

Adjustments has been made to the basic earnings per share amounts presented for the year ended 31 December 2011 in respect of the dilution effect of the convertible bonds outstanding during the year.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2010 as there were no dilutive potential ordinary shares.

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2011	**2010**
	HK$'000	*HK$'000*
		(restated)
Profit attributable to equity holders of the company	54,798	55,171
Weighted average number of ordinary shares in issue (thousands)	2,948,831	1,662,108

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect.

	2011	**2010**
	HK$'000	*HK$'000*
		(restated)
Earnings		
Profit attributable to equity holders of the company	54,798	55,171
Interest expense on convertible bonds (net of tax)	–	–
Profit used to determine diluted earnings per share	54,798	55,171
Weighted average number of ordinary shares in issue (thousands)	2,948,831	1,662,108
Adjustments for:		
– Assumed conversion of convertible bonds (thousands)	426,036	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,374,867	1,662,108

13. PROPERTY, PLANT AND EQUIPMENT

	Group						
	Construction in progress	Leasehold land and buildings	Furniture and fixtures	Leasehold improvements	Motor vehicles	Plant, machinery and equipment	Total
	HK$'000	*HK$'000* (restated)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (restated)
At 1 January 2009							
Cost or valuation, as previously reported	–	16,900	5,799	3,021	1,738	21,329	48,787
Effect on changes in accounting policies *(note 2.1(c))*	–	(12,400)	–	–	–	–	(12,400)
Cost, as restated	–	4,500	5,799	3,021	1,738	21,329	36,387
Accumulated depreciation, as previously reported	–	–	(5,431)	(2,595)	(524)	(20,771)	(29,321)
Effect on changes in accounting policies *(note 2.1(c))*	–	(919)	–	–	–	–	(919)
Accumulated depreciation, as restated	–	(919)	(5,431)	(2,595)	(524)	(20,771)	(30,240)
Net carrying amount, as restated	–	3,581	368	426	1,214	558	6,147
Year ended 31 December 2009							
Opening carrying amount, as previously reported	–	16,900	368	426	1,214	558	19,466
Effect on changes in accounting policies *(note 2.1(c))*	–	(13,319)	–	–	–	–	(13,319)
Opening carrying amount, as restated	–	3,581	368	426	1,214	558	6,147
Additions	–	–	330	549	–	118	997
Disposals	–	–	–	–	–	(45)	(45)
Disposal of subsidiaries	–	–	(26)	–	(206)	(61)	(293)
Depreciation	–	(122)	(130)	(600)	(370)	(230)	(1,452)
Exchange realignment	–	–	1	–	5	(6)	–
Closing carrying amount, as restated	–	3,459	543	375	643	334	5,354
At 31 December 2009							
Cost or valuation, as previously reported	–	16,900	5,996	3,208	1,500	21,060	48,664
Effect on changes in accounting policies *(note 2.1(c))*	–	(12,400)	–	–	–	–	(12,400)
Cost, as restated	–	4,500	5,996	3,208	1,500	21,060	36,264
Accumulated depreciation, as previously reported	–	(481)	(5,453)	(2,833)	(857)	(20,726)	(30,350)
Effect on changes in accounting policies *(note 2.1(c))*	–	(560)	–	–	–	–	(560)
Accumulated depreciation, as restated	–	(1,041)	(5,453)	(2,833)	(857)	(20,726)	(30,910)
Net carrying amount, as restated	–	3,459	543	375	643	334	5,354

	Group						
	Construction in progress HK$'000	Leasehold land and buildings HK$'000 (restated)	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Total HK$'000 (restated)
Year ended 31 December 2010							
Opening net carrying amount, as previously reported	–	16,419	543	375	643	334	18,314
Effect on changes in accounting policies *(note 2.1(c))*	–	(12,960)	–	–	–	–	(12,960)
Opening net carrying amount, as restated	–	3,459	543	375	643	334	5,354
Additions	–	–	342	2,431	1,380	1,649	5,802
Disposals	–	–	(38)	(3)	–	(2)	(43)
Depreciation	–	(122)	(256)	(888)	(857)	(352)	(2,475)
Transfer to property held for sale *(note 19)*	–	(2,500)	–	–	–	–	(2,500)
Exchange realignment	–	–	1	–	8	–	9
Closing carrying amount, as restated	–	837	592	1,915	1,174	1,629	6,147
At 31 December 2010							
Cost or valuation, as previously reported	–	5,500	6,298	4,070	2,890	22,702	41,460
Effect on changes in accounting policies *(note 2.1(c))*	–	(4,400)	–	–	–	–	(4,400)
Cost, as restated	–	1,100	6,298	4,070	2,890	22,702	37,060
Accumulated depreciation, as previously reported	–	–	(5,706)	(2,155)	(1,716)	(21,073)	(30,650)
Effect on changes in accounting policies *(note 2.1(c))*	–	(263)	–	–	–	–	(263)
Accumulated depreciation, as restated	–	(263)	(5,706)	(2,155)	(1,716)	(21,073)	(30,913)
Net carrying amount, as restated	–	837	592	1,915	1,174	1,629	6,147
Year ended 31 December 2011							
Opening net carrying amount, as previously reported	–	5,500	592	1,915	1,174	1,629	10,810
Effect on changes in accounting policies *(note 2.1(c))*	–	(4,663)	–	–	–	–	(4,663)
Opening net carrying amount, as restated	–	837	592	1,915	1,174	1,629	6,147
Additions	25,832	–	88	450	10,009	144	36,523
Acquisition of a subsidiary *(note 33)*	683	–	83	138	965	68	1,937
Disposals	–	–	–	–	(255)	(1)	(256)
Depreciation	–	(28)	(200)	(1,074)	(1,214)	(469)	(2,985)
Exchange realignment	28	–	3	2	42	3	78
Closing carrying amount	26,543	809	566	1,431	10,721	1,374	41,444
At 31 December 2011							
Cost	26,543	1,100	6,482	4,975	12,706	22,933	74,739
Accumulated depreciation	–	(291)	(5,916)	(3,544)	(1,985)	(21,559)	(33,295)
Net carrying amount	26,543	809	566	1,431	10,721	1,374	41,444

Depreciation expense of HK$2,985,000 (2010: HK$2,475,000) has been charged in ‘administrative expenses’.

Construction in progress as at 31 December 2011 mainly comprised hotel units being constructed in the PRC.

During the year, the Group has capitalised borrowing costs amounting to HK$7,979,000 (2010: Nil) on qualifying assets within property, plant and equipment.

At 31 December 2011, a motor vehicle was held under a finance lease as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Cost	7,980	–
Accumulated depreciation	(266)	–
Net carrying amount	7,714	–

The net carrying amount of the Group's interests in leasehold land classified as finance lease and buildings are analysed as follows:

	2011	**2010**
	HK$'000	*HK$'000*
In Hong Kong, held on leases of:		
Between 10 to 50 years	809	837

At 31 December 2011, the Group's leasehold land and buildings with a net carrying amount of HK$809,000 (2010: HK$837,000) were pledged to secure banking facilities granted to the Group (note 37).

14. LAND USE RIGHT

The Group's interests in land use right represented prepaid operating lease payments and their net carrying amount are analysed as follows:

	Group
	2011
	HK$'000
In the PRC, held on leases of:	
Between 10 to 50 years	326,055

	2011
	HK$'000
At 1 January	–
Acquisition of a subsidiary *(note 33)*	320,913
Amortisation of land use right	(7,767)
Exchange realignment	12,909
At 31 December	326,055

Amortisation of land use right for the year ended 31 December 2011 amounted to HK$7,767,000 had been capitalised as the construction in progress under "property, plant and equipment" as at 31 December 2011.

15. INVESTMENT PROPERTY

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
At 1 January	310,223	283,801
Fair value gain adjustment	26,532	16,451
Exchange realignment	15,072	9,971
At 31 December	351,827	310,223

(a) Amounts recognised in the consolidated income statement for investment property

	2011	**2010**
	HK$'000	*HK$'000*
Rental income	16,529	15,193
Direct operating expenses from investment property that generated rental income	(1,471)	(4,392)
	15,058	10,801

(b) Valuation basis

The Group's investment property is situated in No. 19, Yongling Road, Jinniu District, Chengdu City, Sichuan Province, the PRC.

The Group's investment property was revalued on 31 December 2011 by RHL Appraisal Limited, independent professional qualified valuer, at HK$351,827,000 on an open market and existing use basis. The investment property is leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

(c) The net carrying amount of the Group's investment property is analysed as follows:

	2011	**2010**
	HK$'000	*HK$'000*
In the PRC, held on leases of:		
Between 10 to 50 years	351,827	310,223

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	**2010**
	HK$'000	*HK$'000*
Unlisted shares, at cost	6,172	6,172

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries of the Company at 31 December 2011 and 2010 are as follows:

Name of subsidiary	Place of incorporation/ operations and kind of legal entity	Nominal value of issued and fully paid share capital/registered capital	Percentage of equity attributed to the Company 2011	2010	Principal activities
Adore Capital Limited	British Virgin Islands ("BVI")/ Hong Kong, limited liability company	US$1	100	100	Investment holding
Brilliant Field Corporation Limited	Hong Kong, limited liability company	HK$1	100	100	Investment holding
Mandarin Films Limited	Hong Kong, limited liability company	HK$1	100	100	Production and distribution of films and provision of management services
Grimston Limited ("Grimston")	BVI/Hong Kong, limited liability company	US$10,000	100	100	Investment holding
Handful Cotton (Piecegoods) Company Limited	Marshall, limited liability company	US$1	100	100	Investment holding
Mandarin Films Distribution Company Limited	Hong Kong, limited liability company	HK$20 ordinary shares and HK$10,000,000 non-voting deferred shares *(note)*	100	100	Distribution of films produced or purchased by the Group
Mandarin Laboratory Limited	Hong Kong, limited liability company	HK$10,000	100	100	Investment holding
Mandarin Laboratory (International) Limited	Hong Kong, limited liability company	HK$1,000,000	100	100	Film processing and storage of films
Mandarin Films Library Limited	Hong Kong, limited liability company	HK$1	100	100	Films licensing
Silverland Enterprises Limited	BVI/Hong Kong, limited liability company	US$1	100	100	Investment holding
Sino Step Inc.	BVI/Hong Kong, limited liability company	US$1	100	100	Investment holding

Name of subsidiary	Place of incorporation/ operations and kind of legal entity	Nominal value of issued and fully paid share capital/registered capital	Percentage of equity attributed to the Company 2011	2010	Principal activities
Walsbo Limited	Hong Kong, limited liability company	HK$2 ordinary shares and HK$9,800 non-voting deferred shares *(note)*	100	100	Investment holding
Profit Source International Limited ("Profit Source")	Hong Kong, limited liability company	HK$1	100	100	Investment holding
Chengdu Zhongfa Real Estate Development Co. Ltd. ("Chengdu Zhongfa") ^	PRC, limited liability company	Renminbi "RMB" 176,000,000	90.057	90	Property holding
Prosper China Limited	BVI/Hong Kong, limited liability company	US$100	100	100	Investment holding
北京東方新青年文化發展有限公司^^	PRC, limited liability company	HK$10,000,000	100	100	Distribution of films produced by the Group
湖南九華國際新城開發建設有限公司^^^ (Hunan Jinhua International City Development Construction Company Limited) ("Hunan Jinhua")	PRC, limited liability company	RMB170,887,216	100	–	Property and hotel development

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.

