中 國 東 方 實 業 集 團 有 限 公 司

CHINA MANDARIN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 00009

ANNUAL REPORT 2009

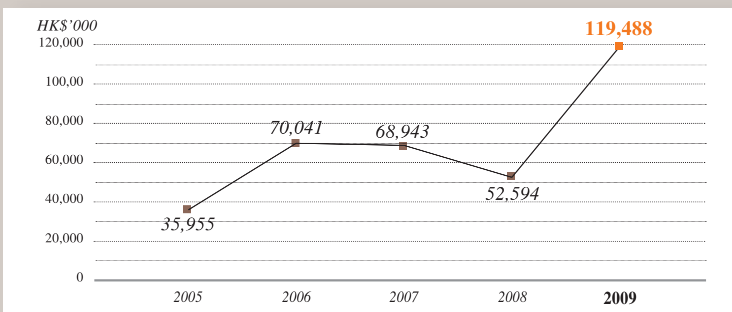
CONTENTS

FINANCIAL HIGHLIGHTS

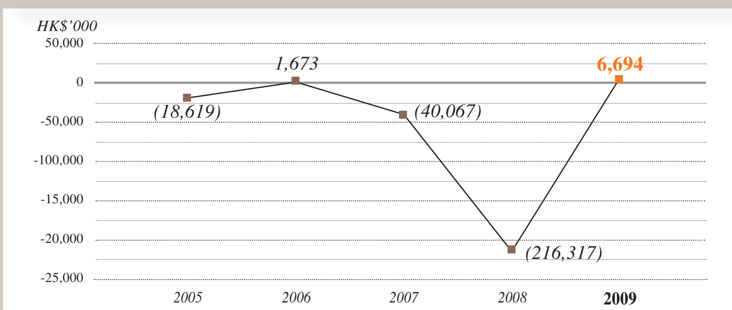
Highlights of year 2009

- **Total turnover grew** by 91% to **HK$121 million**
- **Profits attributable to owners of the Company of HK$6.7 million** compare with loss of HK$216.3 in last year
- **Cash balance of HK$32.9 million**
- **Bank and other borrowings of HK$2 million**
- **Total assets exceed HK$391 million**

Revenue from continuing operations



Profit attributable to Owners the Company



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:
Ms. Lai Pik Chi, Peggy *(Chairman)*
Ms. Law Kee, Alice *(Chief Executive Officer)*
Mr. Hui Wai Lee, Willy

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

COMPANY SECRETARY

Mr. Chan Chun Fat

SOLICITORS

Winnie Mak, Chan & Yeung
Solicitors
8th Floor, Two Chinachem Plaza,
68 Connaught Road Central
Hong Kong

AUDITORS

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

PRINCIPAL BANKERS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Cheung Fai Industrial Building
131 Wai Yip Street
Kwun Tong, Kowloon
Hong Kong

CHAIRMAN'S STATEMENT

Dear Shareholders,

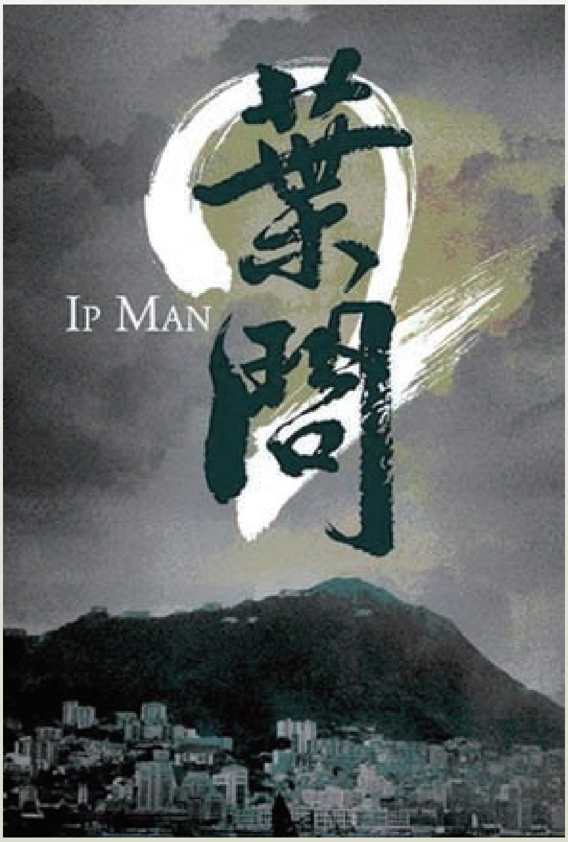
2009 has been a rewarding year for China Mandarin Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), with performance from our core businesses reflecting promising growth potential as a result of practical measures taken during the year.

On behalf of the Board of Directors, I am pleased to announce that the Group has recorded an encouraging 91% growth in turnover for the year under review. This fully demonstrates success of our business initiative taken to diversify business concentration to cover both film-related businesses and property investment in the PRC since 2008.

Film Businesses

Reflecting major improvement of our film businesses, our Group had gained HK$7,280,000 during the year ended 31 December 2009, against a loss of HK$228,682,000 for the corresponding period in 2008. While expanding our share in the film market, we have carefully chosen to concentrate on films that reflect unique and valuable Chinese culture as a main focus.

The overwhelmingly positive feedback from the award-winning film "Ip Man" proved the success of our strategy and also the existence of a tremendous crowd of quality audiences who love Chinese culture around the globe. "Ip Man" was nominated for 12 Hong Kong Film Awards and was awarded "Best Film" and "Best Action Choreography" in the 2009 Hong Kong Film Awards. We are looking forward to receiving positive impact on both revenue and corporate image as a result of growing market recognition towards our movies.



In the future, we will actively look into film technology research and development in relation to mainly 3-dimensional (3D) movie production. With the new form of amusement brought along by 3D movies, it will definitely result in revolutionary changes to the film industry. As a major player in the market, we will always maintain our leading position by actively seeking out and capturing profitable opportunities.

Property Investment in the PRC

The Group's flagship investment involves leasing of a five-storey shopping arcade in Chengdu, Sichuan, the PRC, which was incorporated into our profile in 2008. All leasing space available in the shopping arcade has been leased out by July 2009.

The Group is pleased to have seized the opportunity to invest at the right time such that this flagship project has been able to contribute to the steady and promising return to the Group and also for our shareholders. With the growing consumption demand and purchasing power of the Chengdu population, we are confidence to sign renewal leases with tenants that offer better rental returns to the Group in the long-run.

With encouraging results from this shopping arcade project, we will be actively seeking for potential investment projects in the PRC with an aim to bring along better profit performance for our shareholders.

Acknowledgement

On behalf of the Board, I would like to express our sincere gratitude to our shareholders, business partners, and customers for their unwavering support. I would also like to thank all staff and management for their commitment, diligence and contribution without which, the Group's continuous success would not have been possible. We will also continue to do our best in providing products and services of the highest quality and equally as important, provide shareholders with the highest possible returns.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2009, the Group's turnover increased by 91% to HK$120,993,000 (2008: HK$63,229,000). Gross profit was HK$30,580,000 as compared with a gross loss of HK$16,713,000 in the year of 2008. Profit attributable to owners of the Company amounted to HK$6,694,000 (2008: loss of HK$216,317,000). Basic earnings per share was HK0.3 cent (2008: HK18.53 cents loss per share).

The Group has successfully diversified our business since 2008 to focus primarily on film production and related businesses and property investments in the PRC. During the year under review, film businesses of the Group have brought along better return and leverage while strategic investment in Mainland property market provides stable income stream and cash flow to the Group.

BUSINESS REVIEW

Film Industry

The Group has been benefited from a number of favourable factors that occurred during 2009. The HKSAR Government's focus to nurture creative industry in Hong Kong has improved overall business environment for our film businesses. The setup of Create Hong Kong further reflects the Government's determination to help promote Hong Kong films locally and also into overseas' markets, which is also one of the Group's key development objectives.

Film production, distribution and licensing businesses

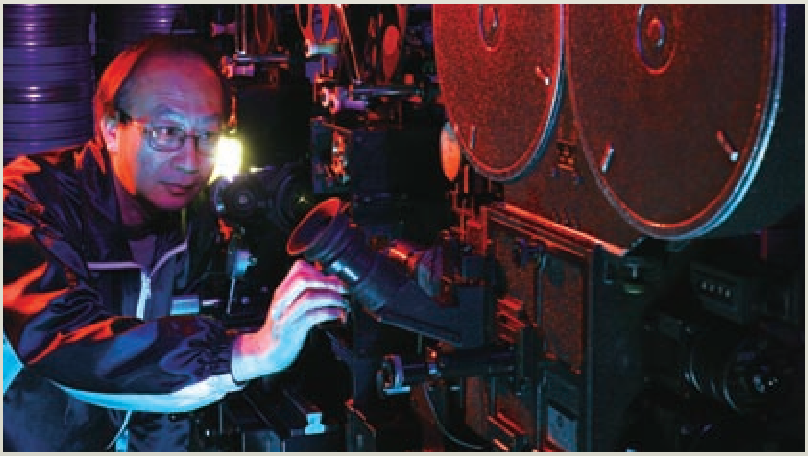
For the year ended 31 December 2009, a turnover of HK$85,989,000 was recorded which represents an increase of 158% as compared to 2008. The increase in turnover from film distribution and licensing business is attributable to the turnover received from two best-selling and well-received films, “Ip Man” and “All’s Well End’s Well 2009”, in Hong Kong, the PRC and throughout the Southeast Asia and other overseas’ markets during the year under review.

“Ip Man” was distributed globally to major film markets and has been very well-received by audiences who admire Chinese martial arts. Other than major global distribution and licensing revenue received, box office record reached approximately HK$25,500,000 and RMB120,000,000 in Hong Kong and the PRC respectively.

The Group released “All’s Well End’s Well 2009” during Lunar New Year of 2009, which achieved the highest box office receipt among local films in 2009 with a total of HK$23,340,000.

Film processing

During the year under review, the Group’s film processing business generated a turnover of HK$20,284,000, representing an increase of 11% from the previous financial year. With the increasingly competitive market condition which inevitably affects our profit margin in this business, the Group has taken more proactive move in 2009 so as to maintain our leading role in the industry.



The Group has purchased a digital sound recorder in October 2009. The implementation of this new equipment represents a major step taken towards provision of one-stop services for local film producers in Hong Kong. Currently, producers outsource sound recording process to providers in Thailand. To counter towards cut-throat competition, we will aggressively improve service level so as to expand our market share in the industry. Currently, the Group has a market share of over 40% among the three films processing factories in Hong Kong.

Property investment

The Group currently holds a five-storey shopping arcade in Chengdu, Sichuan, the PRC. With the PRC Government's determination to develop Chengdu into one of the most affluent cities in Southwestern China, both living standard and purchasing power of local citizens have been drastically improved over the past few years.

Chengdu's economy has been growing steadily with an average GDP growth rate at 14.2% per annum between 2000 and 2007. In 2008, Chengdu's GDP sustained the trend of double-digit growth of 15.3%. The Group's shopping arcade situates strategically at a location that captures potential shopping population, resulting in full occupancy since July 2009. Key tenants of the arcade include McDonald's and a popular local department store.

Major leasing agreements currently secured cover long-term tenancy periods, which helps procuring the Group's steady income and cash flow in the near future. Rental income amounting to HK$13,215,000 was recorded during the year.

Advertising and promotion business

In March 2009, the Group disposed of its subsidiary, Chili Advertising & Promotions Limited, which engaged in provision of advertising and promotional services for films, with a gain of HK$198,000.

PROSPECTS

The Group will continue to maintain steady growth of our film product, distribution and licensing business as well as the property investment business in the PRC. We aim to further expand market share in both businesses with an ultimate goal to add value for our shareholders.

Film Production, Distribution and Licensing

With the completion of the film "Ip Man 2", the Group has already secured major licensing contracts with prominent markets, including the PRC, Southeast Asian countries and Australia. We are currently under active discussions for licensing in other European markets and USA. With the globally recognised reputation of "Ip Man", the Group has been able to secure licensing contracts at higher prices for "Ip Man 2".

With movie-lovers being more conscious towards copyright and with both the HKSAR Government and the PRC Government taking necessary measures to stop counterfeit issues, we are looking forward to receiving more income both from box offices and from global licensing contracts.

Property investment

The shopping arcade currently held by the Group in Chengdu has been fully leased out. With the growing reputation and popularity of the arcade, we are confident that future leasing renewal agreements will be entered in more favourable terms for the Group.

We will also actively seek for potential investment opportunities in the property market with an aim to further improve shareholder's value.

Other Developments

With the expected appreciation of Renminbi, the Group will certainly benefit from the exchange rate as a major proportion of our income from property investment business is received in Renminbi.

The Group signed an agreement to sell three subsidiaries which generated a profit of HK$27,000,000. The transaction was completed on 3 March 2010 and related income will be recorded in the year 2010.

DIVIDEND

The directors do not recommend payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group's total equity amounted to HK$250,976,000 (2008: HK$180,949,000). The gearing ratio based on interest-bearing bank and other borrowings over total equity was 0.01 (2008: 0.25).

Net current assets was HK$28,976,000 (2008: HK$13,793,000) and current assets was HK$100,764,000 (2008: HK$101,177,000). Current liabilities were HK$71,788,000 (2008: HK$87,384,000), representing a current ratio based on current assets over current liabilities of 1.40 (2008: 1.16).

