THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

(incorporated in Bermuda with limited liability)

(Stock Code: 00009)

(1) PROPOSED CAPITAL REORGANISATION AND CHANGE IN BOARD LOT SIZE; (2) PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF SEVEN OFFER SHARES FOR EVERY NEW SHARE HELD ON RECORD DATE; AND (3) WHITEWASH WAIVER

Financial adviser to the Company

VINCO 城高

Grand Vinco Capital Limited

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

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Nuada Limited

Corporate Finance Advisory

A letter from the Board is set out on pages 10 to 29 of this circular. A letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 42 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 30 of this circular.

A notice convening the SGM to be held at Room 4101, 41/F., The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong at 2:30 p.m. on Friday, 3 September 2010 is set out on pages N-1 to N-4 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire.

* *For identification purpose only*

It should be noted that under the Underwriting Agreement, the Underwriter should be entitled to terminate the Underwriting Agreement by notice in writing to the Company served prior to the Latest Time for Termination:

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

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

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

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

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

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

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

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

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

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

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

If the Underwriter exercises the power to terminate the Underwriting Agreement, the obligations of the Underwriter under the Underwriting Agreement shall cease and determine and the Open Offer will not proceed.

Shares will be dealt with on an ex-entitlement basis from Wednesday, 25 August 2010. Any dealings in the Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. If the Underwriter terminates the Underwriting Agreement (see paragraph headed "Termination of the Underwriting Agreement" in the "Letter from the Board" of this circular) or the conditions of the Open Offer (see paragraph headed "Conditions of the Open Offer" in the "Letter from the Board" of this circular) are not fulfilled, the Open Offer will not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares. If in any doubt, investors should consider obtaining professional advice on this.

11 August 2010

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONTENTS

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

"acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"Announcement"	the announcement of the Company dated 9 July 2010 in relation to the Capital Reorganisation and change of board lot size, the Open Offer and the Whitewash Waiver
"Application Form(s)"	the application form(s) for use by the Qualifying Shareholders to apply for the Offer Shares
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	any day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for normal business in Hong Kong
"Bye-laws"	the bye-laws of the Company in force from time to time
"Capital Reduction"	the reduction of the issued share capital of the Company by cancelling the paid up capital to the extent of HK$0.09 on each Share such that the nominal value of all issued Shares will be reduced from HK$0.10 each to HK$0.01 each
"Capital Reorganisation"	the Capital Reduction, the Share Subdivision, the Share Premium Reduction and the Elimination of Accumulated Losses
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Act"	The Companies Act 1981 of Bermuda, as amended from time to time
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	China Mandarin Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	director(s) of the Company

"Elimination of Accumulated Losses"	the transfer of the credit amount arising from the Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company, and the application of the appropriate sum therein to set off against the total accumulated losses of the Company as at 31 December 2009
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegate(s)
"Existing Share(s)"	the ordinary share(s) of HK$0.10 each in the existing share capital of the Company, before the Capital Reorganisation becoming effective
"Film"	the film "大鬧天宮" ("Monkey King") (working title), details of which are contained in the Previous Announcement
"Filmko"	Filmko International Limited, a company incorporated in the British Virgin Islands and an Independent Third Party
"Grimston"	Grimston Limited, a company incorporated in the British Virgin Island and a wholly-owned subsidiary of the Company
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Broad comprising the independent non-executive Directors, who have no direct or indirect interest in the Open Offer and the Whitewash Waiver, namely Mr. Choy Sze Chung, Jojo, Mr. Tsui Pui Hung and Mr. Chan Tung Tak, Alain, established to advise the Independent Shareholders regarding the Open Offer and the Whitewash Waiver
"Independent Financial Adviser"	Nuada Limited, a licensed corporation to carry on type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Open Offer and the Whitewash Waiver