^ *Chengdu Zhongfa is registered as a Sino-foreign-owned joint venture enterprise under the PRC law.*

^^ *北京東方新青年文化發展有限公司 is registered as a wholly-foreign-owned enterprise under the PRC law.*

^^^ *Hunan Jinhua is registered as a wholly-foreign-owned enterprise under the PRC law.*

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 reporting period.

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

17. INVESTMENT IN AN ASSOCIATE

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Share of net deficit	(139)	(82)
Loans to an associate	66,177	47,177
	66,038	47,095

The loans to an associate are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these loans are considered as quasi-equity investment in the associate.

Particulars of the associate are as follows:

Name of entity	Particulars of issued shares held	Place of incorporation/ operation and kind of legal entity	Percentage of nominal value of issued share capital held indirectly by the Company 2011	2010	Principal activities
Talent Films Limited	10,000 ordinary shares of HK$1 each	Hong Kong, limited liability company	35	35	Production and distribution of film

The Company's voting power held and profit sharing arrangement in relation to Talent Films Limited is 35%.

The Group's shareholding in the associate represents the equity shares held by the Company.

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

	2011	**2010**
	HK$'000	*HK$'000*
Assets	65,477	45,006
Liabilities	(65,616)	(45,088)
Revenue and other income	–	–
Loss for the year	(57)	(85)

18. PROPERTIES DEVELOPMENT IN PROGRESS

	2011
	HK$'000
At 1 January	–
Acquisition of a subsidiary *(note 33)*	399,983
Additions	12,794
Exchange realignment	16,090
At 31 December	428,867
Properties development in progress comprise:	
Land use rights	415,431
Construction costs and capitalised expenditures	3,505
Finance costs capitalised	9,931
	428,867
Amounts are expected to be completed:	
Within the normal operating cycle included under current assets	428,867
Beyond normal operating cycle included under non-current assets	–
	428,867

The amount of properties development in progress expected to be recovered after more than one year was HK$428,867,000 (2010: Nil).

Land use rights:	
In the PRC, held on leases of:	
Over 50 years	415,431

19. PROPERTY HELD FOR SALE

The Group signed a sole agent agreement with an agent to sell a property to an independent third party at a consideration of HK$44,093,000 with a disposal gain of HK$41,328,000. The transaction was completed in 2011.

At 31 December 2010, the Group's property held for sale with a carrying amount of HK$2,500,000 was pledged to secure bank facilities granted to the Group (note 37).

20. INVENTORIES

	Group 2011	Group 2010
	HK$'000	*HK$'000*
Raw materials	1,227	1,980
Work in progress	16	25
	1,243	2,005

21. TRADE RECEIVABLES

	Group 2011	Group 2010
	HK$'000	*HK$'000*
Trade receivables	7,968	9,382
Impairment	(925)	(1,738)
	7,043	7,644

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. Credit limits attributed to customers are reviewed regularly.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2011	2010
	HK$'000	*HK$'000*
0 – 90 days	4,076	5,460
91 – 180 days	1,554	617
181 – 365 days	685	831
Over 1 year	728	736
	7,043	7,644

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

	2011	2010
	HK$'000	*HK$'000*
121 – 180 days	1,182	191
More than 180 days	1,413	1,567
	2,595	1,758

The trade receivables that were past due but not impaired relate 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:

	2011	2010
	HK$'000	*HK$'000*
At 1 January	1,738	3,596
Impairment reversed due to amount recovered	(813)	(1,858)
At 31 December	925	1,738

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

At 31 December 2011, trade receivables of HK$925,000 (2010: HK$1,738,000) were individually determined to be impaired. The individually impaired trade receivables relate to receivables which are expected not to be recoverable or only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The carrying amounts of the trade receivables are denominated in the following currencies:

	2011	2010
	HK$'000	*HK$'000*
Hong Kong dollar	6,709	5,887
Renminbi	265	1,757
United States dollar	69	–
At 31 December	7,043	7,644

22. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

		Group	
		2011	2010
	Note	*HK$'000*	*HK$'000*
Other receivables		210	58
Prepayments		594	164
Deposit for acquisition of a subsidiary	*(i)*	–	160,000
Deposit for land	*(ii)*	67,661	–
Deposit for construction costs		12,351	–
Others		2,182	1,939
Carrying amount at 31 December		82,998	162,161
Current portion		(81,212)	(495)
Non-current portion		1,786	161,666

(i) The balance represented an initial refundable deposit paid to an independent third party for acquiring 100% equity interest in Hunan Jiuhua.

(ii) The balance represented a deposit paid to acquire a piece of land in Hunan for property development purposes.

None of the other receivables is either past due or impaired. The other receivables included in the above balances had no recent history of default.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	38,580	44,764	2,475	1,519
Short-term bank deposits	9,553	20,000	8,691	20,000
	48,133	64,764	11,166	21,519

At 31 December 2011, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$19,931,000 (2010: HK$10,798,000). 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 bank 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 bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The effective interest rate on short-term bank deposits is 0.94% (2010: 0.07%) per annum where the deposits have maturities of 7 days (2010: 7 days).

The carrying amount of the cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2011	2010	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollar	26,633	40,941	7,366	21,512
Renminbi	19,931	10,798	3,793	–
United States dollar	1,532	11,874	7	7
Others	37	1,151	–	–
	48,133	64,764	11,166	21,519

24. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
0 – 90 days	8,618	1,604

25. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	Group		Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	8,034	12,633	–	–
Accruals	6,590	5,648	1,133	242
Accrued interest expense	9,058	–	–	–
Deposits in advance	1,058	975	–	–
	24,740	19,256	1,133	242

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective contractual interest rate	Maturity	Group		Company	
			2011	**2010**	**2011**	**2010**
	%		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current						
Bank loan – secured *(note i)*	3.75	On demand	1,613	1,789	1,613	1,789
Other borrowings – secured *(note ii)*	15	September 2012	45,600	–	–	–
Other borrowings – unsecured	15	April 2012	61,508	–	–	–
			108,721	1,789	1,613	1,789

	Group		Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year	1,613	1,789	1,613	1,789

(i) At 31 December 2011, the Group's and the Company's bank borrowings were secured by the Group's leasehold land and buildings with a net carrying amount of HK$809,000.

At 31 December 2010, the Group's and the Company's bank borrowings were secured by the Group's leasehold land and buildings with a net carrying amount of HK$837,000 and a property held for sale with a net carrying amount of HK$2,500,000 respectively.

(ii) The Group's other borrowings are secured by a corporate guarantee granted by the Company and the Group's 100% equity interest in Profit Source. Profit Source is the immediate holding company of Chengdu Zhongfa which holds the investment property of the Group.

The carrying amounts of the Group's and the Company's interest-bearing bank and other borrowings are denominated in the following currencies:

	Group		Company	
	2011	2010	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollar	47,213	1,789	1,613	1,789
Renminbi	61,508	–	–	–
	108,721	1,789	1,613	1,789

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

27. OBLIGATIONS UNDER A FINANCE LEASE

During the year, the Group leased its motor vehicle for its business use. The lease was classified as a finance lease and had a remaining lease term of five years. Interest rate underlying all obligations under the finance lease was fixed at contract rate of 4.28%. No arrangement had been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable:				
Within one year	1,246	–	1,034	–
Between 1 and 2 years	1,246	–	1,079	–
Between 2 and 5 years	3,530	–	3,319	–
Total minimum finance lease payments	6,022	–	5,432	–
Future finance charges	(590)	–		
Total net finance lease payables	5,432	–		
Portion classified as current liabilities	(1,034)	–		
Non-current portion	4,398	–		

28. CONVERTIBLE BONDS

On 26 January 2011, the Company issued the convertible bonds carrying a coupon interest rate of 0.5% per annum up to an aggregate principal amount of HK$515,128,000. The bonds are convertible at the option of the bondholders into fully paid ordinary shares with a par value of HK$0.10 each at any time from the date of the issue of the bonds up to and including 26 January 2016 at an initial conversion price of HK$0.345. The Company may redeem at 100% of the principal amount in cash by giving the bondholders 10 working days' prior written notice. Any convertible bonds not converted will be redeemed on 26 January 2016 at 100% of their principal amount.

The convertible bonds recognised in the consolidated statement of financial position is calculated as follows:

	HK$'000
Nominal value of the convertible bonds issued during the year *(note 33)*	515,128
Equity component	(149,228)
Liability component at the date of issuance	365,900
Conversion of convertible bonds during the year	(336,462)
Interest expense *(note 6)*	10,858
Interest payable	(992)
Carrying amount as at 31 December 2011	39,304

Interest expense on the liability component of the convertible bonds is calculated using the effective interest method, applying the effective interest rate of 7.698% per annum to the liability component.

The liability component of the convertible bonds as at 31 December 2011 amounted to HK$31,069,000. The fair value is calculated using the market price of the convertible bonds on the reporting date (or the nearest day of trading).

29. DEFERRED TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
		(restated)
Deferred income tax assets	68	–
Deferred income tax liabilities	(265,856)	(73,512)
	(265,788)	(73,512)

The net movements of the deferred income tax account are as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
At 1 January	(77,130)	(68,238)
Effect on changes in accounting policies *(note 2.1(c))*	3,618	2,764
	(73,512)	(65,474)
Deferred income tax charged to income statement *(note 9)*	(7,092)	(5,556)
Acquisition of a subsidiary *(note 33)*	(174,577)	–
Exchange realignment	(10,607)	(2,482)
At 31 December	(265,788)	(73,512)

At 31 December 2011, the Group had unused tax losses in Hong Kong of approximately HK$22,148,000 (2010: HK$14,454,000) available indefinitely for offsetting against future profits of the companies in which the losses arose; and unused tax losses in the PRC of HK$3,324,000 available for offsetting against future profits of the PRC subsidiary which will be expired in 5 years. No deferred tax asset in respect of such losses has been recognised due to the unpredictability of future profit streams.