As at 31 December 2009, the Group had cash and bank balances of HK$32,892,000 (2008: HK$15,961,000).

BORROWING AND BANKING FACILITIES

As at 31 December 2009, the Group's outstanding bank and other borrowings were HK$2,058,000 (2008: HK$45,839,000). Save for the 10-year bank loan, the Group has repaid all its loans in 2009.

EXPOSURE OF FOREIGN EXCHANGE

The Group's asset and liabilities are mainly denominated in Hong Kong Dollars, United States Dollars and Renminbi. There is no significant exposure to the fluctuation of foreign exchange rate, but the Group will closely monitor the market and make appropriate adjustment and measures when necessary.

COMMITMENTS AND CONTINGENT LIABILITIES

Save for those disclosed in notes 37, 38 and 41 to the financial statements, there are no other capital commitments nor contingent liabilities that the Group is aware of.

STAFF COST, DIRECTORS' REMUNERATION AND SHARE OPTION SCHEME

Staff cost for the year ended 31 December 2009 was HK$16,330,000 (2008: HK$20,778,000), representing a decrease of 21%. The Group employed a workforce of 73 staff members (2008: 89 staff members) as at the end of 2009. Among the 73 staff members, 49 staff members were in the film processing department. Salaries of employees were maintained at competitive levels while bonuses were granted on a discretionary basis.

CAPITAL STRUCTURE

On 20 November 2009, HK$62,283,000, after netting off the transaction cost, was raised from issuing 435,580,000 ordinary shares at an issue price of HK$0.145 per share. The proceeds was used for repayment of debts and general working capital.

The Group redeemed the 3.5-year zero coupon convertible bonds by the year end of 2009 and recognised a loss on redemption of HK$7,050,000.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year under review, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.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CORPORATE GOVERNANCE REPORT

A CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the financial year ended 31 December 2009, complied with all the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited were met by the Company. This report describes the Company's corporate governance practices and explains its applications.

B DIRECTORS' SECURITIES TRANSACTIONS

The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules was adopted by the Company. Specific enquiry of all Directors of the Company who were in office during the financial year ended 31 December 2009 was made and they have confirmed compliance with the Model Code during the financial year.

C BOARD OF DIRECTORS

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

The Company's Board is comprised of experienced and highly competent individuals and a balanced composition of executive and non-executive directors. 25 Board meetings were held during the financial year ended 31 December 2009. The composition of the Board and attendance of the Directors are set out below:

Directors	**Attendance at Meetings**
Executive Directors:	
Ms. Lai Pik Chi, Peggy	25/25
Ms. Law Kee, Alice	24/25
Mr. Wong Pak Ming *(resigned on 18 August 2009)*	8/14
Ms. Wong Yee Kwan, Alvina *(resigned on 1 April 2009)*	2/5
Mr. Wong Chi Woon, Edmond *(resigned on 13 February 2009)*	2/3
Mr. Kwok Tsz Wing *(appointed as non-executive Director on 1 January 2009, re-designated as executive Director on 13 February 2009 and resigned on 1 February 2010)*	21/25
Mr. Hui Wai Lee, Willy *(appointed on 6 April 2009)*	16/19
Non-executive Director:	
Mr. Sin Kwok Lam *(appointed as non-executive Director on 1 August 2009 and resigned on 1 February 2010)*	5/11
Independent non-executive Directors:	
Mr. Choy Sze Chung, Jojo	18/25
Mr. Tsui Pui Hung	19/25
Mr. Chan Tung Tak, Alain	19/25

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

(II) Operation of the Board

The Company is headed by an effective Board which takes decisions objectively in the interests of the Company. To provide effective supervision of and proper guidance to the management, the Board is required to consider and approve decisions in relation to the Company's long-term strategy, annual business plan and financial budget, major acquisition and disposal, dividend policy, appointment of Directors, remuneration policy, risk management and internal control. Where these changes are significant to the Company or Directors' disclosure obligations, the Directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group.

Newly appointed Directors have received briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Directors are kept informed of the Company's affairs and development in a timely manner so as to enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company effectively.

A clear division of responsibilities is evident between the Board and the management. Decisions on important matters, such as the Group's strategic policies, major investment, funding decisions and major commitments relating to the Group's operations, are specifically reserved to the Board while decisions on the Group's general day-to-day operations are delegated to the management.

D CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Board went through a restructuring in January 2009. Upon the resignation of Mr. Wong Pak Ming as the chairman of the Board effective from 6 January 2009. Ms. Lai Pik Chi, Peggy has been appointed as the chairman of the Board and Ms. Law Kee, Alice has been appointed as the chief executive officer of the Company.

E NON-EXECUTIVE DIRECTORS

All non-executive Directors are appointed for a fixed term. However, they are appointed subject to retirement by rotation and re-election at the general meetings of the Company in accordance with the provisions of the bye-laws of the Company (the "Bye-laws").

F REMUNERATION OF DIRECTORS

A remuneration committee (the "Remuneration Committee") consisting of 3 independent non-executive Directors was set up by the Company in compliance with Appendix 14 of the Listing Rules. Mr. Chan Tung Tak, Alain is the chairman of the Remuneration Committee.

The Remuneration Committee shall meet at least once a year. 3 meetings were held during the financial year ended 31 December 2009, during which the remuneration policy in remunerating the Directors and senior management of the Group was reviewed. None of the Directors participated in the determination of his/her own remuneration. Attendance of the members of the Remuneration Committee is set out below:

Members	**Attendance at Meeting**
Mr. Chan Tung Tak, Alain	3/3
Mr. Wong Pak Ming *(resigned on 18 August 2009)*	2/3
Mr. Tsui Pui Hung	3/3
Mr. Choy Sze Chung Jojo	2/3
Mr. Kwok Tsz Wing *(appointed on 1 January 2009 and resigned on 1 February 2010)*	2/3

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

A share option scheme was adopted by the Company on 21 August 2001, which serves as an incentive to attract, retain and motivate staff, including Directors. Details of the share option scheme are set out in note 33 to the financial statements. The emolument payable to Directors depends on their respective terms under the service contracts (if any), and as recommended by the Remuneration Committee. Details of the Directors' emolument are set out in note 8 to the financial statements.

G NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The roles and functions which are usually performed by such committee are taken up by the Board.

In this regard, the Board's responsibilities include formulating nomination policies, making recommendations to shareholders of the Company on Directors standing for re-election, providing sufficient biographical details of Directors to enable shareholders to make an informed decision on the re-election, and where necessary, nominating Directors to fill casual vacancies. The Chairman will from time to time review the composition of the Board with particular regard to ensuring that there is an appropriate number of Directors on the Board independent of the management.

The Chairman also identifies individuals suitably qualified to become Board members, and makes recommendations to the Board on the selection of individuals nominated for directorships.

Appointment of new Directors of the Company will be carried out by the Board. Directors appointed to fill casual vacancies are subject to retirement from the Board at the general meetings of the Company immediately following his or her appointment and may stand for re-election at the annual general meeting.

H AUDITORS' REMUNERATION

The fees in relation to the audit and other services for the financial year ended 31 December 2009 provided by Ernst & Young, the external auditors of the Company, amounted to HK$1,328,000 and HK$273,000 respectively.

I AUDIT COMMITTEE

The Company has set up an audit committee (the "Audit Committee") consisting of 3 independent non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise. Mr. Choy Sze Chung, Jojo is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditors of the Company. 2 Audit Committee meetings were held during the financial year ended 31 December 2009. Attendance of the Members is set out below:

Members	**Attendance at Meeting**
Mr. Choy Sze Chung, Jojo	2/2
Mr. Tsui Pui Hung	2/2
Mr. Chan Tung Tak, Alain	2/2

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

J INTERNAL CONTROL

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

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

A review of the effectiveness of the Group's internal control system and procedures covering the relevant controls, including financial, operational and compliance and risk management, was conducted by the Audit Committee and subsequently reported to the Board during the financial year ended 31 December 2009. Based on the result of the review, the Directors considered that the Group's internal control system and procedures were effective and satisfactory.

K DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors understand and acknowledge their responsibility for overseeing the preparation of financial statements for the financial year ended 31 December 2009, which give a true and fair view of the affairs, profitability and cash flow of the Group in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended 31 December 2009:

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

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

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

L COMMUNICATION WITH SHAREHOLDERS

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

The Company strives to ensure that information is made publicly available in a prompt and timely disseminated manner. Disclosure of information is made through announcements to the Stock Exchange, the Company's annual and interim reports, press releases, as well as the corporate website (http://www.hmdatalink.com/ChinaMandarin/eng/index.html).

M GREATER SHAREHOLDERS' PARTICIPATION

The Company believes in the importance of shareholders' participation at general meetings. The Bye-laws stipulate that a shareholder is entitled to attend and vote or to appoint a proxy who need not be a shareholder of the Company to attend and vote at general meetings.

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

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

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting to the shareholders their annual report together with the financial statements for the year ended 31 December 2009.

CHANGE OF COMPANY NAME AND STOCK SHORT NAME

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

The Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in Bermuda on 3 April 2009 certifying that the change of name of the Company from "Mandarin Entertainment (Holdings) Limited" to "China Mandarin Holdings Limited" was registered and took effect on 1 April 2009. The Certificate of Registration of Change of Name of non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 8 May 2009 confirming the registration of the new English name "China Mandarin Holdings Limited" and the new Chinese name "中國東方實業集團有限公司" in Hong Kong under Part XI of Hong Kong Companies Ordinance.

The shares of the Company have been traded on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") under the new English stock short name of "CHINA MANDARIN" and "中國東方實業" in Chinese, instead of "MANDARIN ENT" and "東方娛樂控股", with effect from 15 May 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 18 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on pages 33 to 34 of the financial statements.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment, and the investment property of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 32, 33 and 29 to the financial statements, respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2009, the Company does not have any reserve available for distribution to shareholders. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company (the "Directors") during the year and up to the date of this report were:

Executive Directors:

Ms. Lai Pik Chi, Peggy *(Chairman)*	
Ms. Law Kee, Alice *(Chief Executive Officer)*	
Mr. Kwok Tsz Wing *(Deputy Chairman)*	(appointed as non-executive Director on 1 January 2009, re-designated as executive Director on 13 February 2009 and resigned on 1 February 2010)
Mr. Hui Wai Lee, Willy	(appointed on 6 April 2009)
Mr. Wong Pak Ming	(resigned on 18 August 2009)
Ms. Wong Yee Kwan, Alvina	(resigned on 1 April 2009)
Mr. Wong Chi Woon, Edmond	(resigned on 13 February 2009)

Non-executive Director:

Mr. Sin Kwok Lam	(appointed as non-executive Director on 1 August 2009 and resigned on 1 February 2010)

Independent non-executive Directors:

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

In accordance with Bye-laws 87(1) and 87(2), Ms. Law Kee, Alice and Mr. Tsui Pui Hung shall retire from office by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election as executive/independent non-executive Directors (as the case may be).

The term of office of each of the independent non-executive Directors is for an initial term of one year and renewable automatically for successive terms of one year and either the independent non-executive Directors or the Company may terminate the appointment by giving to the other party at least one month's prior notice in writing and the independent non-executive Directors are subject to retirement by rotation in accordance with the Bye-laws.

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

Each of the following executive Directors has entered into a service contract with the Company for an initial term of one year:

Executive Director	**Date of commencement of service contract**
Ms. Law Kee, Alice	16 October 2007
Ms. Lai Pik Chi, Peggy	10 October 2008
Mr. Hui Wai Lee, Willy	6 April 2009

and all of which continue thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

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

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

As at 31 December 2009, the interests of the Directors, the chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions

Ordinary shares of HK$0.10 each of the Company

Name of Director	Capacity	Number of ordinary shares held	Percentage of the issued share capital of the Company
Mr. Kwok Tsz Wing ("Mr. Kwok") (note 1)	Interest in controlled corporation (note 2)	74,482,182	2.85%
	Beneficial owner	16,237,600	0.62%
		90,719,782	3.47%

Notes:

1. Mr. Kwok resigned as a Director on 1 February 2010.

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

Save as disclosed above, as at 31 December 2009, none of the Directors, chief executive or their associates had any interests or short positions in shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 33 to the financial statements.