"Independent Shareholders"	Shareholders other than the Underwriter and parties acting in concert with him and those who are involved in or interested in the Open Offer and the Whitewash Waiver and their respective associates, who are required by the Listing Rules or the Takeovers Code to abstain from voting on the relevant resolutions at the SGM
"Independent Third Party"	independent third party who is not connected person of the Company as defined in the Listing Rules and is independent of the Company and connected person(s) of the Company
"Ip Man Series"	"Ip Man" (葉問), the Group's award-winning film, and its sequel "Ip Man 2" (葉問2)
"Irrevocable Undertaking"	the irrevocable undertaking given by the Underwriter pursuant to which the Underwriter has irrevocably undertaken to subscribe for his full entitlement pursuant to the Open Offer
"JV Agreement"	the joint venture agreement dated 21 June 2010, details of which are contained in the Previous Announcement
"JV Company"	Talent Films Limited, a company incorporated in Hong Kong with limited liability
"Last Trading Day"	23 June 2010, being the last trading day on which the Shares were traded on the Stock Exchange before the release of the Announcement
"Latest Acceptance Date"	4:00 p.m. on 21 September 2010 or such other date as may be determined by the Company, being the latest date for acceptance of, and payment for, the Offer Shares
"Latest Lodging Date"	4:30 p.m. on 26 August 2010 or such other date as may be determined by the Company, being the latest date for lodging transfer of Shares in order to qualify for the Open Offer
"Latest Practicable Date"	6 August 2010, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
"Latest Time for Termination"	4:00 p.m. on Friday, 24 September 2010 or such later time to be agreed in writing between the Company and the Underwriter, being the latest time for the Underwriter to terminate the Underwriting Agreement

"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"New Films"	"kung-fu" films similar or related to Ip Man Series
"New Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company upon the Capital Reorganisation becoming effective
"Offer Shares"	18,294,360,000 New Shares to be issued pursuant to the Open Offer
"Open Offer"	the proposed issue of Offer Shares on the basis of seven Offer Shares for every New Share held by the Qualifying Shareholders on the Record Date at the Subscription Price, pursuant to the terms and conditions contained herein and more particularly described in the Prospectus Documents
"Overseas Shareholder(s)"	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is(are) in a place outside Hong Kong
"party (parties) acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"PRC"	The People's Republic of China
"Previous Announcement"	the announcement dated 21 June 2010 issued by the Company in relation to the formation of the JV Company to be engaged in the Film's development, production and promotion and to deal with matters concerning copyrights and distribution of the Film
"Prohibited Shareholder(s)"	those Overseas Shareholder(s), to whom the Directors, based on legal opinions provided by the Company's legal advisers and on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider it necessary or expedient not to offer the Offer Shares
"Prospectus"	the prospectus to be issued by the Company in relation to the Open Offer
"Prospectus Documents"	the Prospectus and the Application Form

"Prospectus Posting Date"	7 September 2010 or such other date, as the Underwriter may agree in writing with the Company for the dispatch of the Prospectus Documents
"Qualifying Shareholder(s)"	the Shareholder(s), other than the Prohibited Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date
"Record Date"	3 September 2010, being the date by reference to which entitlements to the Open Offer will be determined
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the Capital Reorganisation by the Shareholders, the Open Offer and the Whitewash Waiver by the Independent Shareholders
"Share(s)"	Existing Share(s) or New Share(s) (as the case may be)
"Share Premium Reduction"	reduction of the entire amount standing to the credit of the share premium account of the Company as at the date of the Announcement
"Share Subdivision"	each of the authorised but unissued shares of HK$0.10 each in the share capital of the Company being subdivided into ten New Shares of HK$0.01 each
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	subscription price of HK$0.0109 per Offer Share
"Sub-underwriter"	Skyway Securities Investment Limited, a licensed corporation to carry on type 1 (dealing in securities) regulated activities under the SFO, the sub-underwriter under the Sub-underwriting Arrangements and an Independent Third Party

"Sub-underwriting Arrangements"	the sub-underwriting arrangements made between the Underwriter and the Sub-underwriter, pursuant to which the Sub-underwriter will be called upon to take-up, or procure other persons (who are (i) not connected persons of the Company; and (ii) are not parties acting in concert with any connected person of the Company and their respective associates) to take-up, up to 3,120,980,000 Offer Shares, so that the minimum public float (i.e. 25% of the issued share capital) of the Company could be maintained immediately upon completion of the Open Offer
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Underwriter" or "Mr. Cheng"	Mr. Cheng Keung Fai, a substantial Shareholder
"Underwriting Agreement"	the underwriting agreement dated 23 June 2010 entered into between the Company and the Underwriter in relation to the Open Offer
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensation from Rule 26.1 of the Takeovers Code in respect of the Underwriter's obligations to make a mandatory offer under Rule 26.1 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Underwriter and parties acting in concert with him as a result of the transactions contemplated under the Underwriting Agreement
"HK$"	Hong Kong Dollars, the lawful currency of Hong Kong
"%"	per cent.