Deferred income tax liabilities of HK$4,621,000 (2010: HK$2,969,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled HK$92,417,000 at 31 December 2011 (2010: HK$59,384,000).

The movements in deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred tax liabilities

	Revaluation of land use right	**Revaluation of investment property**	**Group Accelerated tax depreciation**	**Revaluation of properties**	**Total**
	HK$'000	*HK$'000*	*HK$'000* (restated)	*HK$'000* (restated)	*HK$'000*
At 1 January 2009 as previously reported	–	63,581	479	2,764	66,824
Effect on changes in accounting policies *(note 2.1(c))*	–	–	–	(2,764)	(2,764)
As 1 January 2009 (restated)	–	63,581	479	–	64,060
Deferred tax charged (credited) to the consolidated income statement during the year	–	1,459	(79)	–	1,380
Exchange realignment	–	37	–	–	37
At 31 December 2009 and 1 January 2010	–	65,077	400	–	65,477
At 1 January 2010 as previously reported	–	65,077	400	2,764	68,241
Effect on changes in accounting policies *(note 2.1(c))*	–	–	–	(2,764)	(2,764)
At 1 January 2010 (restated)	–	65,077	400	–	65,477
Deferred tax charged (credited) to the consolidated income statement during the year	–	5,772	(219)	–	5,553
Exchange realignment	–	2,482	–	–	2,482
At 31 December 2010 and 1 January 2011	–	73,331	181	–	73,512
At 1 January 2011 as previously reported	–	73,331	181	3,618	77,130
Effect on changes in accounting policies *(note 2.1(c))*	–	–	–	(3,618)	(3,618)
At 1 January 2011 (restated)	–	73,331	181	–	73,512
Deferred tax charged (credited) to the consolidated income statement during the year	–	7,341	(181)	–	7,160
Acquisition of a subsidiary *(note 33)*	174,577	–	–	–	174,577
Exchange realignment	7,023	3,584	–	–	10,607
At 31 December 2011	181,600	84,256	–	–	265,856

Deferred tax assets

	Group Losses available for offsetting against future taxable profits	
	2011	**2010**
	HK$'000	*HK$'000*
At 1 January	–	3
Deferred tax credited (charged) to the income statement during the year	68	(3)
At 31 December	68	–

30. LOANS FROM A SHAREHOLDER

At 31 December 2011, the Group had loan balances of HK$14,640,000 (2010: Nil) from Mr. Cheng Keung Fai ("Mr. Cheng"), a substantial shareholder of the Company, which were unsecured, bearing interest at 1% per annum and were repayable on or before April 2012, but contain a repayment on demand clause.

31. SHARE CAPITAL

	Note	2011 HK$'000	2010 HK$'000
Authorised:			
10,000,000,000 (2010: 10,000,000,000) ordinary shares of HK$0.10 (2010: HK$0.10) each	*(a)*	1,000,000	1,000,000
Issued and fully paid:			
3,433,184,000 (2010: 2,090,784,000) ordinary shares of HK$0.10 (2010: HK$0.10) each		343,318	209,078

A summary of the transactions during the current and prior years with reference to the movements in the Company's issued ordinary share capital is as follows:

		No. of shares	Amount HK$'000
At 1 January 2010		2,613,480,000	261,348
Capital reorganisation	*(b)*	–	(235,213)
Issue of shares	*(c)*	18,294,360,000	182,943
Share consolidation	*(d)*	(18,817,056,000)	–
At 31 December 2010 and 1 January 2011		2,090,784,000	209,078
Issue of shares	*(e)*	1,342,400,000	134,240
At 31 December 2011		3,433,184,000	343,318

(a) The authorised share capital of the Company of HK$1,000,000,000 was divided into 100,000,000,000 shares of HK$0.01 each. Pursuant to an ordinary resolution passed on 24 December 2010, the authorised share capital of the Company was consolidated on the basis of every ten shares of HK$0.01 each into one share of HK$0.10.

(b) On 6 September 2010, the Company reduced the issued share capital by cancelling the paid up capital to the extent of HK$0.09 on each share such that the nominal value of all issued shares was reduced from HK$0.10 each to HK$0.01 each and the share capital of the Company was reduced by HK$235,213,000. On the same date, the share premium account of the Company of HK$224,095,000 was reduced to zero.

The credits arising in the books of accounts of the Company from the reduction in the issued share capital and the share premium account were transferred to the contributed surplus account of the Company and an amount of HK$340,146,000 was applied in setting off the accumulated losses of the Company of HK$340,146,000.

(c) On 29 September 2010, the Company completed the open offer by issuing 18,294,360,000 shares ("Open Share(s)") on the basis of seven Open Shares for every existing share, at a subscription price at HK$0.0109 each per share, resulting the cash consideration of HK$199,408,000, of which HK$182,943,000 was credited to the share capital and the balance of HK$16,465,000 was credited to the share premium.

(d) On 28 December 2010, every ten issued and unissued shares of HK$0.01 each in the share capital of the Company were consolidated into one consolidated share of HK$0.10 each in the share capital of the Company.

(e) During the year, convertible bonds with principal amount of HK$463,128,000 were converted into 1,342,400,000 ordinary shares at HK$0.345 each per share.

32. RESERVES

(a) 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.

(b) Company

	Notes	Share premium HK$'000	Contributed surplus HK$'000	Equity component of the convertible bonds HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010		224,095	44,072	–	(340,146)	(71,979)
Loss for the year	10	–	–	–	(2,489)	(2,489)
Total comprehensive loss for the year		–	–	–	(2,489)	(2,489)
Capital reorganisation	31(b)	(224,095)	459,308	–	–	235,213
Setting off accumulated losses	31(b)	–	(340,146)	–	340,146	–
Issue of shares	31(c)	16,465	–	–	–	16,465
Transaction costs attributable to issue of shares		(5,638)	–	–	–	(5,638)
At 31 December 2010		10,827	163,234	–	(2,489)	171,572
Loss for the year	10	–	–	–	(13,587)	(13,587)
Total comprehensive loss for the year		–	–	–	(13,587)	(13,587)
Issue of convertible bonds		–	–	149,228	–	149,228
Issue of shares	31(e)	336,386	–	(134,164)	–	202,222
At 31 December 2011		347,213	163,234	15,064	(16,076)	509,435

The contributed surplus of the Company comprises (i) HK$44,072,000 arising from 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; and (ii) HK$119,162,000 arising from the Company's capital reorganisation on 6 September 2010.

33. BUSINESS COMBINATIONS

On 26 January 2011, the Group acquired 100% equity interest in Hunan Jiuhua. Hunan Jinhua's principal activities are property development, property management and hotel management. The acquisition is aimed at diversifying the existing business of the Group.

The purchase consideration for the acquisition amounted to HK$700,000,000 which was satisfied by:

(i) HK$160,000,000 in cash paid on 16 November 2010;

(ii) waiver of a loan due from a former shareholder of Hunan Jiuhua of RMB21,276,000 (equivalent to approximately HK$24,872,000);

(iii) issue of the convertible bonds of HK$515,128,000.

The goodwill arose from a number of factors. Most significant amongst these is synergies expected to arise after the acquisition of Hunan Jiuhua on the equity interests of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair values of the identifiable assets and liabilities of Hunan Jiuhua as at the date of acquisition were as follows:

	Note	Fair value recognised on acquisition HK$'000
Net assets acquired:		
Properties, plant and equipment	13	1,937
Land use right	14	320,913
Properties development in progress	18	399,983
Other assets		1,313
Amount due from a shareholder		25,161
Bank balances and cash		1,710
Other loans and liabilities		(63,212)
Deferred taxation	29	(174,577)
		513,228
Goodwill		186,772
		700,000
Satisfied by:		
Cash		160,000
Convertible bonds	28	515,128
Waiver of an amount due from a former shareholder of Hunan Jinhua		24,872
		700,000

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition is as follows:

	HK$'000
Cash consideration paid during the year	–
Cash and bank balance acquired	1,710
Net inflow of cash and cash equivalents in respect of the acquisition	1,710

Acquisition-related costs of HK$450,000 have been charged to administrative expenses in the consolidated income statement for the year ended 31 December 2011.

The acquired business contributed a consolidated loss of HK$3,324,000 to the Group for the period from 27 January 2011 to 31 December 2011. If the acquisition had occurred on 1 January 2011, no consolidated revenue would be contributed but the consolidated loss for the year would have been approximately HK$4,000,000.

The movements of goodwill during the year are as follows:

	2011
	HK$'000
At 1 January	–
Acquisition of a subsidiary	186,772
Exchange realignment	7,513
At 31 December	194,285

Impairment test for goodwill

The goodwill is primarily attributable to the property and hotel development business of the Group. Management has completed its annual impairment test for goodwill by comparing the recoverable amount of the property and hotel development business to their carrying amount as at the reporting date. The recoverable amount is determined based on value in use. These assessments use pre-tax cash flow projections based on financial budgets approved by management.

Management determined budgeted gross margins for the property development and sales business based on the current performance of the property market nearby and their expectations for the market development. Management determined budgeted gross margins for the hotel management business based on their experience in the hotel industry in the PRC and their expectations for the development in the area that the hotel locates. Future cash flows are discounted at the standard rate of 5%.

The directors are of the view that there was no evidence of impairment of goodwill as at 31 December 2011 arising from the review.

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. A reasonably possible change in key assumptions used in the impairment test for goodwill would not cause the carrying amount to exceed its respective recoverable amount.

34. DISPOSAL OF SUBSIDIARIES

(a) Disposal of subsidiaries

On 3 March 2010, Grimston and Pegasus Motion Pictures Limited ("Pegasus"), a company which was owned by Mr. Edmond Wong, the son of Mr. Wong Pak Ming ("Mr. Wong") and a former director of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement"). Pursuant to the Sale and Purchase Agreement, Grimston shall dispose of and Pegasus shall acquire the entire 100% issued and fully-paid ordinary shares of Elite Films Limited, Motion Picture Limited and Pioneer Films Limited (collectively known as the "Disposal Group") at a cash consideration of HK$29,000,000 together with the balance of payment from the sales of film rights which were signed before the date of disposal and were remained to be performed in whole or in part, with a tax indemnity of HK$1,000,000 and a waiver of the inter-companies balances with Grimston. Details in respect of the disposal of subsidiaries during the reporting period were as follows:

	2010
	HK$'000
Net liabilities disposed of:	
Film rights	62
Production in progress	624
Other payable and accruals	(134)
Amounts due to Grimston	(93,148)
	(92,596)
Gain on the disposal	30,262
	(62,334)
Satisfied by:	
Cash	29,000
Net income received from customers	2,814
Tax indemnity	(1,000)
Amounts due to Grimston	(93,148)
	(62,334)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2010
	HK$'000
Cash consideration	29,000
Net income received from customers	2,814
Net inflow of cash and cash equivalents in respect of the disposal of the Disposal Group	31,814

35. 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 10 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 the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Within one year	19,413	16,687
Between two to five years	81,469	68,066
Over five years	48,659	57,854
	149,541	142,607

(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 3 years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Within one year	5,412	4,491
Between two to five years	996	4,963
	6,408	9,454

36. OTHER COMMITMENTS

(a) At the end of the reporting period, the Group had commitments for the following expenditures in respect of:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Contracted but not provided for:		
Production of a film	986	18,130
Loans to an associate	5,923	24,923
Property development	150,466	–
Motor vehicle	696	–
	158,071	43,053
Authorised but not contracted for:		
Property development	1,592,185	–
	1,750,256	43,053

The Company did not have any significant commitments at the end of the reporting period (2010: Nil).