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

Name of director	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 1.1.2008	Granted during the year	Adjustments (Note)	Forfeited during the year	Outstanding as at 1.1.2009	Granted during the year	Forfeited during the year	Outstanding at as 31.12.2009
Mr. Wong Pak Ming #	23.6.2006	24.12.2006 to 20.8.2011	0.577	366,048	–	167,500	–	533,548	–	(533,548)	–
	10.5.2007	22.11.2007 to 20.8.2011	0.541	1,395,000	–	638,340	–	2,033,340	–	(2,033,340)	–
Mr. Wong Chi Woon, Edmond #	23.6.2006	24.12.2006 to 20.8.2011	0.577	366,048	–	167,500	–	533,548	–	(533,548)	–
	10.5.2007	22.11.2007 to 20.8.2011	0.541	1,395,000	–	638,340	–	2,033,340	–	(2,033,340)	–
Ms. Wong Yee Kwan, Alvina #	23.6.2006	24.12.2006 to 20.8.2011	0.577	366,048	–	167,500	–	533,548	–	(533,548)	–
	10.5.2007	22.11.2007 to 20.8.2011	0.541	1,395,000	–	638,340	–	2,033,340	–	(2,033,340)	–
Mr. Tang Kai Kui, Terence ^	23.6.2006	24.12.2006 to 20.8.2011	0.577	366,048	–	167,500	(533,548)	–	–	–	–
	10.5.2007	22.11.2007 to 20.8.2011	0.541	2,790,000	–	1,276,681	(4,066,681)	–	–	–	–
				8,439,192	–	3,861,701	(4,600,229)	7,700,664	–	(7,700,664)	–

\# Resigned during the year ended 31 December 2009

^ Resigned during the year ended 31 December 2008

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

Name of director	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 1.1.2008	Granted during the year	Adjustments (Note)	Forfeited during the year	Outstanding as at 1.1.2009	Granted during the year	Forfeited during the year	Outstanding at as 31.12.2009
Employees	23.6.2006	24.12.2006 to 20.8.2011	0.577	732,096	–	335,000	–	1,067,096	–	(1,067,096)	–
	10.5.2007	22.11.2007 to 20.8.2011	0.541	2,511,000	–	1,149,012	–	3,660,012	–	(3,660,012)	–
				3,243,096	–	1,484,012	–	4,727,108	–	(4,727,108)	–

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

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

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long positions

Ordinary shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of ordinary shares held	Percentage of the issued share capital of the Company
Mr. Cheng Keung Fai	Beneficial owner	507,500,000	19.42%
Mr. Fang Han Song	Beneficial owner	269,500,000	10.31%

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 31 December 2009.

DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year ended 31 December 2009, the Group had entered into transactions which constituted connected transactions/continuing connected transactions under the Listing Rules. Details are set out below:

i) **Connected transactions**

(a) On 25 August 2008, the Group entered into a management agreement with 四川黃河商業有限責任公司 ("四川黃河"), a company in which Mr. Cheng Keung Fai ("Mr. Cheng"), a substantial shareholder of the Company, has beneficial interest, pursuant to which 四川黃河 agreed to provide management service to a shopping arcade of the Group in Sichuan for a management fee of RMB70,000 per month for the period from 1 September 2008 to 31 August 2009. The management fee in 2009 was HK$715,000.

(b) On 31 August 2009, the Group entered into a service agreement with Mr. Cheng Ka Sing, the son of Mr. Cheng, for engaging his service as an actor for the period commencing from 10 August 2009 to 9 November 2009 for total consideration of HK$80,000.

(c) The Group rented the accommodation for the production crew of Ip Man 2 in Sofitel Shanghai Sheshan Huanghe Hotel ("Sofitel Hotel"), non-wholly owned by 上海銀湖酒店有限公司, in which Mr. Cheng has the ultimate beneficial interest, during the period from 1 August 2009 to 15 November 2009. The total hotel rental paid by the Group to Sofitel Hotel was HK$170,000.

ii) Continuing connected transactions

(a) The Group entered into a master agreement ("Master Agreement") with Mr. Wong Pak Ming ("Mr. Wong"), a former director of the Company, pursuant to which the Group will procure or nominate member(s) of the Group to enter into agreement(s) with Mr. Wong and/or his designated associates ("PM Wong Associates") in relation to the provision of services for the period from 6 May 2009 to 31 December 2011. The services to be provided by Mr. Wong to the Group include (but not limited to) (i) provision of services as an actor to shoot films to be produced by the Group; (ii) provision of services as executive producer for films to be produced by the Group; and (iii) leasing of premises owned by Mr. Wong to the Group. The services to be provided by PM Wong Associates include (but not limited to) (i) provision of services as screenwriter for films to the produced by the Group; (ii) provision of services as director of films to be produced by the Group; (iii) provision of services as line producer of films to be produced by the Group; (iv) pre-production and post-production services for films to be produced by the Group; (v) shooting and editing services for films to be produced by the Group; (vi) marketing promotion, media planning and design services for films to be produced by the Group; (vii) distribution services of films to be produced by the Group; (viii) any other services in connection with film industry or to be provided at the request of the Group as agreed from time to time;

(b) Pursuant to the Master Agreement, the production expenses paid by the Group to Big Bright Investment Limited, Pure Project Limited ("Pure Project") and Pegasus Motion Pictures Limited, which were PM Wong Associates, in 2009 were HK$1,500,000, HK$400,000 and HK$602,000 respectively;

(c) Pursuant to the Master Agreement, agency fees were paid by the Group to 廣州東影影視出品有限公司("Tung Ying") and Prime Moon International Limited ("Prime Moon"), which were PM Wong Associates, for the distribution income generated by Tung Ying and Prime Moon. The agency fees of HK$119,000 and HK$25,000 were charged by Tung Ying and Prime Moon respectively in 2009; and

(d) Mandarin Films Distribution Company Limited ("Mandarin Films Distribution"), a wholly-owned subsidiary of the Group, and Chili Advertising & Promotions Limited ("Chili"), a former wholly-owned subsidiary of the Group, entered into tenancy agreements with Pure Project, a PM Wong Associate, on 1 February 2007 and 1 March 2007, respectively, which were both renewed on 5 November 2008. The tenancy agreements entered into between Mandarin Films Distribution and Pure Project covered periods from 1 February 2007 to 31 August 2009, while the tenancy agreements entered into between Chili and Pure Project covered periods from 1 March 2007 and 31 August 2009. On 31 March 2009, Chili ceased to be a subsidiary of the Group. The rental expenses paid to Pure Project in 2009 was HK$496,000.

In respect of the continuing connected transactions, our Directors (including the independent non-executive Directors), after having reviewed the aforesaid transactions, confirmed that the transactions have been entered into in the ordinary and usual course of business of the Company, on normal commercial terms, and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company confirm that the aforesaid transactions:

i. have received the approval of the Company's board of Directors;

ii. have been entered into and conducted in accordance with the relevant agreements governing these transactions; and

iii. have not exceeded the annual cap as mentioned in the Master Agreement.

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

EMOLUMENT POLICY

The Group remunerates its employees including the Directors, based on their performances, experiences and prevailing market rate. Other employee benefits included insurance and medical cover, subsidised training programme as well as share option scheme. Details of the share option scheme are set out in note 33 to the financial statements. The determination of emoluments of the Directors had taken into consideration of their expertise and job specifications.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 16.64% and 54.97%, respectively, of the Group's total revenue for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 11.49% and 38.21%, respectively, of the Group's total purchases for the year.

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2009.

EVENT AFTER THE REPORTING PERIOD

Details of the event after the reporting period of the Group are set out in note 44 to the financial statements.

AUDITORS

Ernst & Young, the Company's auditors, will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting to re-appointed Ernst & Young as auditors of the Company.

On behalf of the Board

Lai Pik Chi, Peggy
Chairman

Hong Kong, 16 April 2010

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. LAI Pik Chi, Peggy, aged 45, an executive Director who is also the Chairman of the Board. Ms. Lai joined the Group in June 2008 and appointed as an Executive Director in October 2008. Ms. Lai had 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.

Ms. LAW Kee, Alice, aged 43, is an executive Director and the Chief Executive Officer of the Company. Ms. Law joined the Group in September 2007 and has been appointed as 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 Association for the Advancement of Real Estate and Construction Technology Limited.

Mr. HUI Wai Lee, Willy, aged 49, is currently a director of Supreme Jewellery Company. Mr. Hui joined the Group as Executive Director in April 2009. He has over 29 years' experience in designing and manufacturing of European-style jewelry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHOY Sze Chung, Jojo, aged 51, is the Vice Chairman of National Resources Securities Limited. Mr. Choy has extensive experience in the securities industry and business management. Mr. Choy has been invited to various investment seminars. Mr. Choy obtained his Master of Business Administration Degree from University of Wales, Newport and his Master of Business Law Degree from Monash University, Australia. Mr. Choy is also the Vice Chairman of the Institute of Securities Dealers Limited, an Independent Non-executive Director of Chengdu PUTIAN Telecommunications Cable Company Limited (Stock Code:1202), an Independent Non-executive Director of Zhaojin Mining Industry Company Limited (Stock Code: 1818), an Independent Non-executive Director of Sparkle Roll Group Limited (Stock Code: 970), an Independent Non-executive Director of Orient Securities International Holdings Limited and an Independent Non-executive Director of China Tian Yuan Mining Limited, a Committee Member of Society of Registered Financial Planner Ltd., a Fellow Member of Institute of Financial Accountants, a Fellow Member of the Institute of Compliance Officer, a Member of CPPCC Shantou, a Honorary President of Shantou Overseas Friendship Association, a Honorary President of Shantou Overseas Exchanges Association, a Honorary Principal of the school of Chen Po Sum and a Council Member of Rotary Club Kowloon West.

Mr. TSUI Pui Hung, aged 35, is a practicing solicitor of High Court of Hong Kong and an independent nonexecutive director of B.A.L. 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. CHAN Tung Tak, Alain, aged 55, is a chartered architect in United Kingdom. He obtained a bachelor degree in architecture from the Polytechnic of North London, United Kingdom. He is also the members of Architects Registration Council in UK, Royal Institute of British Architect in UK and Royal Architectural Institute of Canada. He is an independent non-executive director of First Credit Holdings Limited.

OTHER SENIOR MANAGEMENT

Mr. KO Tin Chow, aged 60, is the senior manager responsible for supervising the film processing business of the Group. Mr. Ko has over 37 years of experience in the film processing industry. Prior to joining the Group in 1995, he was the general manager of Hong Kong Color Movielab Limited, a film processing company in Hong Kong. He is the Chairman of the Hong Kong & Kowloon Film Laboratory Merchants' Association Limited.

Mr. CHOW Ming Sang, aged 60, is the production manager responsible for the operation of the printing division of the film processing business of the Group. Mr. Chow joined the Group since its establishment and has over 38 years of experience in the film processing industry.

Mr. FUNG Hon Wah, aged 57, is the production manager responsible for the operation of the special effects division of the film processing business of the Group. Mr. Fung joined the Group since its establishment and has over 35 years of experience in the film processing industry.

Mr. LAU Siu Sun, aged 62, is the production manager supervising the quality control division of the film processing business of the Group. Mr. Lau joined the Group since its establishment and has over 35 years of experience in the film processing industry.

Mr. WONG Tung Ming, aged 62, is the production manager who has overall responsibilities for film processing and film subtitling. Mr. Wong joined the Group since its establishment and has over 39 years of experience in the film processing industry.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永

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

We have audited the financial statements of China Mandarin Holdings Limited set out on pages 33 to 119, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT (continued)

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
16 April 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**119,488**	52,594
Cost of sales		**(89,716)**	(73,667)
Gross profit (loss)		**29,772**	(21,073)
Other income and gains	5	**3,132**	4,341
Gain on disposal of subsidiaries	35	**17,622**	–
Fair value gain on derivative component of convertible bonds	29	**9**	14,176
Loss on redemption of convertible bonds	29	**(7,050)**	–
Fair value gain (loss) on investments held for trading, net		**1**	(2,898)
Fair value loss on an investment property	15	**–**	(165,654)
Impairment of goodwill	17	**–**	(69,034)
Gain on disposal of items of property, plant and equipment		**39**	–
Administrative expenses		**(24,553)**	(24,521)
Finance costs	6	**(6,207)**	(2,596)
Share of results of jointly-controlled entities		**(4,038)**	(2,992)
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	7	**8,727**	(270,251)
Income tax (expense) credit	9	**(1,236)**	41,433
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**7,491**	(228,818)
DISCONTINUED OPERATION			
(Loss) Profit for the year from a discontinued operation	13	**(211)**	136
PROFIT (LOSS) FOR THE YEAR		**7,280**	(228,682)

CONSOLIDATED INCOME STATEMENT (continued)

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ATTRIBUTABLE TO:			
Owners of the Company	10	**6,694**	(216,317)
Minority interests		**586**	(12,365)
		7,280	(228,682)
EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	12		
Basic			
– For profit (loss) for the year		**HK0.30 cent**	HK(18.53) cents
– For profit (loss) from continuing operations		**HK0.31 cent**	HK(18.54) cents
Diluted			
– For profit (loss) for the year		**N/A**	N/A
– For profit (loss) from continuing operations		**N/A**	N/A

Details of the dividend are disclosed in note 11 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Profit (Loss) for the year	**7,280**	(228,682)
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	**130**	2,874
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**7,410**	(225,808)
ATTRIBUTABLE TO:		
Owners of the Company	**6,811**	(213,436)
Minority interests	**599**	(12,372)
	7,410	(225,808)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,604**	3,355
Investment property	15	**283,801**	283,640
Prepaid land lease payments	16	**2,278**	2,353
Deposits paid	22	**1,666**	–
Interests in jointly-controlled entities	19	**–**	13,672
Total non-current assets		**290,349**	303,020
CURRENT ASSETS			
Film rights		**1**	62
Film production in progress		**55,767**	63,325
Prepaid land lease payments	16	**75**	75
Inventories	20	**2,237**	2,007
Investments held for trading		**–**	1
Trade receivables	21	**7,320**	5,487
Other receivables, prepayments and deposits paid	22	**1,786**	1,351
Due from a minority shareholder	40	**–**	12,372
Pledged deposits	23	**–**	536
Cash and cash equivalents	23	**32,892**	15,961
		100,078	101,177
Assets of a disposal group classified as held for sale	24	**686**	–
Total current assets		**100,764**	101,177
CURRENT LIABILITIES			
Trade payables	25	**1,027**	4,081
Other payables, accruals and deposits received	26	**70,365**	50,493
Loans from former shareholders	30	**–**	13,036
Due to former directors	40	**–**	104
Due to a shareholder	40	**–**	6,991
Interest-bearing bank and other borrowings	27	**169**	12,445
Obligations under a finance lease	28	**92**	92
Tax payable		**1**	142
		71,654	87,384
Liabilities directly associated with the assets classified as held for sale	24	**134**	–
Total current liabilities		**71,788**	87,384