	2010
Last day of dealing in Existing Shares on a cum-entitlement basis	Tuesday, 24 August
First day of dealing in Existing Shares on an ex-entitlement basis	Wednesday, 25 August
Latest time for lodging transfers of the Existing Shares in order to be qualified for the Open Offer	Thursday, 4:30 p.m. on 26 August
Register of members of the Company to be closed	Friday, 27 August to Friday, 3 September (both dates inclusive)
Latest time for lodging forms of proxy for the SGM	2:30 p.m. on Wednesday, 1 September
Record Date	Friday, 3 September
SGM	2:30 p.m. on Friday, 3 September
Announcement of results of SGM to be published on the Stock Exchange website	Friday, 3 September
Effective date of the Capital Reorganisation	Monday, 6 September
Effective date of the change in board lot size	Monday, 6 September
Free exchange of existing certificates for new certificates for the New Shares commences	Monday, 6 September
Register of members of the Company re-opened	Monday, 6 September
Designated broker starts to stand in the market to provide matching services for the sale and purchase of odd lots of New Shares	Monday, 6 September

Despatch of the Prospectus Documents (in the case of the Prohibited Shareholders, the Prospectus only)	Tuesday, 7 September
Latest time for acceptance of and payment for the Offer Shares	4:00 p.m. on Tuesday, 21 September
Underwriting Agreement becoming unconditional	Friday, 24 September
Announcement of results of the Open Offer to be published on the Stock Exchange website	Friday, 24 September
Designated broker ceases to stand in the market to provide matching services for the sale and purchase of odds lots of New Shares	Monday, 27 September
Despatch of share certificates for Offer Shares	Wednesday, 29 September
Dealings in Offer Shares commence	Monday, 4 October
Last day of free exchange of existing certificates for new certificates for the New Shares	Tuesday, 5 October

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

The latest time for acceptance of and payment for the Open Offer will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning

(i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Tuesday, 21 September 2010. Instead the latest time of acceptance of and payment for the Open Offer will be extended to 5:00 p.m. on the same Business Day;

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Tuesday, 21 September 2010. Instead the latest time of acceptance of and payment for the Open Offer will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Open Offer does not take place on Tuesday, 21 September 2010, the dates mentioned in the section headed "Expected timetable" in this circular may be affected. A press announcement will be made by the Company in such event.

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

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

Executive Directors:
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

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

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

11 August 2010

To the Shareholders

(1) PROPOSED CAPITAL REORGANISATION AND CHANGE IN BOARD LOT SIZE; (2) PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF SEVEN OFFER SHARES FOR EVERY NEW SHARE HELD ON RECORD DATE; AND (3) WHITEWASH WAIVER

INTRODUCTION

On 9 July 2010, the Company announced that it proposed to effect the Capital Reorganisation which would involve:

(i) Capital Reduction: the issued share capital of the Company be reduced by cancelling the paid up capital to the extent of HK$0.09 on each Share such that the nominal value of all issued Shares will be reduced from HK$0.10 each to HK$0.01 each;

(ii) Share Subdivision: subject to the Capital Reduction becoming effective, each of the authorised but unissued Shares of HK$0.10 each in the share capital of the Company be subdivided into ten New Shares of HK$0.01 each;

* *For identification purpose only*

(iii) Share Premium Reduction: the entire amount standing to the credit of the share premium account of the Company be reduced; and

(iv) Elimination of Accumulated Losses: the credit arising from the Capital Reduction and the Share Premium Reduction be transferred to the contributed surplus account of the Company, and the application of the appropriate sum therein to set off against the total accumulated losses of the Company.

The Board further proposed to change the board lot size for trading in the Shares from 2,000 Shares to 60,000 New Shares upon the Capital Reorganisation becoming effective.

The Company also proposed to raise approximately HK$199.4 million before expenses, by an open offer of 18,294,360,000 Offer Shares at a subscription price of HK$0.0109 per Offer Share, payable in full on application, on the basis of seven Offer Shares for every New Share held on Record Date.

The purpose of this circular is to provide you with, among other things, further details of (i) the Capital Reorganisation and change in board lot size; (ii) the Open Offer; (iii) the Whitewash Waiver; (iv) the recommendation from the Independent Board Committee to the Independent Shareholders; (v) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer and the Whitewash Waiver; and (vi) the notice of the SGM.

PROPOSED CAPITAL REORGANISATION

The Capital Reorganisation will involve the Capital Reduction, the Share Subdivision, the Share Premium Reduction and the Elimination of Accumulated Losses.

Capital Reduction and Share Subdivision

The Capital Reduction involves the reduction of the issued share capital of the Company by cancelling the paid up capital to the extent of HK$0.09 on each Share such that the nominal value of all issued Shares will be reduced from HK$0.10 each to HK$0.01 each.