(b) At 31 December 2011, the Group had a capital commitment in respect of an investment in a wholly foreign-owned subsidiary in the PRC amounting to HK$35,813,000 (2010: Nil).

37. BANKING FACILITIES AND PLEDGE OF ASSETS

At 31 December 2011, the Group's banking facilities were secured by the Group's leasehold land and buildings with a net carrying amount of HK$809,000.

At 31 December 2010, the Group's banking facilities were secured by the Group's leasehold land and buildings and a property held for sale with net carrying amounts of HK$837,000 and HK$2,500,000 respectively.

38. 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 reporting periods:

– No agency fees were charged by 廣州東影影視出品有限公司 ("Tung Ying") (2010: HK$115,000) and Prime Moon International Limited ("Prime Moon") (2010: HK$5,000), in which a brother and a sister of Mr. Wong, a former director of the Company, 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.

– No production expenses (2010: HK$200,000) were paid to Mr. Wong for his service as the executive producer provided to the Group in accordance with the service agreements entered into on 20 November 2008 between the Group and Big Bright Investment Limited and on 26 May 2009 between the Group and Pure Project Limited, respectively, of which the shareholdings are beneficially owned by Mr. Wong.

– No provision of shooting and editing service fee (2010: HK$151,000) were paid to Pegasus, a related company in which Mr. Edmond Wong, a former director of the Company, has beneficial interest.

– No rental expenses (2010: HK$25,000) for certain premises were paid to Wealth Gate Investment Limited, a related company in which Mr. Sin Kwok Lam ("Mr. Sin"), a former non-executive director of the Company, has beneficial interest.

– No interest (2010: HK$18,000) was paid to First Credit Limited, a related company in which Mr. Sin has beneficial interest.

– No underwriting commission (2010: HK$4,017,000) was paid to Mr. Cheng Keung Fai ("Mr. Cheng"), a substantial shareholder of the Company.

– Interest of HK$497,000 (2010: Nil) was paid to Mr. Cheng for the loans from a shareholder.

– Service fee of HK$110,000 (2010: Nil) was paid to Mr. Cheng Ka Sing, the son of Mr. Cheng.

– Accountancy service fee of HK$120,000 (2010: HK$150,000) was received from Talent Films Limited, an associate of the Company.

(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.

39. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

40. FINANCIAL INSTRUMENTS

Categories of financial instruments

	Group		**Company**	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Trade receivables	7,043	7,644	–	–
Other receivables	210	58	–	–
Amounts due from subsidiaries	–	–	891,668	354,990
Cash and cash equivalents	48,133	64,764	11,166	21,519
	55,386	72,466	902,834	376,509

	Group		Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities				
Trade payables	8,618	1,604	–	–
Other payables	8,034	12,633	–	–
Interest-bearing bank and other borrowings	108,721	1,789	1,613	1,789
Obligations under a finance lease	5,432	–	–	–
Loans from a shareholder	14,640	–	14,640	–
Convertible bonds	39,304	–	39,304	–
	184,749	16,026	55,557	1,789

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise cash and cash equivalents, interest-bearing bank and other borrowings, obligations under a finance lease and loans from a shareholder. 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 and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate 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

At 31 December 2011, the Group had other borrowings of HK$107,108,000 and the loans from a shareholder of HK$14,640,000 which were interest bearing with fixed interest rates.

At 31 December 2011, the Group had short-term bank deposits of HK$9,553,000 (2010: HK$20,000,000) and bank borrowings of HK$1,613,000 (2010: HK$1,789,000), which were interest bearing with a floating interest rate.

At 31 December 2011, if interest rates on the short-term bank deposits had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately HK$95,530 (2010: HK$200,000) higher/lower respectively, mainly as a result of higher/lower interest income on floating rate borrowings.

At 31 December 2011, if interest rate on the bank borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately HK$16,130 (2010: HK$17,890) lower/higher respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

Foreign currency risk

The Group carries on its sale and purchase transactions mainly in Hong Kong dollars, 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.

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 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 21 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.

The Group meets its day to day working capital requirements, capital expenditure and financial obligations through cash inflow from operating activities and the facilities obtained from banks and others.

The directors closely monitor the Group's liquidity position and financial performance and have initiated measures to improve the Group's cash flows. These measures include raising additional capital; extending existing loan facilities; obtaining additional financing from bank and others; and realising certain assets held by the Group through disposal, if considered necessary. The Group is expected to be able to generate sufficient cash flows to cover its operating costs and meet its financial obligations as and when they fall due in the coming twelve months from the date of these financial statements.

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Group		
	Within one year or on demand	**Between two to five years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
2011			
Trade payables	8,618	–	8,618
Other payables	8,034	–	8,034
Interest-bearing bank and other borrowings*	116,749	–	116,749
Obligations under a finance lease	1,246	4,776	6,022
Loans from a shareholder*	14,684	–	14,684
Convertible bonds	260	52,799	53,059
	149,591	57,575	207,166

	Group		
	Within one year or on demand	Between two to five years	Total
	HK$'000	*HK$'000*	*HK$'000*
2010			
Trade payables	1,604	–	1,604
Other payables	12,633	–	12,633
Interest-bearing bank and other borrowings*	2,097	–	2,097
	16,334	–	16,334

	Company		
	Within one year or on demand	Between two to five years	Total
	HK$'000	*HK$'000*	*HK$'000*
2011			
Loans from a shareholder*	14,684	–	14,684
Interest-bearing bank borrowings*	1,857	–	1,857
Convertible bonds	260	52,799	53,059
	16,801	52,799	69,600
2010			
Interest-bearing bank borrowings*	2,097	–	2,097

* *Included in interest-bearing bank and other borrowings and loans from a shareholder are term loans. The loan agreements contain a repayment on-demand clause giving the lenders the unconditional right to call in the loan at any time and therefore, for the purpose of the above maturity profile, the total amounts are classified as "on demand".*

Notwithstanding the above clause, the directors do not believe that the loans will be called in its entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the loans, the maturity terms at 31 December 2011 are HK$14,924,000 in 2012, HK$240,000 in 2013, HK$240,000 in 2014, HK$240,000 in 2015 and HK$897,000 in 2015 and beyond.

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 2011 and 2010.

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 estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade and other receivables and trade and other payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

42. EVENTS AFTER THE REPORTING PERIOD

(a) On 11 January 2012, the Company's indirect wholly-owned subsidiary, Profit Source, entered into an agreement with 東莞市易豐實業發展有限公司 (Dongguan Yi Feng Enterprise Limited) to purchase the remaining 9.943% equity interest in Chengdu Zhongfa, a subsidiary of the Group, at a consideration of HK$30,000,000.

(b) On 2 February 2012, the Company proposed an open offer based on one offer share for each adjusted share. Subject to the capital reorganisation becoming effective, the Company proposes to raise approximately HK$185 million, before expenses, by issuing 343,318,399 offer shares to the qualifying shareholders by way of the open offer at the subscription price of HK$0.538 per offer share on the basis of one offer share for each adjusted share held on the record date and payable in full on acceptance.

(c) On 1 March 2012, the Company entered into an agreement with Mr. Cheng to extend the repayment period of loans due to Mr. Cheng to 30 April 2013 and remove the clause of repayment on demand.

(d) On 1 March 2012, Hunan Jiuhua, a wholly-owned subsidiary entered into an agreement with the lender to extend the repayment period of the unsecured loan to 15 April 2013.

3. INDEBTEDNESS BORROWINGS AND DEBT SECURITIES

At the close of the business on 31 March 2012, the Group had indebtedness totalling approximately HK$199,210,000 comprising i) a secured bank instalment loan which contains a repayment on demand clause of approximately HK$1,568,000, ii) bank overdraft of approximately HK$679,000, iii) a secured short term loan of HK$75,600,000, iv) a hire purchase commitment of approximately HK$5,178,000, v) an unsecured long term loan from a shareholder of approximately HK$14,640,000, vi) an unsecured long term loan of approximately HK$61,562,000 and vii) liability component of convertible bonds of approximately HK$39,983,000.

As at 31 March 2012, the Group's bank overdraft and bank instalment loan are secured by the leasehold land and buildings of the Group with a carrying value of approximately HK$0.8 million, short term loan of HK$75,600,000 is secured by shares mortgage of a subsidiary of the Group and hire purchase commitment is secured by the motor vehicle of the Group.

Save as disclosed above and apart from the intra-group liabilities and normal trade bills arising in the ordinary course of business, at the close of business on 31 March 2012, the Group did not have any other outstanding indebtedness, loan capital, loans, bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase or finance lease commitments, guarantees or contingent liabilities.

4. WORKING CAPITAL

After taking into account the available internal resources, the banking and other credit facilities available to the Group and the estimated net proceeds from the Open Offer, and in the absence of unforeseen circumstances, the Directors are of opinion that the Group will have sufficient working capital for their present requirements, that is for at least 12 months from the date of this Circular.

5. MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up.

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

The unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of the Group prepared by the directors of the Company in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the proposed Open Offer on the consolidated net tangible assets of the Group as if the Open Offer had taken place on 31 December 2011.

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

The Unaudited Pro Forma Financial Information is prepared based on relevant financial information as extracted from the published audited financial statements of the Company for the year ended 31 December 2011, after incorporating the unaudited pro forma adjustments described in the accompanying notes.