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NET CURRENT ASSETS		**28,976**	13,793
TOTAL ASSETS LESS CURRENT LIABILITIES		**319,325**	316,813
NON-CURRENT LIABILITIES			
Convertible bonds	29	**–**	51,538
Interest-bearing bank and other borrowings	27	**1,789**	166
Loans from former shareholders	30	**–**	20,000
Deposits received		**1,078**	–
Deferred tax liabilities	31	**65,474**	64,060
Obligations under a finance lease	28	**8**	100
Total non-current liabilities		**68,349**	135,864
Net assets		**250,976**	180,949
EQUITY			
Equity attributable to owners of the Company			
Issued capital	32	**261,348**	217,790
Reserves	34	**(34,106)**	(59,642)
		227,242	158,148
Minority interests		**23,734**	22,801
Total equity		**250,976**	180,949

Lai Pik Chi, Peggy
Director

Law Kee, Alice
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Attributable to owners of the Company								
	Issued capital HK$'000	Share premium HK$'000	Exchange fluctuation reserve HK$'000	Special reserve HK$'000	Share option reserve HK$'000	Accu-mulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	57,600	156,625	–	17,926	2,301	(71,803)	162,649	–	162,649
Exchange differences arising on transaction of foreign operations	–	–	2,881	–	–	–	2,881	(7)	2,874
Loss for the year	–	–	–	–	–	(216,317)	(216,317)	(12,365)	(228,682)
Total comprehensive loss for the year	–	–	2,881	–	–	(216,317)	(213,436)	(12,372)	(225,808)
Acquisition of subsidiaries (note 36)	–	–	–	–	–	–	–	19,571	19,571
Contribution from a minority shareholder	–	–	–	–	–	–	–	15,602	15,602
Issue of shares (note 32)	160,190	52,500	–	–	–	–	212,690	–	212,690
Transaction costs attributable to issue of shares	–	(3,755)	–	–	–	–	(3,755)	–	(3,755)
Transferred to accumulated losses on forfeiture of share options	–	–	–	–	(627)	627	–	–	–
At 31 December 2008	**217,790**	**205,370***	**2,881***	**17,926***	**1,674***	**(287,493)***	**158,148**	**22,801**	**180,949**
Exchange differences arising on transaction of foreign operations	**–**	**–**	**117**	**–**	**–**	**–**	**117**	**13**	**130**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**6,694**	**6,694**	**586**	**7,280**
Total comprehensive income for the year	**–**	**–**	**117**	**–**	**–**	**6,694**	**6,811**	**599**	**7,410**
Contribution from a minority shareholder	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**334**	**334**
Issue of shares (note 32)	**43,558**	**19,601**	**–**	**–**	**–**	**–**	**63,159**	**–**	**63,159**
Transaction costs attributable to issue of shares	**–**	**(876)**	**–**	**–**	**–**	**–**	**(876)**	**–**	**(876)**
Transferred to accumulated losses on forfeiture of share options	**–**	**–**	**–**	**–**	**(1,674)**	**1,674**	**–**	**–**	**–**
At 31 December 2009	**261,348**	**224,095***	**2,998***	**17,926***	**–***	**(279,125)***	**227,242**	**23,734**	**250,976**

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

* These reserve accounts comprise the consolidated reserves of HK$34,106,000 (2008: HK$59,642,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (Loss) before tax			
From continuing operations		**8,727**	(270,251)
From a discontinued operation	13	**(211)**	242
Adjustments for:			
Interest income	5, 13	**(57)**	(843)
Dividend income from listed investments held for trading	5	**–**	(239)
Excess over the cost of a business combination	5	**–**	(277)
Gain on disposal of subsidiaries		**(17,622)**	–
Gain on disposal of properties held for sale	5	**–**	(988)
Interests on bank and other borrowings, loans from former shareholders and a finance lease	6, 13	**1,048**	623
Interest on convertible bonds	6	**5,160**	1,975
Loss on redemption of convertible bonds		**7,050**	–
Depreciation	7, 13	**1,410**	1,313
Amortisation of prepaid land lease payments	7	**75**	75
Impairment of trade receivables	7, 13	**989**	3,881
Impairment of goodwill		**–**	69,034
Impairment of film production in progress	7	**–**	19,743
Fair value loss on an investment property		**–**	165,654
Impairment of an amount due from a jointly-controlled entity	7	**–**	1,349
Gain on disposal of items of property, plant and equipment	7	**(39)**	–
Fair value (gain) loss on investments held for trading, net		**(1)**	2,898
Fair value gain on derivative component of convertible bonds	29	**(9)**	(14,176)
Write-back of impairment of trade receivables	7	**(1,411)**	(6,059)
Share of results of jointly-controlled entities		**4,038**	2,992
		9,147	(23,054)
Decrease (Increase) in film rights and film production in progress		**6,933**	(29,208)
Increase in inventories		**(230)**	(154)
Purchase of properties held for sale		**–**	(4,899)
Proceeds from disposal of properties held for sale		**–**	10,448
Proceeds from disposal of investments held for trading		**2**	13,881
Increase in trade receivables		**(1,655)**	(311)
(Increase) Decrease in other receivables, prepayments and deposits paid		**(2,183)**	7,192
(Decrease) Increase in trade payables		**(2,942)**	567
(Decrease) Increase in other payables, accruals and deposits received		**21,257**	(128,666)
(Decrease) Increase in amounts due to former directors		**(93)**	104
Decrease in an amount due to a shareholder		**(6,991)**	–
Cash generated from (used in) operations		**23,245**	(154,100)
Hong Kong profits tax refunded		**–**	250
Hong Kong profits tax paid		**–**	(10)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Net cash flows from (used in) operating activities		**23,245**	(153,860)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	36	**–**	(102,721)
Decrease in loan receivable		**–**	5,500
Purchases of items of property, plant and equipment		**(997)**	(592)
Decrease (Increase) in an amount due from a minority shareholder		**12,372**	(12,372)
Proceeds from disposal of items of property, plant and equipment		**84**	–
Return of capital from a jointly-controlled entity	19	**3,184**	–
Proceeds from disposal of subsidiaries	35	**24,384**	–
Redemption of convertible bonds	29	**(63,739)**	–
Interest received	5, 13	**57**	843
Dividend received	5	**–**	239
Decrease (Increase) in pledged bank deposits with original maturity of less than three months		**536**	(3)
Net cash flows used in investing activities		**(24,119)**	(109,106)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	32	**63,159**	142,690
Expenses on issue of shares		**(876)**	(3,755)
Loan from a former shareholder		**–**	20,000
Capital contribution from a minority shareholder		**334**	15,602
New bank loans and other borrowings		**2,000**	5,673
Repayment of bank loans and other borrowings		**(6,048)**	(7,050)
Repayment of loans from former shareholders		**(33,036)**	–
Interest paid		**(1,048)**	(623)
Capital element of finance lease rental payments		**(92)**	(92)
Net cash flows from financing activities		**24,393**	172,445
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**23,519**	(90,521)
Cash and cash equivalents at beginning of year		**9,356**	100,358
Effect of foreign exchange rate changes, net		**17**	(481)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**32,892**	9,356
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	23	**32,892**	15,961
Bank overdrafts	27	**–**	(6,605)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**32,892**	9,356

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**6,172**	6,172
CURRENT ASSETS			
Due from subsidiaries	18	**165,286**	213,143
Prepayments	22	**–**	90
Cash and cash equivalents	23	**20,488**	103
Total current assets		**185,774**	213,336
CURRENT LIABILITIES			
Accruals	26	**619**	246
Due to a former director	40	**–**	62
Due to a subsidiary	18	**–**	450
Interest-bearing bank and other borrowings	27	**169**	3,655
Total current liabilities		**788**	4,413
NET CURRENT ASSETS		**184,986**	208,923
TOTAL ASSETS LESS CURRENT LIABILITIES		**191,158**	215,095
NON-CURRENT LIABILITIES			
Convertible bonds	29	**–**	51,538
Loans from former shareholders	30	**–**	20,000
Interest-bearing bank and other borrowings	27	**1,789**	–
Total non-current liabilities		**1,789**	71,538
Net assets		**189,369**	143,557
EQUITY			
Issued capital	32	**261,348**	217,790
Reserves	34	**(71,979)**	(74,233)
Total equity		**189,369**	143,557

Lai Pik Chi, Peggy
Director

Law Kee, Alice
Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2009

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 9 May 2001 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at 5/F., Cheung Fai Industrial Building, 131 Wai Yip Street, Kwun Tong, Kowloon.

Pursuant to a special resolution on 30 March 2009 and approved by the Registrars of Companies of Bermuda and Hong Kong on 1 April 2009 and 8 May 2009, respectively, the name of the Company was changed from Mandarin Entertainment (Holdings) Limited to China Mandarin Holdings Limited. The Chinese translation of the Company name for identification purposes was changed from 東方娛樂控股有限公司 to 中國東方實業集團有限公司.

The Company acts as an investment holding company. The principal activities of its subsidiaries are shown in note 18.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 Revenue – Determining whether an entity is acting as a principal or as an agent
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* Included in Improvements to HKFRSs 2009 (as issued in May 2009).

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Other than as further explained below regarding the impact of HKAS 1 (Revised) and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

HKFRS 8, which replaces HKAS 14 "Segment Reporting", specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. Due to the adoption of HKFRS 8, certain comparative amounts have been revised to conform with the current year's presentation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective for the accounting year ended 31 December 2009, in these financial statements.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKFRS 9	Financial Instruments
HKAS 24 (Revised)	Related Party Disclosures
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary
HK Interpretation 4 (Revised in December 2009)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

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

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

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

Goodwill

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

Excess over the cost of business combinations

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

Impairment of non-financial assets other than goodwill

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Buildings	2.5%
Furniture and fixtures	20%
Leasehold improvements	Over the shorter of the lease terms and 20%
Motor vehicles	20% to 30%
Plant, machinery and equipment	20% – $33^1/_3$%

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Investment properties

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Leases

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and cash equivalents, pledged deposits, investments held for trading, trade and other receivables and an amount due from a minority shareholder.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;
- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to former directors and a shareholder, loans from former shareholders, a finance lease, interest-bearing bank and other borrowings, and convertible bonds.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Convertible bonds

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

Derecognition of financial liabilities

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

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

Inventories

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

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, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes option pricing model, further details of which are given in note 33 to the financial statements.

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equiy-settled transaction awards are treated equally.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits schemes

The Group continues to operate a defined contribution scheme (the "Defined Contribution Scheme") for its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the 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 who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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.

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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

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

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

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

Film rights and production in progress

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

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

Foreign currencies

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Impairment of assets

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Operating lease commitments – Group as lessor

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimation of fair value of its 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 state 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 goodwill

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

Valuation of share options

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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

Management regularly reviews the recoverability and/or ageing of trade receivables and an amount due from a jointly-controlled entity. Appropriate impairment for estimated irrecoverable amounts are recognised in 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.

Estimated impairment loss on film production in progress

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

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

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

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

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

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

4. SEGMENT INFORMATION

Operating segments

For management purposes, the Group is organised into four business units – film distribution and licensing, film processing, advertising and promotional services, and property investment.

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 (loss) before tax from continuing operations. The adjusted profit (loss) before tax from continuing operations is measured consistently with the Group's profit (loss) before tax from continuing operations except that other income, interest income, gain on disposal of subsidiaries, gain on disposal of items of property, plant and equipment, fair value gain on derivative component of convertible bonds, loss on redemption of convertible bonds, fair value gain (loss) on investments held for trading, net, share of results of jointly-controlled entities, finance cost, excess over the cost of a business combination, gain on disposal of properties held for sales and impairment of an amount due from a jointly-controlled entity, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents, investments held for trading, an amount due from a minority shareholder and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, obligations under a finance lease, convertible bonds, tax payable, amounts due to former directors and a shareholder, loans from former shareholders, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

4. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2009

	Continuing operations					Discontinued operation	
	Film distribution and licensing HK$'000	Film processing HK$'000	Property investment HK$'000	Elimination HK$'000	Total HK$'000	Advertising and promotional services HK$'000	Total HK$'000
Segment revenue:							
External revenue	85,989	20,284	13,215	–	119,488	1,505	120,993
Intersegment revenue	–	1,463	–	(1,463)	–	–	–
Total revenue	85,989	21,747	13,215	(1,463)	119,488	1,505	120,993
Segment results	8,280	3,260	6,982	–	18,522	(210)	18,312
Other income					69	–	69
Unallocated corporate expenses					(10,297)	–	(10,297)
Interest income					57	–	57
Gain on disposal of subsidiaries					17,622	–	17,622
Gain on disposal of items of property, plant and equipment					39	–	39
Fair value gain on derivative component of convertible bonds					9	–	9
Loss on redemption of convertible bonds					(7,050)	–	(7,050)
Fair value gain on investments held for trading, net					1	–	1
Share of results of jointly-controlled entities					(4,038)	–	(4,038)
Finance costs					(6,207)	(1)	(6,208)
Profit (Loss) before tax					8,727	(211)	8,516
Income tax expense					(1,236)	–	(1,236)
Profit (Loss) for the year					7,491	(211)	7,280

4. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2009

	Continuing operations					Discontinued operation	
	Film distribution and licensing HK$'000	Film processing HK$'000	Property investment HK$'000	Unallocated HK$'000	Total HK$'000	Advertising and promotional services HK$'000	Total HK$'000
Assets and liabilities							
Segment assets	59,277	12,430	285,766	–	357,473	–	357,473
Unallocated corporate assets					33,640		33,640
Total assets					391,113		391,113
Segment liabilities	44,757	3,412	68,843	–	117,012	–	117,012
Unallocated corporate liabilities					23,125		23,125
Total liabilities					140,137		140,137
Other segment information:							
Capital expenditure	749	236	9	3	997	–	997
Impairment of trade receivables	–	989	–	–	989	–	989
Write-back of impairment of trade receivables	–	1,411	–	–	1,411	–	1,411
Amortisation of prepaid land lease payments	–	75	–	–	75	–	75
Depreciation	552	188	33	552	1,325	85	1,410

4. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2008

	Continuing operations					Discontinued operation	
	Film distribution and licensing HK$'000	Film processing HK$'000	Property investment HK$'000	Elimination HK$'000	Total HK$'000	Advertising and promotional services HK$'000	Total HK$'000
Segment revenue:							
External revenue	33,305	18,301	988	–	52,594	10,635	63,229
Intersegment revenue	–	2,616	–	(2,616)	–	–	–
Total revenue	33,305	20,917	988	(2,616)	52,594	10,635	63,229
Segment results	(33,822)	5,207	(237,806)	–	(266,421)	241	(266,180)
Other income					580	–	580
Unallocated corporate expenses					(10,856)	–	(10,856)
Interest income					840	3	843
Excess over the cost of a business combination					277	–	277
Gain on disposal of properties held for sales					988	–	988
Fair value gain on derivative component of convertible bonds					14,176	–	14,176
Fair value loss on investments held for trading, net					(2,898)	–	(2,898)
Impairment of an amount due from a jointly-controlled entity					(1,349)	–	(1,349)
Share of results of jointly-controlled entities					(2,992)	–	(2,992)
Finance costs					(2,596)	(2)	(2,598)
(Loss) Profit before tax					(270,251)	242	(270,009)
Income tax credit (expense)					41,433	(106)	41,327
(Loss) Profit for the year					(228,818)	136	(228,682)

4. SEGMENT INFORMATION (continued)

Operating segments (continued)

Year ended 31 December 2008

	Continuing operations					Discontinued operation	
	Film distribution and licensing HK$'000	Film processing HK$'000	Property investment HK$'000	Unallocated HK$'000	Total HK$'000	Advertising and promotional services HK$'000	Total HK$'000
Assets and liabilities:							
Segment assets	64,263	10,990	283,653	–	358,906	937	359,843
Interests in jointly-controlled entities					13,672		13,672
Unallocated corporate assets					30,682		30,682
Total assets					403,260		404,197
Segment liabilities	46,439	4,102	64,969	–	115,510	2,719	118,229
Unallocated corporate liabilities					105,019		105,019
Total liabilities					220,529		223,248
Other segment information:							
Capital expenditure	7	–	445,397	338	445,742	247	445,989
Impairment of trade receivables	–	3,801	–	–	3,801	80	3,881
Write-back of impairment of trade receivables	–	6,059	–	–	6,059	–	6,059
Amortisation of prepaid land lease payments	–	75	–	–	75	–	75
Depreciation	259	209	22	669	1,159	154	1,313
Fair value loss on an investment property	–	–	165,654	–	165,654	–	165,654
Impairment of film production in progress	19,743	–	–	–	19,743	–	19,743

4. SEGMENT INFORMATION (continued)

Geographical segments

The following table presents revenue, non-current assets and capital expenditure information for the Group's geographical segments from continuing operations.

2009

	Hong Kong HK$'000	People's Republic of China ("PRC") HK$'000	Others HK$'000	Total HK$'000
Revenue	**51,253**	**40,147**	**28,088**	**119,488**
Non-current assets	**6,243**	**284,106**	**–**	**290,349**
Capital expenditure	**988**	**9**	**–**	**997**

2008

	Hong Kong HK$'000	PRC HK$'000	Others HK$'000	Total HK$'000
Revenue	25,422	13,349	13,823	52,594
Non-current assets	5,380	297,640	–	303,020
Capital expenditure	345	445,397	–	445,742

The discontinued operation was primarily derived from external customers based in Hong Kong and all assets of this operation were located in Hong Kong. No geographical segment information is presented in accordance with HKFRS 8 "Operating Segments".

Information about major customers

Revenue from continuing operations of approximately HK$17,229,000 (2008: Nil) and HK$19,886,000 (2008: HK$532,000) were derived from two customers of the film distribution and licensing segment.

During the reporting periods, no discontinued operation revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

5. REVENUE, AND OTHER INCOME AND GAINS

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

	2009 HK$'000	2008 HK$'000
An analysis of revenue, and other income and gains from continuing operations is as follows:		
Revenue		
Film distribution and licensing income	**85,989**	33,305
Film processing income	**20,284**	18,301
Property rental income	**13,215**	988
	119,488	52,594
Other income and gains		
Interest income	**57**	840
Dividend income from listed investments held for trading	**–**	239
Excess over the cost of a business combination	**–**	277
Gain on disposal of properties held for sale	**–**	988
Others	**3,075**	1,997
	3,132	4,341

6. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2009 HK$'000	2008 HK$'000
Interest on bank and other borrowings wholly repayable within five years	**129**	279
Interest on bank borrowing wholly repayable over five years	**19**	–
Interest on loans from former shareholders	**860**	324
Interest on a finance lease	**39**	18
Interest on convertible bonds	**5,160**	1,975
	6,207	2,596

7. PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS

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

	2009 HK$'000	2008 HK$'000
Employee benefit expenses (excluding directors' remuneration – note 8):		
Wages and salaries	**12,126**	13,469
Retirement benefit scheme contributions	**445**	894
	12,571	14,363
Auditors' remuneration	**1,328**	1,480
Depreciation	**1,325**	1,159
Amortisation of prepaid land lease payments	**75**	75
Impairment of trade receivables	**989**	3,801
Impairment of film production in progress*	**–**	19,743
Impairment of an amount due from a jointly-controlled entity	**–**	1,349
Cost of inventories recognised as expenses*	**82,090**	42,071
Gain on disposal of items of property, plant and equipment	**(39)**	–
Minimum lease payments under operating leases	**2,586**	2,605
Foreign exchange differences, net	**46**	2,133
Interest income	**(57)**	(840)
Dividend income from listed investments held for trading	**–**	(239)
Rental income on investment property less direct operating expenses of HK$2,993,000 (2008: HK$49,000)	**(10,222)**	(939)
Write-back of impairment of trade receivables	**(1,411)**	(6,059)

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

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	
	2009	2008
	HK$'000	HK$'000
Fees	**521**	360
Other emoluments:		
Salaries, allowances and benefits in kind	**2,444**	3,417
Retirement benefit scheme contributions	**133**	74
	3,098	3,851

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

(a) **Directors' remuneration** (continued)

2009

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:				
Ms. Lai Pik Chi, Peggy	–	677	51	728
Ms. Law Kee, Alice	–	500	38	538
Mr. Wong Pak Ming ("Mr. Wong")	–	662	8	670
Ms. Wong Yee Kwan, Alvina	–	159	3	162
Mr. Wong Chi Woon, Edmond ("Mr. Edmond Wong")	–	36	3	39
Mr. Kwok Tsz Wing #	–	286	21	307
Mr. Hui Wai Lee, Willy	–	124	9	133
	–	2,444	133	2,577
Non-executive directors:				
Mr. Kwok Tsz Wing #	36	–	–	36
Mr. Sin Kwok Lam	125	–	–	125
	161	–	–	161
Independent non-executive directors:				
Mr. Choy Sze Chung, Jojo	120	–	–	120
Mr. Tsui Pui Hung	120	–	–	120
Mr. Chan Tung Tak, Alain	120	–	–	120
	360	–	–	360
	521	2,444	133	3,098

Appointed as a non-executive director and re-designated as an executive director during the year ended 31 December 2009.

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

(a) **Directors' remuneration** (continued)

2008

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:				
Ms. Lai Pik Chi, Peggy	–	150	11	161
Ms. Law Kee, Alice	–	370	27	397
Mr. Wong	–	1,950	12	1,962
Ms. Wong Kit Fong	–	168	5	173
Ms. Wong Yee Kwan, Alvina	–	579	12	591
Mr. Edmond Wong	–	200	7	207
	–	3,417	74	3,491
Independent non-executive directors:				
Mr. Choy Sze Chung, Jojo	120	–	–	120
Mr. Tsui Pui Hung	120	–	–	120
Mr. Chan Tung Tak, Alain	70	–	–	70
Mr. Tang Kai Kui, Terence	50	–	–	50
	360	–	–	360
	360	3,417	74	3,851

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

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

(b) Emoluments of highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2008: three) were directors of the Company, whose emoluments are included in the disclosure set out in note (a) above. The emoluments of the remaining two (2008: two) highest paid individuals were as follows:

	2009 HK$'000	2008 HK$'000
Salaries and other benefits	**1,270**	964
Retirement benefit scheme contributions	**20**	48
	1,290	1,012

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

9. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group has available tax losses brought forward from prior years to offset the assessable profits generated during the year. For the year ended 31 December 2008, Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.

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.

	Group	
	2009 HK$'000	2008 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**–**	36
Overprovision in prior years	**(141)**	(26)
Deferred (note 31)	**1,377**	(41,443)
Total tax charge (credit) for the year	**1,236**	(41,433)

9. INCOME TAX (continued)

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

	Group	
	2009	2008
	HK$'000	HK$'000
Profit (Loss) before tax from continuing operations	**8,727**	(270,251)
Tax at the statutory tax rates	**1,741**	(64,765)
Expenses not deductible for tax	**4,259**	17,340
Income not subject to tax	**(3,624)**	(1,270)
Adjustments in respect of current tax of previous periods	**(141)**	(26)
Tax losses not recognised	**643**	6,800
Tax losses utilised from previous periods	**(2,652)**	(260)
Profits and losses attributable to jointly-controlled entities	**1,010**	748
Tax charge (credit) at the Group's effective rate	**1,236**	(41,433)

10. PROFIT (LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit (loss) attributable to owners of the Company for the year ended 31 December 2009 includes a loss of HK$16,471,000 (2008: loss of HK$256,820,000) which has been dealt with in the financial statements of the Company (note 34).

11. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2009 and 2008, nor has any dividend been proposed since the end of the reporting period.

12. EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings (loss) per share amount is based on the profit for the year and profit for the year from continuing operations of HK$6,694,000 (2008: loss of HK$216,317,000) and HK$6,905,000 (2008: loss of HK$216,453,000), respectively, attributable to owners of the Company, and the weighted average number of 2,228,021,534 (2008: 1,167,196,722) ordinary shares in issue during the year, as adjusted to reflect the placement during the year.

No adjustment has been made to the basic earnings (loss) per share amount presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the convertible bonds and share options outstanding had an anti-dilutive effect on the basic earnings (loss) per share amount presented.

13. DISCONTINUED OPERATION

On 27 March 2009, a share purchase agreement (the "Share Purchase Agreement") was entered into between Grimston Limited ("Grimston"), a wholly-owned subsidiary of the Company, and an independent third party to dispose of Chili Advertising & Promotions Limited ("Chili"). Chili is engaged in the provision of advertising and promotional services and is a separate business segment. In view of the global economic downturn and Chili was operating at a loss, the Group believes that the demand for film advertising and promotional services from the Group and other film companies will decrease and the performance of Chili will be even worse. The transaction was completed on 31 March 2009.

Financial information relating to the discontinued advertising and promotional services operation for the year is set out below. The income statement distinguishes discontinued operation from continuing operations. Comparative figures have been revised.