Open Offer of 343,318,399 Offer Shares on the basis of one Offer Share for every one Adjusted Share held on the Record Date

Audited adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2011	Estimated net proceeds from the Open Offer	Unaudited adjusted consolidated net tangible assets of the Group attributable to owners of the Company upon completion of the Open Offer	Audited pro forma adjusted consolidated net tangible assets per Share attributable to owners of the Company as at 31 December 2011	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to owners of the Company immediately upon completion of the Open Offer
(note 1)	*(note 2)*		*(note 3)*	*(note 4)*
HK$'000	*HK$'000*	*HK$'000*	*HK$*	*HK$*
900,585	180,000	1,080,585	2.62	1.57

Notes:

(1) This figure represented the audited consolidated net assets attributable to owners of the Company of approximately HK$1,094,971,000 less intangible assets, being film rights of approximately HK$101,000 and goodwill of approximately HK$194,285,000 as extracted from the published audited financial statements of the Company for the year ended 31 December 2011.

(2) The estimated net proceeds from the Open Offer are based on the gross proceeds from the Open Offer of the 343,318,399 Offer Shares at the Subscription Price of HK$0.538 per Offer Share totalling approximately HK$185 million and after deduction of the estimated related expenses of approximately HK$5 million.

(3) The number of Shares used for the calculation of audited pro forma adjusted consolidated net tangible assets per Share attributable to owners of the Company as at 31 December 2011 prior to the completion of the Open Offer and on the assumption that the share consolidation of 10 shares into 1 share had been completed as at 31 December 2011 is 343,318,399 Shares.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Open Offer is calculated based on the unaudited adjusted consolidated net tangible assets of the Group attributable to owners of the Company upon completion of the Open Offer of approximately HK$1,080,585,000 and on the basis of 686,636,798 Shares issued and issuable, comprising 343,318,399 Adjusted Shares as at 31 December 2011 and 343,318,399 Offer Shares to be issued.

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

The following is the text of a report received from Robert Chui & Co., Certified Public Accountants, for the purpose of inclusion in this Circular.

Robert Chui & Co.

2109 China Resources Building
26 Harbour Road, Wanchai
Hong Kong

30 April 2012

The Board of Directors
China Mandarin Holdings Limited
Room 4101, 41/F, The Lee Gardens,
33 Hysan Avenue, Causeway Bay,
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of China Mandarin Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on page II-1 of Appendix II to the Circular dated 30 April 2012 (the "Circular") in connection with the proposed Open Offer of 343,318,399 Offer Shares at HK$0.538 per Offer Share on the basis of one Offer Share for every one Adjusted Share held (the "Open Offer"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Open Offer might have affected the financial information presented. The basis of preparation of the unaudited pro forma financial information is set out on page II-2 of Appendix II of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

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

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

Basis of opinion

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

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

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2011 or any future date.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

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

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from RHL Appraisal Limited., an independent valuer, in connection with its valuation as at 31 January 2012 of the property interests held by China Mandarin Holdings Ltd., and its subsidiaries.

RHL International
永利行評值顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory
T +852 2730 6212
F +852 2736 9284
Room 1010, Star House,
Tsimshatsui, Hong Kong

30 April 2012

The Board of Directors
China Mandarin Holdings Limited
Room 4101, 41/F,
The Lee Gardens,
33 Hysan Avenue,
Causeway Bay,
Hong Kong

Dear Sirs/Madam,

INSTRUCTIONS

We refer to your instruction for us to value the property interests held by China Mandarin Holdings Limited (the "Company"), and its subsidiaries (the "Group") located in Hong Kong and the People's Republic of China (the "PRC"). We confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 31 January 2012 (the "Valuation Date").

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

BASIS OF VALUATION

Our valuation of each of the property interests is our opinion of its market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

VALUATION METHODOLOGY

We have valued the property interests in Groups I and II, which are held by the Group for owner-occupation and investment in Hong Kong and the PRC, by using the Direct Comparison Approach by making reference to the comparable market transactions as available and where appropriate, on the basis of capitalization of the net income shown on the documents handed to us. We have allowed for outgoings and, in appropriate case, made provisions for reversionary income potential.

In respect of the property interest in Group III, which is held by the Group for future development in the PRC. We have valued such property interest on the basis that it will be developed and completed in accordance with the Group’s latest development proposals provided to us and all relevant consents, approvals and licenses from relevant government authorities have been obtained according to its construction progress. In arriving at our opinion of gross development values, we have adopted the Direct Comparison Approach by making reference to the comparable sales transactions as available in the relevant market and have also taken into account the construction costs that will be expended to complete the development to reflect the quality of the completed development.

VALUATION CONSIDERATIONS

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, Rule 11 of the Hong Kong Code on Takeovers and Mergers issued by Securities and Futures Commission and the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

TITLE INVESTIGATION

We have carried out title search of the property interests in Group I and have been shown copies of various documents relating to the property interests in Groups II and III. We have not examined the original documents to verify the existing titles to the property interests or any amendment which does not appear on the copies handed to us. We have relied considerably on the information given by the Group and the Company's PRC legal adviser, Tian Yuan Law Firm, concerning the validity of the titles to the property interests.

LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot infestation or any other defects. No tests were carried out on any of the services. We have also not carried out investigations on site to determine the suitability of the ground conditions and the services etc., for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and no extraordinary expenses or delay will be incurred during the development period.

We have not carried out detailed on-site measurement to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximate. No on-site measurement has been taken.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material fact has been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

A potential tax liability which would arise as a result of a disposal of the property interests held by the Group mainly includes stamp duty (ranging from HK$100 to 4.25%) for properties in Hong Kong; and business tax (5%), stamp duty (0.05%), land appreciation tax (ranging from 30% to 60%) and corporate income tax (25%) for properties in the PRC. As advised by the Company, the Group has no intention to dispose of such property interests in the foreseeable future. As such, it is unlikely that any tax liability will crystallize. In the course of our valuation, we have not taken into account such taxes.

We have conducted on-site inspections to the properties in March 2012 by Mr. Derek S.K. Wong (BSc).

Currency

We have valued the property located in Hong Kong in Hong Kong Dollar (HK$) and the properties located in the PRC in Renminbi (RMB).

Our summary of values and valuation certificates are herewith attached.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Serena S. W. Lau
FHKIS, AAPI, MRICS, RPS(GP), MBA(HKU)
Managing Director

Ivan S.P. Lui
MHKIS, RPS(GP), AAPI, CPV, MCom, MSc, BSc
Associate Director

Ms. Serena S. W. Lau is a Registered Professional Surveyor (GP) with over 19 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is a Professional Member of The Royal Institution of Chartered Surveyors, an Associate of Australian Property Institute, a Fellow of The Hong Kong Institute of Surveyors as well as a registered real estate appraiser in the PRC.

Mr. Ivan S.P. Lui is a Registered Professional Surveyor (GP) with nearly 10 years' experience gained from various international banks and surveyors firms on property valuation in HKSAR, mainland China and the Asia Pacific Region. Mr. Lui is a Professional Member of The Hong Kong Institution of Surveyors, an Associate Member of Australian Property Institute with the qualification of Certified Practicing Valuer. Mr. Lui is specialized in Plant & Machinery, Mortgage Valuation, Premium Assessment and etc. Furthermore, he also focuses on asset portfolio management covering financial budgeting/planning, coordination, controlling and operation before joining RHL.

SUMMARY OF VALUES

Group I – Property interest held by the Group for occupation in Hong Kong

		Market Value in existing state as at 31 January 2012 *HK$*
1.	Workshop 4 on 2nd floor, Shiu Fat Industrial Building, Nos.139 & 141 Wai Yip Street, Kowloon, Hong Kong 111/4800th shares of and in Kwun Tong Inland Lot Nos. 420 & 421	7,200,000
	Total:	7,200,000

Group II – Property interest held by the Group for investment in the PRC

		Market Value in existing state as at 31 January 2012 *RMB*
2.	Mingzu Plaza, No. 19 Yongling Road, Jinnu District, Chengdu, Sichuan Province, the PRC	286,000,000
	Sub-total:	286,000,000

Group III – Property interest held by the Group for future development in the PRC

		Market Value in existing state as at 31 January 2012 *RMB*
3.	A parcel of land located at the Northern side of Huanghe Road and the Western side of Binjiang Road, Jiuhua Demonstrative Zone, Xiangtan City, Hunan Province, the PRC	701,000,000
	Sub-total:	701,000,000
	Total:	987,000,000

VALUATION CERTIFICATE

Group I – Property interest held by the Group for occupation in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2012 *HK$*
1. Workshop 4 on 2nd floor, Shiu Fat Industrial Building, Nos.139 & 141 Wai Yip Street, Kowloon, Hong Kong 111/4800th shares of and in Kwun Tong Inland Lot Nos.420 & 421	The property comprises a workshop unit on 2nd floor of a 14-storey industrial building completed in 1988. The property has a gross floor area of approximately 292.46 sq.m. (3,148 sq.ft.) and a saleable area of 232.59 sq.m. (2,579 sq.ft.). The property is held under conditions of sale No. 7941 and government lease for terms of 21 years renewable for 14 years commencing on 1 July 1962. We have assumed in our valuation that such leases are extended without premium until 30 June 2047 and that a rent of three percent of the ratable value of the property is charged from the date of extension.	As at the Valuation Date, the property is occupied by the Group for office use.	7,200,000

Notes:

1. The registered owner of the property is Walsbo Limited, a wholly-owned subsidiary of the Company, vide memorial no. UB8263770 dated 30 November 2000.

2. Deed of Mutual Covenant vide memorial no. UB362748 dated 5 February 1988.

3. The property is subject to a mortgage in favor of Industrial and Commercial Bank of China (Asia) Limited for part of all moneys vide memorial no. 09092402320017 dated 17 September 2009.

4. The property is zoned as "Other Specified Uses" under the Kwun Tong (South) Outline Zoning Plan No. S/K14s/16 as at the Valuation Date.

VALUATION CERTIFICATE

Group II – Property interest held by the Group for investment in the PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2012 *RMB*
2. Mingzu Plaza, No 19 Yongling Road, Jinnu District, Chengdu, Sichuan Province, the PRC	The property comprises a 5-storey commercial development (with a basement carpark level) erected over a parcel of land with a site area of approximately 9,426.70 sq.m. (101,469 sq.ft.) completed in about 1999. The property has a total gross floor area of approximately 30,741.82 sq.m. (330,905 sq.ft.). The land use rights of the property were granted for a term expiring on 28 September 2027 for commercial use.	As at the Valuation Date, portions of the property with a total gross floor area of approximately 30,207.14 sq.m. (325,150 sq.ft.) are subject to various tenancy agreements for terms with the latest one expiring on 31 December 2020 at a total monthly rental of RMB1,220,770.28 whilst the remaining portion of the property are occupied by the owner. As advised, one of the tenancy agreements for portion of the company with a gross floor area of approximately 25,505.14 sq.m. (274,537 sq.ft.) was terminated in February 2012	286,000,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Cheng Guo Yong (2004) Di No.927 (成國用(2004)第927號), the land use rights of the property with a site area of approximately 9,426.70 sq.m. were granted to Chengdu Zhongfa Huanghe Enterprise Limited (成都中發黃河實業有限公司), a wholly-owned subsidiary of the Company, for a term expiring on 28 September 2027 for commercial use.