The results of Chili contributed to the Group up to the completion of its disposal at 31 March 2009 are presented below:

	2009 HK$'000	2008 HK$'000
Revenue	**1,505**	10,635
Cost of sales	**(697)**	(6,275)
Gross profit	**808**	4,360
Interest income	**–**	3
Other income	**–**	46
Depreciation	**(85)**	(154)
Impairment of trade receivables	**–**	(80)
Administrative expenses	**(933)**	(3,931)
Finance costs	**(1)**	(2)
(Loss) Profit before tax from the discontinued operation	**(211)**	242
Income tax expense	**–**	(106)
(Loss) Profit for the year from the discontinued operation	**(211)**	136

13. DISCONTINUED OPERATION (continued)

The net cash flows incurred by Chili are as follows:

	2009 HK$'000	2008 HK$'000
Operating activities	**(1,282)**	368
Investing activities	**534**	(246)
Financing activities	**(1)**	(3)
Net cash (outflow) inflow	**(749)**	119
(Loss) Earnings per share:		
Basic, from discontinued operation	**HK(0.01) cent**	HK0.01 cent
Diluted, from discontinued operation	**N/A**	N/A
The calculations of basic (loss) earnings per share from the discontinued operation are based on:		
(Loss) Profit attributable to owners of the Company from the discontinued operation	**HK$(211,000)**	HK$136,000
Weighted average number of ordinary shares in issue during the year used in the basic (loss) earnings per share calculation	**2,177,900,000**	1,167,196,722

No adjustment has been made to the basic (loss) earnings per share amount presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the convertible bonds and share options outstanding had an anti-dilutive effect on the basic (loss) earnings per share amount presented.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	**Furniture and fixtures** HK$'000	**Leasehold improvements** HK$'000	**Motor vehicles** HK$'000	**Plant, machinery and equipment** HK$'000	**Total** HK$'000
Cost or valuation:						
At 1 January 2008	885	5,789	2,759	1,202	21,229	31,864
Additions	–	10	262	238	82	592
Acquisition of subsidiaries (note 36)	–	–	–	292	18	310
Exchange realignment	–	–	–	6	–	6
Deficit on revaluation	(96)	–	–	–	–	(96)
At 31 December 2008 and 1 January 2009	789	5,799	3,021	1,738	21,329	32,676
Additions	–	330	549	–	118	997
Disposals	–	–	–	–	(134)	(134)
Disposal of subsidiaries (note 35)	–	(135)	(362)	(238)	(253)	(988)
Exchange realignment	–	2	–	–	–	2
At 31 December 2009	789	5,996	3,208	1,500	21,060	32,553
Comprising:						
At cost	–	5,996	3,208	1,500	21,060	31,764
At valuation – 2008	789	–	–	–	–	789
	789	5,996	3,208	1,500	21,060	32,553

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Total HK$'000
Depreciation and amortisation:						
At 1 January 2008	–	5,297	2,002	260	20,540	28,099
Provided for the year	96	134	593	259	231	1,313
Write-back on revaluation	(96)	–	–	–	–	(96)
Exchange realignment	–	–	–	5	–	5
At 31 December 2008 and 1 January 2009	–	5,431	2,595	524	20,771	29,321
Provided for the year	80	130	600	370	230	1,410
Disposals	–	–	–	–	(89)	(89)
Disposal of subsidiaries (note 35)	–	(109)	(362)	(32)	(192)	(695)
Exchange realignment	–	1	–	(5)	6	2
At 31 December 2009	80	5,453	2,833	857	20,726	29,949
Carrying value:						
At 31 December 2009	709	543	375	643	334	2,604
At 31 December 2008	789	368	426	1,214	558	3,355

The net book value of motor vehicle of HK$392,000 (2008: HK$722,000) is held under a finance lease.

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

The Group's buildings were revalued at 31 December 2008 by RHL Appraisal Limited ("RHL Appraisal"), independent professional qualified valuers, on depreciated replacement cost approach. The valuation was arrived at by an estimate of new replacement costs of buildings and structures of the property from which deductions are then made to allow for age, conditions, and functional obsolescence.

At 31 December 2009, had the buildings of the Group been carried at historical cost less accumulated depreciation and amortisation and accumulated impairment losses, their carrying values would have been approximately HK$712,000 (2008: HK$792,000).

As at 31 December 2009, the Group's buildings with a net book value of HK$709,000 (2008: HK$789,000) were pledged to secure banking facilities granted to the Group (note 39).

15. INVESTMENT PROPERTY

	Group	
	2009	2008
	HK$'000	HK$'000
Carrying amount at 1 January	**283,640**	–
Acquisition of subsidiaries (note 36)	**–**	445,087
Net loss from a fair value adjustment	**–**	(165,654)
Exchange realignment	**161**	4,207
Carrying amount at 31 December	**283,801**	283,640

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

The Group's investment property was revalued on 31 December 2009 by RHL Appraisal, at HK$283,801,000 on an open market, existing use basis. The investment property is leased to third parties under operating leases, further summary details of which are included in note 37 to the financial statements.

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2009	2008
	HK$'000	HK$'000
Carrying amount at 1 January	**2,428**	2,503
Recognised during the year	**(75)**	(75)
Carrying amount at 31 December	**2,353**	2,428
Current portion	**(75)**	(75)
Non-current portion	**2,278**	2,353

The Group's leasehold land was held under a medium term lease in Hong Kong and was pledged to secure banking facilities granted to the Group (note 39).

17. GOODWILL

	Group	
	2009	2008
	HK$'000	HK$'000
Cost at 1 January	**–**	–
Acquisition of subsidiaries (note 36)	**–**	69,034
Impairment during the year	**–**	(69,034)
Carrying amount at 31 December	**–**	–

Subsequent to the acquisition of the investment property (the "Investment Property") by the Group in April 2008, there was economic turmoil in most global financial markets in the fourth quarter of 2008 and the property rental business in Mainland China was adversely affected. This has been reflected in the decline in the carrying value of the Investment Property which was based on the revaluation performed by RHL Appraisal. In view of this, the directors considered that the carrying amount of the goodwill attributable to the property rental business in Mainland China of HK$69,034,000 was fully impaired. Accordingly, an impairment of goodwill of HK$69,034,000 was charged to the consolidated income statement for the year ended 31 December 2008.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**6,172**	6,172

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

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries of the Company at 31 December 2009 and 2008 are as follows:

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company 2009	2008	Principal activities
Adore Capital Limited	British Virgin Islands ("BVI")	US$1	**100**	100	Investment holding
Chili Advertising & Promotions Limited ("Chili")	Hong Kong	HK$10,000	**–**	100	Provision of advertising and promotional services
Mandarin Films Limited (Formerly known as Fame Sight Investment Limited)	Hong Kong	HK$1	**100**	100	Production and distribution of films and provision of management services
Grimston Limited	BVI/Hong Kong	US$10,000	**100**	100	Investment holding
Mandarin Films Distribution Company Limited	Hong Kong	HK$20 ordinary shares HK$10,000,000 non-voting deferred shares (note)	**100**	100	Distribution of films produced or purchased by the Group
Pioneer Films Limited (Formerly known as Mandarin Films Distribution Co., Ltd.)	BVI	US$10,000	**100**	100	Distribution of films produced or purchased by the Group
Elite Films Limited (Formerly known as Mandarin Films Limited)	Hong Kong	HK$100	**100**	100	Production and distribution of films
Mandarin Laboratory Limited	Hong Kong	HK$10,000	**100**	100	Investment holding
Film City Enterprises Limited ("Film City")	BVI	US$1	**–**	100	Investment holding

18. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company 2009	2008	Principal activities
Mandarin Laboratory (International) Limited	Hong Kong	HK$1,000,000	**100**	100	Film processing and storage of films
Motion Picture Limited (Formerly known as Mandarin Motion Picture Limited)	Hong Kong	HK$500,000	**100**	100	Production of films
Sino Step INC.	BVI	US$1	**100**	100	Investment holding
Walsbo Limited	Hong Kong	HK$2 ordinary shares HK$9,800 non-voting deferred shares (note)	**100**	100	Investment holding
Profit Source International Limited	Hong Kong	HK$1	**100**	100	Investment holding
成都中發黃河實業有限公司 (“成都中發”) ^	PRC	RMB172,345,347	**90**	90	Property holding
Prosper China Limited	BVI	US$100	**100**	100	Investment holding
北京東方新青年文化發展有限公司 ^^	PRC	HK$10,000,000	**100**	100	Distribution of films produced by the Group
Mandarin Films Library Limited #	Hong Kong	HK$1	**100**	–	Films licensing

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.

^ 成都中發 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.

Newly incorporated during the year.

18. INTERESTS IN SUBSIDIARIES (continued)

During the year, the Group disposed of Chili and Film City. Further details of the disposals of subsidiaries are included in note 35 to the financial statements.

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 and Grimston Limited. All other interests shown above are indirectly held.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2009	2008
	HK$'000	HK$'000
Unlisted investments, at cost	**3,500**	26,141
Impairment	**(3,500)**	(3,500)
Share of post-acquisition losses	**–**	(8,969)
	–	13,672
Loan to a jointly-controlled entity	**–**	10,927
Impairment	**–**	(10,927)
	–	–

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

At 31 December 2009, the Group had interests in the following jointly-controlled entities:

Name of entity	Form of business structure	Place of incorporation/ operations	Percentage of nominal value of issued share capital/ registered capital held indirectly by the Company		Nature of business
			2009	2008	
浙江東方國際發展有限公司 ("浙江東方")	Incorporated	PRC (note)	–	37.5	Hotel operations
東方橫店影視後期製作有限公司 ("橫店影視製作")	Incorporated	PRC (note)	**49**	49	Provision of film processing and post production services for films and television series but not yet commenced operation
Dong Tian Motion Picture Investment Limited ("Dong Tian")	Incorporated	BVI	–	50	Investment holding

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

During the year, the Group disposed of its interest in 浙江東方 through the disposal of Film City. Further details of the disposal are included in note 35 to the financial statements.

In addition, the major operation of Dong Tian in the PRC was disposed of during the year and the capital amounted to HK$3,184,000 was returned to the Group upon its disposal.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

	2009 HK$'000	2008 HK$'000
Share of jointly-controlled entities assets and liabilities:		
Non-current assets	**–**	37,369
Current assets	**–**	20,337
Current liabilities	**–**	(14,287)
Non-current liabilities	**–**	(26,247)
Net assets	**–**	17,172
Share of the results, including the jointly-controlled entities which were disposed of during the year:		
Revenue and other income	**8,319**	12,457
Expenses	**(12,357)**	(15,449)
Income tax expense	**–**	–
Loss for the year	**(4,038)**	(2,992)

20. INVENTORIES

	Group	
	2009 HK$'000	2008 HK$'000
Raw materials	**1,349**	1,994
Work in progress	**888**	13
	2,237	2,007

21. TRADE RECEIVABLES

	Group	
	2009	2008
	HK$'000	HK$'000
Trade receivables	**10,916**	18,267
Impairment	**(3,596)**	(12,780)
	7,320	5,487

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 to 120 days. Before accepting any new customers, the Group uses an internal credit assessment process to assess the potential customers' credit quality and defines credit limits by customers. Limits attributed to customers are reviewed regularly.

As 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:

	2009	2008
	HK$'000	HK$'000
0 – 90 days	**5,687**	3,527
91 – 180 days	**1,168**	882
181 – 365 days	**458**	292
Over 1 year	**7**	786
	7,320	5,487

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

	2009	2008
	HK$'000	HK$'000
91 – 180 days	**1,168**	882
More than 180 days	**465**	1,078
	1,633	1,960

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

21. TRADE RECEIVABLES (continued)

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:

	2009 HK$'000	2008 HK$'000
At 1 January	**12,780**	14,958
Impairment recognised	**989**	3,881
Impairment reversed	**(1,411)**	(6,059)
Amount written off as uncollectible	**(8,762)**	–
At 31 December	**3,596**	12,780

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

22. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS PAID

	Group		**Company**	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Other receivables	**545**	186	**–**	–
Prepayments	**121**	212	**–**	90
Deposits	**2,786**	953	**–**	–
Carrying amount at 31 December	**3,452**	1,351	**–**	90
Current portion	**(1,786)**	(1,351)	**–**	(90)
Non-current portion	**1,666**	–	**–**	–

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there is no recent history of default.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**32,892**	13,604	**20,488**	103
Time deposits with original maturity of less than three months	**–**	2,357	**–**	–
Cash and cash equivalents	**32,892**	15,961	**20,488**	103
Pledged deposits with original maturity of less than three months	**–**	536	**–**	–
Total	**32,892**	16,497	**20,488**	103

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$3,004,000 (2008: HK$3,614,000). 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 time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 17 December 2009, Grimston and Pegasus Motion Pictures Limited ("Pegasus"), a company which was owned by Mr. Edmond Wong, the son of 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 (formerly known as "Mandarin Films Limited"), Motion Picture Limited (formerly known as "Mandarin Motion Picture Limited") and Pioneer Films Limited (formerly known as "Mandarin Films Distribution Company Limited (BVI)") (collectively known as the "Disposal Group") at a cash consideration of HK$29,000,000 which constituted a connected transaction.

As at 31 December 2009, the Sale and Purchase Agreement has not yet been completed. In accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the assets and liabilities of the Disposal Group have been presented as assets and liabilities of a disposal group classified as held for sale under current assets and current liabilities, respectively.

The major classes of the assets and liabilities of the Disposal Group classified as held for sale as at 31 December 2009 are as follows:

	2009 HK$'000
Assets	
Film rights	62
Film production in progress	624
Assets classified as held for sale	686
Liabilities	
Other payables and accruals	(134)
Net assets directly associated with a disposal group classified as held for sale	552

25. 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	
	2009	2008
	HK$'000	HK$'000
0 – 90 days	**993**	3,544
91 – 180 days	**34**	457
181 – 365 days	**–**	80
	1,027	4,081

26. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**9,059**	8,707	**–**	–
Deposits in advance	**57,569**	36,783	**–**	–
Accruals	**3,737**	5,003	**619**	246
	70,365	50,493	**619**	246

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

Deposits in advance mainly represent the amount received from distributors and the deposit of HK$20,000,000 received from the disposal of subsidiaries (note 24) which are unsecured, interest-free and have no fixed terms of repayment. The directors have determined that the carrying amounts of the balances reasonably approximate to their fair values.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate %	Maturity	Group 2009 HK$'000	Group 2008 HK$'000	Company 2009 HK$'000	Company 2008 HK$'000
Current						
Bank loans – secured	3.75	2010	**169**	–	**169**	–
Bank overdrafts – secured	5 – 7	On demand	**–**	6,605	**–**	3,655
Other borrowings – unsecured	1 – 5.58	2009	**–**	5,840	**–**	–
			169	12,445	**169**	3,655
Non-current						
Bank loans – secured	4.75 – 7.5	2010	**–**	166	**–**	–
Bank loans – secured	3.75	2019	**1,789**	–	**1,789**	–
			1,789	166	**1,789**	–
			1,958	12,611	**1,958**	3,655

	Group 2009 HK$'000	Group 2008 HK$'000	Company 2009 HK$'000	Company 2008 HK$'000
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year	**169**	6,605	**169**	3,655
In the second year	**176**	166	**176**	–
In the third to fifth years, inclusive	**569**	–	**569**	–
Beyond five years	**1,044**	–	**1,044**	–
	1,958	6,771	**1,958**	3,655
Other borrowings repayable:				
Within one year	**–**	5,840	**–**	–
	1,958	12,611	**1,958**	3,655

The Group's bank borrowings were secured by the buildings and the leasehold land of the Group (note 39).

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

28. OBLIGATIONS UNDER A FINANCE LEASE

The Group leases its motor vehicle for its business use. The lease is classified as a finance lease and has a remaining lease term of two years. Interest rate underlying all obligations under the finance lease is fixed at contract date of 4%. This lease has no terms of renewal or purchase options and escalation clauses. No arrangement has been entered into for contingent rental payments.

Group

	Minimum lease payments		Present value of minimum lease payments	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Amounts payable:				
Within one year	**110**	110	**92**	92
In the second year	**11**	110	**8**	92
In the third to fifth years, inclusive	**–**	11	**–**	8
Total minimum finance lease payments	**121**	231	**100**	192
Future finance charges	**(21)**	(39)		
Total net finance lease payables	**100**	192		
Portion classified as current liabilities	**(92)**	(92)		
Non-current portion	**8**	100		

29. CONVERTIBLE BONDS

As part of the consideration for the acquisition of Profit Source International Limited ("Profit Source") and its subsidiary (the "Profit Source Group") (note 36), the Company issued zero coupon convertible bonds due on 18 October 2011 up to an aggregate principal amount of HK$70,000,000 of which HK$40,000,000 could be reduced on a dollar to dollar basis shall the Group has to settle in cash for several litigations more than a settlement amount of RMB130,956,000 as accrued by the Profit Source Group upon its disposal. The bonds are convertible at the option of the bondholders into fully paid ordinary shares at a par value of HK$0.10 each of the Company at any time from the date of the issue of the bonds up to and including 18 October 2011 at an initial conversion price of HK$0.4 per share (subject to adjustment). Pursuant to the open offer of 1,426,900,000 new ordinary shares by the Company (note 32), the conversion price was adjusted to HK$0.274 per share. The Group has an option to settle the conversion requested by bondholders in cash. The bonds are redeemable at the option of the Company at 100% of their principal amount six months after the issuance. Any convertible bonds not converted will be redeemed on 18 October 2011 at 100% of their principal amount.

29. CONVERTIBLE BONDS (continued)

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

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

The convertible bonds issued in 2008 had been split as to the derivative and liability components, and the movements in the derivative and liability components were as follows:

	HK$'000
Nominal value of convertible bonds issued during the year	63,739
Derivative component	(20,916)
Liability component at the issuance date	42,823
Interest expense for the year 2008	1,975
Liability component at 31 December 2008	44,798
Interest expense for the year 2009	5,160
Redemption during the year	(49,958)
Liability component at 31 December 2009	–
Derivative component at the issuance date	20,916
Fair value gain recognised during the year	(14,176)
Derivative component at 31 December 2008	6,740
Fair value gain recognised during the year	(9)
Redemption during the year	(6,731)
Derivative component at 31 December 2009	–

During the year, the Group redeemed the convertible bonds from the bondholders in the principal amount of HK$63,739,000 at 100% of the outstanding principal amount. The loss on the early redemption of HK$7,050,000 was recognised in the consolidated income statement.

30. LOANS FROM FORMER SHAREHOLDERS

As at 31 December 2008, the Group had loan balances of HK$13,036,000 from Mr. Zhang Xun ("Mr. Zhang"), which were unsecured, borne interest at 1% to 3% per annum and were repayable on demand and a loan balance HK$20,000,000 from Mr. Wong which was unsecured, borne interest at 2% below the Hong Kong prime rate and was repayable on or before 10 November 2010.

During the year ended 31 December 2009, the loans from Mr. Zhang and Mr. Wong were fully repaid.

31. DEFERRED TAX

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

Deferred tax liabilities

Group	**Temporary differences arising from the acquisition of subsidiaries** HK$'000	**Accelerated tax depreciation** HK$'000	**Total** HK$'000
At 1 January 2008	–	508	508
Effect on opening deferred tax of decrease in tax rate (note 9)	–	(29)	(29)
Acquisition of subsidiaries (note 36)	104,142	–	104,142
Deferred tax credited to the consolidated income statement during the year (note 9)	(41,414)	–	(41,414)
Exchange realignment	853	–	853
At 31 December 2008 and 1 January 2009	63,581	479	64,060
Deferred tax charged (credited) to the consolidated income statement during the year (note 9)	1,459	(79)	1,380
Exchange realignment	37	–	37
At 31 December 2009	65,077	400	65,477

31. DEFERRED TAX (continued)

Deferred tax assets

Group	**Losses available for offsetting against future taxable profits** HK$'000
At 1 January 2008, 31 December 2008 and January 2009	–
Deferred tax credited to the income statement during the year (note 9)	3
Gross deferred tax assets at 31 December 2009	3

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2009 **HK$'000**	2008 HK$'000
Net deferred tax liabilities recognised in the consolidated statement of financial position	**65,474**	64,060

At 31 December 2009, the Group had unused tax losses of approximately HK$106,619,000 (2008: HK$116,266,000) available indefinitely for offsetting against future profits of the companies in which the losses arose. No deferred tax asset in respect of such losses has been recognised due to the unpredictability of future profit streams.

32. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
10,000,000,000 (2008: 10,000,000,000) ordinary shares of HK$0.10 each (note a)	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2008	576,000,000	57,600
Issue of shares (note b)	175,000,000	17,500
Open offer (note c)	1,426,900,000	142,690
At 31 December 2008 and 1 January 2009	2,177,900,000	217,790
Placement (note d)	435,580,000	43,558
At 31 December 2009	2,613,480,000	261,348

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

Notes:

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

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

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

(d) On 20 November 2009, 435,580,000 ordinary shares of HK$0.10 each were allotted and issued, credited as fully paid at an issue price of HK$0.145 per share, for repayment of debts and general working capital.

33. SHARE OPTIONS

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

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

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

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

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

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the issued share capital of the Company for the time being, without prior approval from the Company's shareholders.

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

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

33. SHARE OPTIONS (continued)

Name of director	Date of grant	Exercise period	Exercise price per share HK$	Outstanding at 1.1.2008	Granted during the year	Adjustments (note)	Forfeited during the year	Outstanding at 1.1.2009	Granted during the year	Forfeited during the year	Outstanding at 31.12.2009
Mr. Wong#	23.6.2006	24.12.2006 to 20.8.2011	0.577	366,048	–	167,500	–	533,548	–	(533,548)	–
	10.5.2007	22.11.2007 to 20.8.2011	0.541	1,395,000	–	638,340	–	2,033,340	–	(2,033,340)	–
Mr. Edmond Wong#	23.6.2006	24.12.2006 to 20.8.2011	0.577	366,048	–	167,500	–	533,548	–	(533,548)	–
	10.5.2007	22.11.2007 to 20.8.2011	0.541	1,395,000	–	638,340	–	2,033,340	–	(2,033,340)	–
Ms. Wong Yee Kwan, Alvina#	23.6.2006	24.12.2006 to 20.8.2011	0.577	366,048	–	167,500	–	533,548	–	(533,548)	–
	10.5.2007	22.11.2007 to 20.8.2011	0.541	1,395,000	–	638,340	–	2,033,340	–	(2,033,340)	–
Mr. Tang Kai Kui, Terrence^	23.6.2006	24.12.2006 to 20.8.2011	0.577	366,048	–	167,500	(533,548)	–	–	–	–
	10.5.2007	22.11.2007 to 20.8.2011	0.541	2,790,000	–	1,276,681	(4,066,681)	–	–	–	–
				8,439,192	–	3,861,701	(4,600,229)	7,700,664	–	(7,700,664)	–
Employees	23.6.2006	24.12.2006 to 20.8.2011	0.577	732,096	–	335,000	–	1,067,096	–	(1,067,096)	–
	10.5.2007	22.11.2007 to 20.8.2011	0.541	2,511,000	–	1,149,012	–	3,660,012	–	(3,660,012)	–
				3,243,096	–	1,484,012	–	4,727,108	–	(4,727,108)	–
				11,682,288	–	5,345,713	(4,600,229)	12,427,772	–	(12,427,772)	–

\# Resigned during the year ended 31 December 2009

^ Resigned during the year ended 31 December 2008

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

33. SHARE OPTIONS (continued)

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

No share option was granted by the Company during the years ended 31 December 2009 and 2008.

The Company forfeited 12,427,772 share options during the year and the estimated fair value of share options being transferred to accumulated losses was HK$1,674,000.

At the end of the reporting period, the Company had no share options outstanding under the Scheme.

34. RESERVES

Group

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

Company

	Notes	Share premium HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2008		156,625	44,072	2,301	(69,156)	133,842
Loss for the year	10	–	–	–	(256,820)	(256,820)
Total comprehensive loss for the year		–	–	–	(256,820)	(256,820)
Issue of shares	32	52,500	–	–	–	52,500
Transaction costs attributable to issue of shares		(3,755)	–	–	–	(3,755)
Transferred to accumulated losses on forfeiture of share options		–	–	(627)	627	–
At 31 December 2008 and 1 January 2009		**205,370**	**44,072**	**1,674**	**(325,349)**	**(74,233)**
Loss for the year	10	**–**	**–**	**–**	**(16,471)**	**(16,471)**
Total comprehensive loss for the year		**–**	**–**	**–**	**(16,471)**	**(16,471)**
Issue of shares	32	**19,601**	**–**	**–**	**–**	**19,601**
Transaction costs attributable to issue of shares		**(876)**	**–**	**–**	**–**	**(876)**
Transferred to accumulated losses on forfeiture of share options		**–**	**–**	**(1,674)**	**1,674**	**–**
At 31 December 2009		**224,095**	**44,072**	**–**	**(340,146)**	**(71,979)**

The contributed surplus of the Company represents the excess of the combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange thereof at the time of the group reorganisation in 2001.

35. DISPOSAL OF SUBSIDIARIES

(a) Disposal of Chili

During the year, the Group entered into the Share Purchase Agreement with the independent third party to dispose of Chili at a total consideration of HK$2,363,000 which is settled by a cash consideration of HK$500,000 and the remaining is offset by the loan due from Grimston, the immediate holding company of Chili, amounted to HK$1,863,000. Details in respect of the disposal of Chili during the year are as follows:

	Note	**2009** **HK$'000**
Net assets disposed of:		
Property, plant and equipment	14	**293**
Trade receivables		**244**
Other receivables, prepayments and deposits paid		**82**
Due from Grimston		**1,863**
Trade payables		**(112)**
Other payables and accruals		**(173)**
Due to a former director		**(11)**
Bank overdraft		**(21)**
		2,165
Gain on the disposal		**198**
		2,363
Satisfied by:		
Cash		**500**
Due from Grimston		**1,863**
		2,363

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

	2009 **HK$'000**
Cash consideration	**500**
Bank overdraft disposed of	**21**
Net inflow of cash and cash equivalents in respect of the disposal of Chili	**521**

35. DISPOSAL OF SUBSIDIARIES (continued)

(b) Disposal of Film City

On 3 December 2009, Grimston, the immediately holding company of Film City, and Billion Base Investments Limited, a company which was owned by Mr. Zhang Yong, the son of Mr. Zhang, entered into a sale and purchase agreement. Pursuant to the sale and purchase agreement, the Group disposed of the entire interest in Film City which holds a 37.5% interest in 浙江東方 and the amount due to Grimston amounted to HK$15,192,000 at a total consideration of HK$23,863,000, which is settled by cash. Details in respect of the disposal of Film City during the year are as follows:

	2009
	HK$'000
Net assets disposed of:	
Interest in a jointly-controlled entity	**6,439**
Due to Grimston	**(15,192)**
	(8,753)
Gain on the disposal	**17,424**
	8,671
Satisfied by:	
Cash	**23,863**
Due to Grimston	**(15,192)**
	8,671

As analysis of the net inflow of cash and cash equivalents in respect of the disposal of Film City is as follows:

	2009
	HK$'000
Cash consideration and net inflow of cash and cash equivalents in respect of the disposal of Film City	**23,863**

36. BUSINESS COMBINATION

(a) Acquisition of the Profit Source Group

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

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

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

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

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

As described in note 29 to the financial statements, the cash consideration was increased from HK$100,000,000 to HK$106,261,000 while the principal amount of the convertible bonds was reduced to HK$63,739,000. However, the total purchase consideration remained the same.