2. Pursuant to a Building Ownership Certificate – Rong Fang Quan Zheng Cheng Fang Jian Zheng Zi Di No.0659621, the building ownerships of the property with a total gross floor area of approximately 30,741.82 sq.m. are vested in Chengdu Zhongfa Huanghe Enterprise Limited for commercial use.

3. We have been provided with a legal opinion on the legality regarding to the property interest issued by the Group's PRC legal adviser, Tian Yuan Law Firm, which contains, inter alia, the following:

   (i) the building ownership of the property is legally held by the Group;
   (ii) the Group is entitled to freely transfer, lease, mortgage or dispose of the property; and
   (iii) the property is free from any mortgage and third parties' encumbrance

VALUATION CERTIFICATE

Group III – Property interest held by the Group for future development in the PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2012 *RMB*
3. A parcel of land located at the Northern side of Huanghe Road and the Western side of Binjiang Road, Jiuhua Demonstrative Zone, Xiangtan City, Hunan Province, the PRC	The property comprises a parcel of land with a site area of approximately 290,338.00 sq.m. (3,125,198 sq.ft.) and has a total permitted gross floor area of approximately 435,507.00 sq.m. (4,687,797 sq.ft.). The land use rights of the property were granted for terms expiring on 10 June 2050 for commercial uses and expiring on 10 June 2080 for residential uses.	As at the Valuation Date, the property is vacant and pending for future development.	701,000,000

Notes:

1. Pursuant to a State-owned Construction Land Use Rights Grant Contract entered into between Xiangtan Stat-owned Land Resource Bureau (the "Grantor") and Hunan Jiuhua International City Development Construction Company Limited ("Jiuhua International") (湖南九華國際新城開發建設有限公司), a wholly-owned subsidiary of the Company, dated 25 March 2010, the land use rights of the property with a site area of approximately 290,338.00 sq.m. (35,651,000 sq.m. of which is designated for public roads) have been granted to Jiuhua International at a land grant premium of RMB 112,466,210 for terms expiring on 10 June 2050 and 10 June 2080 for commercial and residential uses respectively.

2. Pursuant to a State-owned Land Use Rights Certificate – Tan Jiu Guo Yong (2010) Di No.A01017 (潭九國用(2010)第A01017號), the land use rights of the property with a site area of approximately 290,388.00 sq.m. were granted to Jiuhua International for terms expiring on 10 June 2050 and 10 June 2080 for commercial and residential uses respectively.

3. Pursuant to a Construction Land Planning Permit — Di Zi Di Jiu Hua No. 2011014217 (地字第九華2011014217號), planned construction works of the property with a total site area of approximately 325,989.00 sq.m. are permitted.

4. Pursuant to 4 Construction Works Planning Permits — Jian Zi Di Jiu Hua Nos. 2011007193 – 2011007196, (建字第九華2011007193 – 2011007196號), the construction works of the property with a total planned gross floor area of approximately 255,250.39 sq.m. are in compliance with the requirements of urban construction and are approved to be built.

5. Pursuant to 4 Construction Works Commence Permits Nos. 430304201202201101, 430304201202201201, 430304201202201301 and 430304201202201401, the construction works of the property are permitted to commence construction.

6. We have been provided with a legal opinion on the legality regarding to the property interest issued by the Group's PRC legal adviser, Tian Yuan Law Firm, which contains, inter alia, the following:

   (i) the land use rights of the property is legally held by the Group;
   (ii) the Group is entitled to freely transfer, lease, mortgage or dispose of the property;
   (iii) the Group has obtained all the necessary permits/approvals for the construction works of the property according to its construction progress; and
   (iv) the property is free from any mortgage and third parties' encumbrance

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information to the Shareholders with regard to the Group, the Capital Reorganisation the Open Offer and the Whitewash Waiver.

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date and following completion of the Capital Reorganisation and the Open Offer are as follows:

As at the Latest Practicable Date

Authorised:		*HK$*
10,000,000,000	Shares as at the Latest Practicable Date	1,000,000,000.00
Issued and fully paid:		
3,433,183,998	Shares as at 31 December 2011	343,318,399.80
3,433,183,998	Shares as at the Latest Practicable Date	343,318,399.80

Upon completion of the Capital Reorganisation and the Open Offer

Authorised:		
100,000,000,000	Adjusted Shares	1,000,000,000.00
Issued and fully paid:		
343,318,399	Adjusted Shares	3,433,183.99
343,318,399	Offer Shares	3,433,184.99
686,636,798		6,866,369.98

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

As at the Latest Practicable Date, the Convertible Bond is held by Mr. Lu Dewei who is an Independent Third Party and is independent of the Underwriter. The Convertible Bond has an outstanding principal amount of HK$52,000,000, which is convertible into 150,724,637 Shares at the existing conversion price of HK$0.345 per Share. The holder of the Convertible Bond has undertaken to the Company that the Convertible Bond will not be converted into Shares prior to the completion of the Open Offer. As at the Latest Practicable Date, save for the Convertible Bond, the Company has no outstanding convertible securities, options or warrants in issue which would otherwise confer any right to subscribe for, convert or exchange into Shares.

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

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors

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

(b) Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group:

Name of Shareholders	Nature of Interest	Number of Shares interested or deemed to be interested (long position)	Approximate percentage of the issued share capital of the Company
The Underwriter	Beneficial owner	1,233,436,690	35.93%
Mr. Lo Chan Kau	Beneficial owner	79,641,463	23.19%

4. ARRANGEMENTS IN CONNECTION WITH THE OPEN OFFER AND THE WHITEWASH WAIVER

As at the Latest Practicable Date, save as disclosed in this circular,

(a) there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Open Offer and the Whitewash Waiver or otherwise connected with the Open Offer and the Whitewash Waiver;

(b) there was no agreement, arrangement or understanding (including any compensation arrangement) existing between the Underwriter or any person acting in concert with him and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Open Offer and the Whitewash Waiver;

(c) no persons who owned or controlled any shareholding in the Company had irrevocably committed themselves to accept or reject the Open Offer and the Whitewash Waiver prior to the posting of this circular;

(d) no benefit would be given to any Directors as compensation for loss of office or otherwise in connection with the Open Offer and Whitewash Waiver;

(e) there was no agreement, arrangement or understanding in relation to the transfer, charge or pledge to any person of any Shares subscribed in pursuance of the Open Offer;

(f) there was no arrangement to which the Underwriter was a party (whether by way of option, indemnity or otherwise) in relation to the Shares and which might be material to the Open Offer;

(g) no persons had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Underwriter or any person acting in concert with him;

(h) no material contract was entered into by the Underwriter and/or parties acting in concert with him in which any Director had a material personal interest;

(i) save that the Underwriter owned or controlled 1,233,436,690 Existing Shares in the Company, representing approximately 35.93% of the existing issued share capital of the Company, none of the Underwriter and parties acting in concert with him owned or controlled any other Existing Shares, conversable securities, warrants, options or derivatives of the Existing Shares;

(j) the Underwriter is an individual, and therefore there was no director of the Underwriter who had any shareholding in the Underwriter or the Company;

(k) the Underwriter did not borrow or lend any Shares, convertible securities, warrants, options or derivatives in respect of the Shares;

(l) the Underwriter has no interest in derivatives in respect of shares option or warrant of the Company;

(m) no party whose shareholdings, being (i) the shareholdings of the Underwriter in the Company; (ii) the shareholdings in the Company which any persons acting in concert with the Underwriter own or control; or (iii) the shareholdings in the Company owned or controlled by any persons who, prior to the posting of the Prospectus, have irrevocably committed themselves to accept or reject the Open Offer, were required by paragraph 4 of Schedule 1 to the Takeovers Code to be disclosed, including a party who had no shareholdings, had dealt for value in the Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the period beginning 6 months prior to the date of the Announcement and ending with the Latest Practicable Date prior to the posting of this circular;

(n) the Underwriter is an individual, and therefore neither the Company nor any Director had any shareholding in the Underwriter;

(o) there were no shareholdings in the Company owned or controlled by a subsidiary of the Company, by a pension fund of the Company or of a subsidiary of the Company, or by an adviser to the Company as specified in class (2) of the definition of 'associate' under the Takeovers Code;

(p) there were no shareholdings in the Company owned or controlled by a person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who was an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of 'associate' under the Takeovers Code;

(q) there were no shareholdings in the Company which were managed on a discretionary basis by fund managers connected with the Company;

(r) no Director held any Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(s) there were no shareholdings in the Company which the Company or any Director had borrowed or lent;

(t) no persons whose shareholdings, being (i) the shareholdings of the Underwriter in the Company or (ii) the shareholdings in the Company in which the Directors are interested, were required by categories (i) or (ii) of paragraph 2 of Schedule II to the Takeovers Code to be disclosed (whether there was an existing holding or not) had dealt for value in the Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the period beginning 6 months prior to the date of the Announcement and ending with the Latest Practicable Date prior to the posting of this circular;

(u) no persons whose shareholdings, being (i) the shareholdings in the Company by a pension fund of the Company or of a subsidiary of the Company, or by an adviser to the Company as specified in class (2) of the definition of associate but excluding exempt principal traders; (ii) the shareholdings in the Company owned or controlled by a person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate; or (iii) the shareholdings in the Company which are managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company, were required by categories (iii), (iv) or (v) of paragraph 2 of Schedule II to the Takeovers Code to be disclosed (whether there was an existing holding or not) had dealt for value in the Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the period beginning from the date of the Announcement and ending with the Latest Practicable Date prior to the posting of this circular;

(v) no Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company had been issued since the end of the last financial year of the Company; and

(w) save as the Convertible Bond, there were no outstanding options, warrants and conversion rights affecting the Shares.

5. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Announcement, the following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) have been entered into by the Group and are or may be material:

a. the Underwriting Agreement;

b. the joint venture agreement dated 21 June 2010 and entered into between Filmko International Limited, an Independent Third Party, and Grimston Limited, a wholly-owned subsidiary of the Company, in connection with the formation of the joint venture Company, Talent Films Limited, to be engaged in The Monkey King's development, production and promotion and to deal with matters concerning copyrights and distribution of the film;

c. the sale and purchase agreement dated 16 November 2010 entered into between Brilliant Field Corporation Limited, an indirect wholly-owned subsidiary of the Company, as purchaser and Ya Tai (China) Investment Limited in relation to the acquisition of the entire registered and paid-up capital of 湖南九華國際新城開發建設有限公司 (Hunan Jiuhua International City Development Construction Company Limited) at a consideration of HK$700,000,000;

d. the provisional sale and purchase agreement for sale dated 11 January 2011 entered into between Mandarin Laboratory (International) Limited, an indirect wholly-owned subsidiary of the Company, as vendor and Hayson Development Limited as purchaser in relation to the sale of the entire 3rd Floor and the roof floor (inclusive of the fresh water tank on the roof) of an industrial building known as Cheung Fai Industrial Building, Nos. 131– 133 Wai Yip Street, Kowloon, Hong Kong at a consideration of HK$44,092,780; and

e. the sale and purchase agreement dated 11 January 2012 entered into between Dongguan Yi Feng Enterprise Limited (東莞市易豐實業發展有限公司) as vendor and Profit Source International Limited, an indirect wholly-owned subsidiary of the Company, as purchaser in relation to the purchase of approximately 9.943% equity interest in 成都中發黃河實業有限公司 (Chengdu Zhongfa Real Estate Development Co. Ltd.) at a consideration of HK$30,000,000.

The English translation of the Chinese company names is for identification purpose only

6. LITIGATION

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

7. DIRECTORS' SERVICE CONTRACTS

Mr. Jin Lei, an executive Director and chairman of the Board, entered into a service contract with the Company on 8 March 2011 for an initial term of one year commencing from 8 March 2011 and the term shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice. As at the Latest Practicable Date, he was entitled to a monthly remuneration of RMB35,500.

Ms. Law Kee, Alice, an executive Director and chief executive officer of the Company, entered into a service contract with the Company on 16 October 2007 with a monthly remuneration of HK$26,000 and for an initial term of one-year commencing from 16 October 2007 and the term shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice. As at the Latest Practicable Date, Ms. Law was entitled to a monthly remuneration of HK$64,000 with a fixed year-end bonus of HK$64,000 pursuant to the service contract, performance-based discretionary bonus and a provident fund of 7.5% of her monthly remuneration for the benefit of her mandatory provident fund account.

Mr. Hui Wai Lee, Willy, an executive Director, entered into a service contract with the Company on 6 April 2009 with a monthly remuneration of HK$13,000 and for an initial term of one-year commencing from 6 April 2009 and the term shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice. As at the Latest Practicable

Date, Mr. Hui was entitled to a monthly remuneration of HK$13,000 with a fixed year-end bonus of HK$13,000 pursuant to the service contract, performance-based discretionary bonus and a provident fund of 7.5% of his monthly remuneration for the benefit of his mandatory provident fund account.

Mr. Tsui Pui Hung, an independent non-executive Director, signed an appointment letter with the Company on 7 September 2009 for an initial term of one-year commencing from 10 September 2009 and continue thereafter until terminated by either party in writing. Mr. Tsui is subject to the retirement by rotation and re-election at general meetings in accordance with the Bye-laws. Pursuant to his letter of appointment, Mr. Tsui's remuneration is fixed at HK$10,000 per month, which commensurate with his duties and responsibilities as the independent non-executive Director and the prevailing market situation.

Mr. Tang Ping Sum, an independent non-executive Director, signed a letter of appointment with the Company on 1 November 2010 between the Company and Mr. Tang for an initial term of one year commencing from 1 November 2010 to 31 October 2011 (both dates inclusive) and renewable automatically for successive term of one year. Either Mr. Tang or the Company may terminate such appointment by giving at least one month's notice in writing to the other. Mr. Tang shall be subject to retirement by rotation and re-election in accordance with the bye-laws of the Company. He is entitled to director's emoluments of HK$8,000 per month which is determined by the Board with reference to his duties and responsibilities in the Company.

Mr. Chu To, Jonathan, an independent non-executive Director, signed an appointment letter with the Company on 1 March 2011 between the Company and Mr. Chu for an initial term of one year commencing from 1 March 2011 to 29 February 2012 (both dates inclusive) and renewable automatically for successive term of one year. Either Mr. Chu or the Company may terminate such appointment by giving at least one month's notice in writing to the other. Mr. Chu shall be subject to retirement by rotation and re-election in accordance with the bye-laws of the Company. He is entitled to director's emoluments of HK$8,000 per month which is determined by the Board with reference to his duties and responsibilities with the Company.

Save as disclosed above, none of the Directors has service contract with the Company or any of its subsidiaries or associated companies (i) which (including both continuous and fixed term contract) have been entered into or amended within 6 months before the date of the Announcement; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

As at the Latest Practicable Date, none of the Directors had been or would be given any benefit as compensation for loss of office or otherwise in connection with the Open Offer.

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

(a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2011, the date to which the latest published audited financial statements of the Group were made up.

(b) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group and which was significant in relation to the business of the Group.

9. COMPETING INTERESTS

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

10. EXPERTS AND CONSENTS

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

Name	Qualification
Grand Vinco Capital Limited	a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Veda Capital Limited	a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO
Robert Chui & Co.	Certified Public Accountants, Practising
RHL Appraisal Limited	Professional valuer
Tian Yuan Law Firm	PRC legal adviser

1. None of Grand Vinco Capital Limited, Veda Capital Limited, Robert Chui & Co., RHL Appraisal Limited and Tian Yuan Law Firm has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

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

3. None of Grand Vinco Capital Limited, Veda Capital Limited, Robert Chui & Co., RHL Appraisal Limited and Tian Yuan Law Firm had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited consolidated financial statements of the Group were made up.

11. EXPENSES

The expenses in connection with the Open Offer including financial, legal and other professional advisory fees, printing, translation and registration expenses are estimated to be approximately HK$2.4 million (which is exclusive of the underwriting commission of approximately HK$2.4 million payable by the Company to the Underwriter).

12. MARKET PRICES

The table below shows the closing prices of the Existing Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the eight months immediately preceding the date of the Announcement; (ii) the Last Trading Day; and (iii) the Latest Practicable Date.

Date	**Closing price of the Existing Shares** *(HK$)*
31 August 2011	0.210
30 September 2011	0.125
31 October 2011	0.162
30 November 2011	0.169
30 December 2011	0.123
31 January 2012	0.127
14 February 2012 (the Last Trading Day)	0.129
15 February 2012	Suspended
29 February 2012	0.091
30 March 2012	0.074
27 April 2012 (the Latest Practicable Date)	0.075

The highest and lowest prices at which the Shares have traded on the Stock Exchange in each of the previous twelve calendar months immediately prior to the Latest Practicable Date were as follows:

	Highest	**Lowest**
	HK$	*HK$*
2011		
April	0.485	0.380
May	0.390	0.345
June	0.345	0.280
July	0.300	0.260
August	0.270	0.210
September	0.210	0.122
October	0.162	0.102
November	0.170	0.150
December	0.168	0.123
2012		
January	0.129	0.113
February	0.139	0.088
March	0.090	0.074
April (up to the Latest Practicable Date)	0.079	0.066

The highest and lowest closing prices of the Existing Shares as quoted on the Stock Exchange during the period commencing from 22 August 2011, being the date of six months preceding the date of the Announcement, and ending on the Latest Practicable Date were HK$0.485 as quoted on 4 April 2011 and HK$0.066 as quoted on 19 April 2012 respectively.

13. PARTIES INVOLVED IN THE OPEN OFFER AND CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business in Hong Kong	Room 4101, 41/F The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong
Company secretary	Chan Chun Fat, who is a practicing solicitor in in Hong Kong

Authorised representatives	Hui Wai Lee, Willy Room 4101, 41/F The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong Law Kee, Alice Room 4101, 41/F The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong
Principal share registrar and transfer office	Butterfield Corporate Services Limited Rosebank Centre Bermudiana Road Pembroke Bermuda
Hong Kong branch share registrar and transfer office	Tricor Standard Limited 26/F Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal bankers	ICBC (Asia) Limited Corporate Banking Department II, 34/F., ICBC Tower, 3 Garden Road, Central, Hong Kong Bank of China (Hong Kong) Limited Unit 702-706 The Gateway Tower 3 (Prudential Tower) 21 Canton Road, Tsim Sha Tsui Kowloon, Hong Kong The Hongkong and Shanghai Banking Corporation Limited G/F, Sun & Moon Building 45 Sing Woo Road Happy Valley Hong Kong

	Chong Hing Bank Limited 591, Nathan Road Mongkok Hong Kong
Underwriter	Mr. Cheng Keung Fai
Financial adviser	Grand Vinco Capital Limited Unit 4909-4910 49th Floor The Center 99 Queen's Road Central Hong Kong
Independent financial adviser	Veda Capital Limited Suite 3214, 32/F. Cosco Tower 183 Queen's Road Central Hong Kong
Legal advisers	*as to Hong Kong Laws* Fairbairn Catley Low & Kong Solicitors 23/F Shui On Centre, 6-8 Harbour Road Hong Kong *as to Bermuda Laws* Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
Auditors	PricewaterhouseCoopers 22/F, Prince's Building Central Hong Kong
Reporting accountants	Robert Chui & Co. Certified Public Accountants 2109 China Resources Building 26 Harbour Road Wanchai Hong Kong

14. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT

(a) Address of the Directors and senior management

Mr. Jin Lei (executive Director and Chairman)	R408, Unit 4, B18 Liuzhuang (Garden), No. 31 Gongxiao Road, Shizhong District, Jining City, Shandong Province, China, 411202
Ms. Law Kee, Alice (executive Director and Chief Executive Officer)	Room 4101, 41/F, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong
Mr. Hui Wai Lee, Willy (executive Director)	103, 1/F., Prince's Building, 10 Chater Road, Central, Hong Kong
Mr. Chu To, Jonathan (independent non-executive Director)	Suite 1705, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Mr. Tang Ping Sum (independent non-executive Director)	Unit 802, 8/F, Lippo Centre Tower 2, 89 Queensway Road, Admiralty, Hong Kong
Mr. Tsui Pui Hung (independent non-executive Director)	908, 9/F, Far East Consortium Bldg, 121 Des Voeux Rd Central, Hong Kong
Ms. Lai Pik Chi, Peggy (financial controller)	Room 4101, 41/F, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong

(b) Biographies of Directors and senior management

Executive Directors

Mr. JIN Lei, aged 40, is the executive Director and chairman of the Company. Mr. Jin has over 17 years solid experience in construction work, property development and operation management. Mr. Jin was a civil engineer of 山東淄川建築設計院 (Architectural Design Institute of Shandong Zichuan) from 1993 to 1995. From 1995 to 2001, Mr. Jin was the主任工程師 (engineer supervisor) of 山東黃淮糧油機械集團 (濟寧機械設計院土木建築室) (Shandong Huanghuai Cereals & Oils Machinery Group Company (Civil Construction House of Jining Machinery Design Institute)). In 2002, Mr. Jin was awarded by the municipal government of Jining City, Shandong Province, the PRC as one of the 百名經濟管理人才(Top 100 Managerial Talents in Economics). Mr. Jin holds a bachelor degree from 華東交通大學建築工程系(Department of Architectural Engineering, East China Jiaotong University), major in工業與民用建築 (Industrial and Residential Architecture). Mr. Jin was also awarded a master degree of business administration by 中國人民大學(Renmin University of China) in 2005.