36. BUSINESS COMBINATION (continued)

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

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

	Notes	Fair value recognised on acquisition HK$'000	Previous carrying amount HK$'000
Property, plant and equipment	14	304	304
Investment property		445,087	445,087
Investment held for trading		430	430
Cash and bank balances		474	474
Shareholder's loan		(31,766)	(31,766)
Other payables and accruals (including provision for litigations of RMB130,956,000)		(146,655)	(138,336)
Deferred tax liabilities		(104,142)	–
Minority interests		(19,571)	(30,816)
		144,161	245,377
Goodwill	17	69,034	
		213,195	
Satisfied by:			
Cash		106,261	
Consideration Shares		70,000	
Convertible bonds	29	63,739	
Costs associated with the Acquisition		4,961	
Shareholder's loan		(31,766)	
		213,195	

36. BUSINESS COMBINATION (continued)

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

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

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

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

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

Had the combination taken place at the beginning of 2008, the revenue and the loss of the Group for 2008 would have been HK$63,849,000 and HK$267,344,000, respectively.

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

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

36. BUSINESS COMBINATION (continued)

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

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

	Notes	Fair value recognised on acquisition HK$'000	Previous carrying amount HK$'000
Property, plant and equipment	14	6	6
Cash and bank balances		1,036	1,036
Trade receivables		1	1
Prepayments and other receivables		32	32
Other payables and accruals		(798)	(798)
		277	277
Excess over the cost of a business combination	5	(277)	
		–	
Satisfied by:			
Cash consideration of HK$1		–	

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

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

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

Had the combination taken place at the beginning of 2008, the revenue and the loss of the Group for 2008 would have been HK$63,229,000 and HK$228,682,000, respectively.

37. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment property under operating lease arrangements, with leases negotiated for terms ranging from 1 to 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	
	2009 HK$'000	2008 HK$'000
Within one year	**14,831**	1,221
In the second to fifth years, inclusive	**63,966**	375
Over five years	**72,064**	–
	150,861	1,596

(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	
	2009 HK$'000	2008 HK$'000
Within one year	**810**	2,283
In the second to fifth years, inclusive	**237**	327
	1,047	2,610

38. OTHER COMMITMENTS

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

	Group	
	2009	2008
	HK$'000	HK$'000
Contracted but not provided for:		
Production of a film	**710**	3,592
Plant and machinery	**829**	–
	1,539	3,592
Authorised but not contracted for:		
Production of a film	**7,850**	–
	9,389	3,592

The Company did not have any other significant commitments at the end of the reporting period (2008: Nil).

(b) At the end of the reporting period, the Group had contract for capital commitments in respect of a sino foreign-owned joint venture enterprise in the PRC amounting to HK$3,000,000 (2008: HK$4,500,000).

39. BANKING FACILITIES AND PLEDGE OF ASSETS

At 31 December 2009, the Group's banking facilities are secured by certain of the Group's buildings and leasehold land with carrying values of HK$709,000 (2008: HK$789,000) and HK$2,353,000 (2008: HK$2,428,000), respectively.

40. RELATED PARTY DISCLOSURES

(i) Related party transactions and connected transactions

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

(a) Rental expenses of HK$496,000 (2008: HK$614,000) for certain office premises are paid to Pure Project Limited ("Pure Project"), a related company in which Mr. Wong, a former director of the Company, has beneficial interest.

(b) The agency fees of HK$119,000 (2008: HK$176,000) and HK$25,000 (2008: HK$90,000) are charged by 廣州東影影視出品有限公司 ("Tung Ying") and Prime Moon International Limited ("Prime Moon"), in which a brother and a sister of Mr. Wong have beneficial interest, 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.

(c) Management fee of HK$63,000 (2008: HK$46,000) is paid to Tung Ying for handling the daily operation of the office in Guangzhou.

(d) The production expenses of HK$1,500,000 (2008: HK$300,000) and HK$400,000 (2008: Nil) are 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, respectively, of which the shareholdings are beneficially owned by Mr. Wong.

(e) The script writing fee of HK$250,000 (2008: Nil) and provision of shooting and editing service fee of HK$352,000 (2008: Nil) are paid to Pegasus, a related company in which Mr. Edmond Wong, a former director and the son of Mr. Wong, has beneficial interest.

40. RELATED PARTY DISCLOSURES (continued)

(i) Related party transactions and connected transactions (continued)

(f) Management fee of HK$715,000 (2008: HK$232,000) is paid to 四川黃河商業有限責任公司, a related company in which Mr. Cheng Keung Fai ("Mr. Cheng"), a substantial shareholder of the Company, has beneficial interest.

(g) Service fee of HK$80,000 (2008: Nil) is paid to Mr. Cheng Ka Sing, the son of Mr. Cheng.

(h) Hotel rooms rental expenses of HK$170,000 (2008: Nil) are paid to Sofitel Shanghai Sheshan Huanghe Hotel, which is not wholly owned by 上海銀湖酒店有限公司, in which Mr. Cheng has the ultimately beneficial interest, as accommodation for the production crew of a film.

(i) Rental expenses of HK$125,000 (2008: Nil) for certain premises are paid to Wealth Gate Investment Limited, a related company in which Mr. Sin Kwok Lam ("Mr. Sin"), a former director of the Company, has beneficial interest.

(j) Interest of HK$7,000 (2008: Nil) is paid to First Credit Limited, a related company in which Mr. Sin has beneficial interest.

(ii) Compensation of key management personnel

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

(iii) Outstanding balances with related parties

Except for loans from former shareholders (note 30), the balances with a shareholder, a minority shareholder, and former directors are unsecured, interest-free and have no fixed terms of repayment.

41. CONTINGENT LIABILITIES

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

42. FINANCIAL INSTRUMENTS

Categories of financial instruments

	Group		Company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Financial assets				
(a) Financial assets at fair value through profit or loss				
– Investments held for trading	**–**	1	**–**	–
(b) Loans and receivables				
– Trade receivables	**7,320**	5,487	**–**	–
– Other receivables	**545**	186	**–**	–
– Due from subsidiaries	**–**	–	**165,286**	213,143
– Due from a minority shareholder	**–**	12,372	**–**	–
– Pledged deposits	**–**	536	–	–
– Cash and cash equivalents	**32,892**	15,961	**20,488**	103
	40,757	34,542	**185,774**	213,246
	40,757	34,543	**185,774**	213,246

42. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
(a) Financial liabilities at amortised cost				
– Trade payables	**1,027**	4,081	**–**	–
– Other payables	**9,059**	8,707	**–**	–
– Due to former directors	**–**	104	**–**	62
– Due to a subsidiary	**–**	–	**–**	450
– Due to a shareholder	**–**	6,991	**–**	–
– Interest-bearing bank and other borrowings	**1,958**	12,611	**1,958**	3,655
– Obligations under a finance lease	**100**	192	**–**	–
– Convertible bonds	**–**	44,798	**–**	44,798
– Loans from former shareholders	**–**	33,036	**–**	20,000
	12,144	110,520	**1,958**	68,965
(b) Financial liabilities at fair value through profit or loss				
– Derivative component of convertible bonds	**–**	6,740	**–**	6,740
	12,144	117,260	**1,958**	75,705

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the values of Company's own equity instruments underlie the fair values of derivatives.

Foreign currency risk

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

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

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

	Increase (decrease) in RMB rate	Increase (decrease) in profit before tax
	%	HK$'000
2009		
If Hong Kong dollar weakens against RMB	**5**	**(102)**
If Hong Kong dollar strengthens against RMB	**(5)**	**102**
2008		
If Hong Kong dollar weakens against RMB	5	2,769
If Hong Kong dollar strengthens against RMB	(5)	(2,769)

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, an amount due from a minority shareholder, 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.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

Group

	Less than one year HK$'000	**Over one year** HK$'000	**Total** HK$'000
2009			
Trade payables	**1,027**	**–**	**1,027**
Other payables	**9,059**	**–**	**9,059**
Interest-bearing bank and other borrowings	**169**	**1,789**	**1,958**
Obligations under a finance lease	**92**	**8**	**100**
	10,347	**1,797**	**12,144**
2008			
Trade payables	4,081	–	4,081
Other payables	8,707	–	8,707
Due to former directors	104	–	104
Due to a shareholder	6,991	–	6,991
Interest-bearing bank and other borrowings	12,445	166	12,611
Obligations under a finance lease	92	100	192
Convertible bonds	–	63,739	63,739
Loans from former shareholders	13,036	20,000	33,036
	45,456	84,005	129,461

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

	Less than one year HK$'000	**Over one year** HK$'000	**Total** HK$'000
2009			
Interest-bearing bank and other borrowings	**169**	**1,789**	**1,958**
2008			
Due to a former director	62	–	62
Due to a subsidiary	450	–	450
Interest-bearing bank and other borrowings	3,655	–	3,655
Convertible bonds	–	63,739	63,739
Loans from former shareholders	–	20,000	20,000
	4,167	83,739	87,906

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 2009 and 2008.

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.

44. EVENT AFTER THE REPORTING PERIOD

The Sale and Purchase Agreement entered into between Grimston and Pegasus to dispose of three subsidiaries at a cash consideration of HK$29,000,000 is completed on 3 March 2010 and is expected to result in a gain on disposal of approximately HK$27,000,000.

45. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, certain comparative amounts have been reclassified and revised to conform with current year's presentation and accounting treatment.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 16 April 2010.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**119,488**	52,594	68,943	70,041	35,955
Profit (Loss) before tax					
from continuing operations	**8,727**	(270,251)	(40,163)	794	(19,754)
Income tax (expense) credit	**(1,236)**	41,433	126	889	1,244
Profit (Loss) for the year					
from continuing operations	**7,491**	(228,818)	(40,037)	1,683	(18,510)
DISCONTINUED OPERATION					
(Loss) Profit for the year from					
a discontinued operation	**(211)**	136	(30)	(10)	(109)
Profit (Loss) for the year	**7,280**	(228,682)	(40,067)	1,673	(18,619)
Attributable to:					
Owners of the Company	**6,694**	(216,317)	(40,067)	1,673	(18,619)
Minority interests	**586**	(12,365)	–	–	–
	7,280	(228,682)	(40,067)	1,673	(18,619)

	At 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**391,113**	404,197	219,163	109,885	122,614
Total liabilities	**(140,137)**	(223,248)	(56,514)	(55,196)	(70,240)
	250,976	180,949	162,649	54,689	52,374
Attributable to:					
Owners of the Company	**227,242**	158,148	162,649	54,689	52,374
Minority interests	**23,734**	22,801	–	–	–
	250,976	180,949	162,649	54,689	52,374

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an annual general meeting of China Mandarin Holdings Limited (the "**Company**") will be held at 5/F., Cheung Fai Industrial Building, 131 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on Wendnesday, 9 June 2010 at 2:30 p.m. for the following purposes:

1. to receive and adopt the audited consolidated financial statements and the reports of the directors (the "**Directors**") and auditors of the Company for the year ended 31 December 2009;

2. (a) to re-elect Ms. Law Lee, Alice as executive Director;

   (b) to re-elect Mr. Tsui Pui Hung as independent non-executive Director;

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

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

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

4. "**THAT**:

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

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

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

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

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

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

(d) for the purposes of this resolution:

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

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

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

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

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

5. "**THAT**:

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

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

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

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

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

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

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

SPECIAL RESOLUTION

7. "**THAT** the Bye-laws of the Company be amended as follows:

   (1) Bye-law 87(1)

   By deleting the words "Deputy Chairman," immediately after the words "holding office as Chairman," in Bye-law 87(1).

   (2) Bye-law 118

   By deleting the existing Bye-law 118 in its entirety and substituting therewith the following:

   "118. The Board may elect a chairman of its meetings and determine the period for which he is to hold such office. If no chairman is elected, or if at any meeting the chairman is not present within five (5) minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of the meeting."

   (3) Bye-law 127

   (i) By deleting the existing Bye-law 127(1) in its entirety and substituting therewith the following:

   "(1). The officers of the Company shall consist of the Directors and Secretary and such additional officers (who may or may not be Directors) as the Board may from time to time determine, all of whom shall be deemed to be officers for the purposes of the Act and, subject to Bye-law 132(4), these Bye-laws."

(ii) By deleting the existing Bye-law 127(2) in its entirety and substituting therewith the words "[intentionally deleted]".

By order of the board of directors of
China Mandarin Holdings Limited
Lai Pik Chi, Peggy
Chairman

Hong Kong, 27 April 2010

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
5/F, Cheung Fai Industrial Building,
131 Wai Yip Street, Kwun Tong,
Kowloon,
Hong Kong

Notes:

1. A member entitled to attend and vote at the annual general meeting convened by the above notice is entitled to appoint one or, if he is a holder of more than one share, more proxies to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the annual general meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.

2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, at the offices of the Hong Kong branch share registrar of the Company, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the annual general meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a shareholder of the Company from attending in person and voting at the annual general meeting or any adjournment thereof, should he/she/it so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

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

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

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