Ms. LAW Kee, Alice, aged 45, is an executive Director and the chief executive officer of the Company. Ms. Law joined the Group in September 2007 and was appointed as an executive Director in October 2007. Ms. Law holds a Bachelor Degree in Business Administration from University of Management and Technology, USA. She has extensive experience in business development, operation and marketing management. She is a member of The Hong Kong Institute of Directors and a member of The Hong Kong Real Estate Association.

Mr. HUI Wai Lee, Willy, aged 51, is currently a director of Supreme Jewellery Company. Mr. Hui joined the Group as executive Director in April 2009. He has extensive experience in designing and manufacturing of European-style jewelry.

Independent non-Executive Directors

Mr. TSUI Pui Hung, aged 37, is a practicing solicitor of the High Court of Hong Kong and an independent non-executive director of Unlimited Creativity Holdings Limited (Stock Code: 8079). 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. TANG Ping Sum, aged 55, obtained a bachelor degree of commerce from University of Western Australia in December 1981 and a master degree of applied finance from Macquarie University, Australia in April 1992. He is a certified practicing accountant of Australia and was a fellow member of the Hong Kong Institute of Certified Public Accountants until 2007. Mr. Tang has over 11 years' experiences in the securities industry in Hong Kong.

Mr. Tang joined Hantec Investment Holdings Limited (stock code: 111, now known as Cinda International Holdings Limited), a company listed on the Stock Exchange, in January 1998. He was appointed as its executive director in May 2000 until October 2006. He was then the head of China division of Taifook Securities Group from January 2007 to September 2008, responsible for developing its securities businesses in China. Mr. Tang is currently the responsible officer and executive director of Grand Partners Asset Management Limited ("**Grand Partners**") and is mainly responsible for monitoring the risk control of Grand Partners.

From March 2003 to December 2006, Mr. Tang was an independent non-executive director of Cosmopolitan International Holdings Limited (stock code: 120), a company listed on the Stock Exchange. He was an independent non-executive director of Sino Resources Group Limited (stock code: 223), a company listed on the Stock Exchange, from 30 April 2009 to 31 December 2010; and a non-executive director of Univision Engineering Limited (AIM code: UVEL), a company listed on the Alternative Investment Market of the London Stock Exchange, from December 2005 to December 2011. He is currently an independent non-executive director of China Investment Development Limited (stock code: 204), a company listed on the Stock Exchange, since 6 April 2011. Save for being a Director and as disclosed, he did not hold any directorship in the last three years in any public companies the securities of which are listed on any securities market in Hong Kong or overseas nor within the Group.

Mr. CHU To, Jonathan, aged 47, obtained a bachelor degree of science from University of Toronto, Canada in 1986. He has over 23 years of experience in the finance sector and has extensive experience particularly in private equity (including pre-IPO investments) and fund management. Mr. Chu was the deputy managing director and responsible officer of China Everbright Securities (HK) Limited and China Everbright Forex and Futures (HK) Limited from May 2003 to October 2011. Mr. Chu is currently the responsible officer of Sun Securities Limited and he is mainly responsible for monitoring daily operations. In addition, Mr. Chu is currently the chairman and chief executive officer of Metallix Resources Limited, the company principally engages in mining and processing of lead, zinc and copper ores.

Senior management

Ms. LAI Pik Chi, Peggy, aged 47, is the financial controller of the Group. Ms. Lai has over 20 years' experience in auditing, accounting, financial management and corporate finance spanning a diverse range of business from media, entertainment, 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.

15. MISCELLANEOUS

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

(b) The Underwriter is Mr. Cheng Keung Fai, whose address is Duplex A & B, 37/F, Tower 2, Sky Horizon, 35 Cloud View Road, North Point, Hong Kong;

(c) The Underwriter confirms that there is no agreement, arrangement or understanding with any other person regarding any charge or pledge or transfer of voting rights in relation to the Offer Shares to be acquired by him in pursuance of the Open Offer;

(d) The Underwriter considers and confirms that:

(i) the Group will continue with its existing business following the completion of the Open Offer;

(ii) the Open Offer is in the interests of the Group in the long run as the Group requires funding for the continuation and expansion of its existing business;

(iii) he has no intention to introduce any major changes to the existing business of the Group, including the continued employment of the Group's employees and has no intention to re-deploy the fixed assets of the Group other than in its ordinary course of business;

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

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company at Room 4101, 41/F., The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong, during the period from the date of this circular up to and including the date of the SGM:

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

(b) the consolidated audited annual reports of the Group for the two years ended 31 December 2010 and 2011;

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

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

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

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

(g) the service contracts referred to in the paragraph headed "Directors' Service Contracts" in this Appendix IV to this circular; and

(h) a copy of each of the material contracts referred to in the paragraph headed "Material contracts" in this Appendix IV to this circular.

Copies of the above documents in electronic form will be displayed on (i) the Company's website (www.hmdatalink.com/ChinaMandarin); and (ii) the SFC's website (www.sfc.hk) and available for inspection from the date of this circular until the date of the SGM.

CHINA MANDARIN HOLDINGS LIMITED
中國東方實業集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 00009)

NOTICE IS HEREBY GIVEN THAT a special general meeting (the "**SGM**") of China Mandarin Holdings Limited (the "**Company**") will be held at Room 4101, 41/F., The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong at 10:30 a.m. on Wednesday, 23 May 2012 for the following purpose of considering and, if thought fit, passing with or without amendments, the following special and ordinary resolutions:

SPECIAL RESOLUTION

1. "**THAT**, conditional upon (a) the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting the listing of, and the permission to deal in, the Adjusted Shares (as defined below) in issue; (b) the compliance with the relevant legal procedures and requirements under the Companies Act 1981 of Bermuda to effect the Capital Reorganisation (as defined below); and (c) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation (as defined below):

    (i) every 10 ordinary shares of the Company of HK$0.10 each ("**Existing Share**") be consolidated into 1 consolidated share ("**Consolidated Share**") of HK$1.00 each (the "**Share Consolidation**");

    (ii) immediately following the Share Consolidation, (a) all fractional entitlements remaining following aggregation of fractional entitlements following the Share Consolidation be cancelled; (b) the paid-up capital of each Consolidated Share of the Company be reduced from HK$1.00 to HK$0.01 each by cancelling capital paid-up capital to the extent of HK$0.99 on each Consolidated Share by way of a reduction of capital (the "**Capital Reduction**") so that each issued Consolidated Share of HK$1.00 each in the capital of the Company shall be treated as one fully paid-up share ("**Adjusted Share**") of HK$0.01 each in the share capital of the Company on each such share shall be treated as satisfied and that the amount of issued capital thereby cancelled be made available for issue of new shares of the Company;

    (iii) the credit arising from the Capital Reduction will be credited to the contributed surplus account of the Company, where such credit arising from the Capital Reduction may be utilised in any manner permitted by the laws of Bermuda, the Bye-laws and all applicable law;

* *For identification purpose only*

(iv) immediately following the Capital Reduction, each authorised but unissued Consolidated Share of HK$1.00 each be sub-divided into 100 Adjusted Shares of HK$0.01 each (the "**Share Subdivision**");

(v) all of the Adjusted Shares resulting from the Share Consolidation, Capital Reduction and Share Subdivision shall rank *pari passu* in all respects and have the rights and privileges and be subject to the restrictions contained in the Company's articles of association; and

(vi) the directors of the Company be and are hereby authorised generally to do all things they may consider appropriate and desirable to effect and implement the Share Consolidation, Capital Reduction, Share Subdivision and application of credit arising from the Capital Reduction (together, the "**Capital Reorganisation**")."

ORDINARY RESOLUTIONS

2. "**THAT**, subject to the passing of the resolutions numbered 1 and 3 and conditional upon fulfillment of the conditions of the Underwriting Agreement (as defined below):

(i) the allotment and issue by way of open offer (the "**Open Offer**") of 343,318,399 Adjusted Shares of HK$0.01 each in the share capital of the Company (the "**Offer Shares**") to the shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company on the date by reference to which entitlement under the Open Offer will be determined (excluding those Shareholders (the "**Excluded Shareholders**") with registered addresses outside Hong Kong whom the Directors consider it necessary or expedient to exclude after making the relevant enquiries regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in the place where those overseas Shareholders reside) on the basis of one (1) Offer Share for every Adjusted Share then held at the subscription price of HK$0.538 per Offer Share and otherwise pursuant to and subject to the terms and conditions set out in the underwriting agreement dated 14 February 2012 (the "**Underwriting Agreement**") entered into between the Company and Mr. Cheng Keung Fai (the "**Underwriter**") be and is hereby approved;

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

(iii) the absence of arrangements for application for the Offer Shares by the Shareholders in excess of their entitlements under the Open Offer be and is hereby approved, confirmed and ratified; and

(iv) any Director be and is hereby authorised to sign and execute such documents and do all such acts and things incidental to the Open Offer or as he/she considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder."

3. "**THAT** subject to the passing of the resolution numbered 2, the waiver (the "**Whitewash Waiver**") from the Executive Director (including his delegates) of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong pursuant to Note 1 on dispensation from Rule 26.1 of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**") in respect of the Underwriter's obligation to make a mandatory general offer under Rule 26.1 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Underwriter and parties acting in concert with him as a result of the transaction contemplated under the Underwriting Agreement be and is hereby approved and that any Director be and is hereby authorised to do all things and acts and sign all documents which he/she considers desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Whitewash Waiver."

By order of the Board
Jin Lei
Chairman

Hong Kong, 30 April 2012

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal place of business in Hong Kong:
Room 4101, 41/F
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

Notes:

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

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

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

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

5. All the resolutions are to be voted by way of poll.

As at the date of this hereof, the Board comprises six Directors. The executive Directors are Mr. Jin Lei (Chairman), Ms. Law Kee, Alice (Chief Executive Officer) and Mr. Hui Wai Lee, Willy; and the independent non-executive Directors are Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chu To, Jonathan.