Subject to the Capital Reduction becoming effective, each of the authorised but unissued Shares of HK$0.10 each in the share capital of the Company will be subdivided into ten New Shares of HK$0.01 each.

Share Premium Reduction and Elimination of Accumulated Losses

The Share Premium Reduction will involve the reduction of the entire amount standing to the credit of the share premium account of the Company as at the date of the Announcement. The balance of the share premium account as at the date of the Announcement was approximately HK$224,095,000.

The credit amount arising from the Capital Reduction and the Share Premium Reduction will be transferred to the contributed surplus account of the Company. Based on 2,613,480,000 Shares in issue as at the Latest Practicable Date, a credit of approximately HK$235,213,200 will arise as a result of the Capital Reduction. On the basis of the balance of the contributed surplus account of the Company of HK$44,072,000 as at the Latest Practicable Date, the contributed surplus account of the Company will become HK$503,380,200 after such transfer.

The audited balance of the accumulated losses of the Company is HK$340,146,000 as at 31 December 2009. The Board proposes to apply part of such contributed surplus to set off against the total accumulated losses of the Company as at 31 December 2009. The balance of the contributed surplus account is expected to be HK$163,234,200 after setting off in full the total accumulated losses of the Company and may be applied in future in such manner as permitted by the Companies Act and the Bye-laws. The Company at present has no intention to distribute such remaining balance of the contributed surplus to the Shareholders.

Effects of the Capital Reorganisation

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

	Authorised share capital	**Issued share capital**
Before Capital Reduction and Share Subdivision	HK$1,000,000,000 divided into 10,000,000,000 Shares of HK$0.10 each	HK$261,348,000 divided into 2,613,480,000 Shares of HK$0.10 each
After Capital Reduction and Share Subdivision	HK$1,000,000,000 divided into 100,000,000,000 New Shares of HK$0.01 each	HK$26,134,800 divided into 2,613,480,000 New Shares of HK$0.01 each

The effect of Capital Reorganisation on share capital, share premium, contributed surplus and accumulated losses of the Company as at the Latest Practicable Date is summarised as follows:

(Figures in HK$ approximate)	**Issued share capital**	**Share premium**	**Contributed surplus**	**Accumulated losses**
Balance before Capital Reorganisation	261,348,000	224,095,000	44,072,000	(340,146,000)
Capital Reduction	(235,213,200)	–	235,213,200	–
Share Premium Reduction	–	(224,095,000)	224,095,000	–
Elimination of Accumulated Losses	–	–	(340,146,000)	340,146,000
Balance after Capital Reorganisation	26,134,800	–	163,234,200	–

The New Shares will rank pari passu in all respects with each other. Other than the expenses incurred in relation to the Capital Reorganisation, the implementation of the Capital Reorganisation will not alter the underlying assets, business operations, management or financial position of the Company or the relative interests or rights of the Shareholders. Save as disclosed above, the Capital Reorganisation itself will not have any material effect on the financial position of the Group.

Reasons for the Capital Reorganisation

The Directors believe that it would be beneficial to the Company by reducing the par value of the New Shares from HK$0.10 to HK$0.01, which would improve flexibility in future for the Company to raise fund via the issue of New Shares. In addition, the Company will eliminate the accumulated losses with the credit amount arising from the Capital Reorganisation, thus allowing greater flexibility for the Company to pay dividend in the future.

As such, the Board is of the view that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

At the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into Shares.

Conditions of the Capital Reorganisation

The Capital Reorganisation will be conditional upon:

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

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

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

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

Subject to the fulfillment of the conditions of the Capital Reorganisation, the effective date of the Capital Reorganisation is expected to be on Monday, 6 September 2010.

Application for listing of the New Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares.

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

Change in board lot size

The Shares are currently traded on the Stock Exchange in board lots of 2,000 Shares each and the market value per board lot would be HK$69 subsequent to the Capital Reorganisation, based on the theoretical ex-entitlement price after completion of the Open Offer of HK$0.0345 (based on the closing price of HK$0.2 per Share as quoted on the Stock Exchange on the Last Trading Day). In order to raise the board lot value, the Company is pleased to announce that the board lot size of the New Shares for trading on the Stock Exchange will be increased to 60,000 New Shares upon the Capital Reorganisation becoming effective. The estimated market value per board lot of the New Shares would be HK$2,070, based on the theoretical ex-entitlement price after completion of the Open Offer of HK$0.0345 (based on the closing price of HK$0.2 per Share as quoted on the Stock Exchange on the Last Trading Day).

Arrangement on odd lot trading

In order to facilitate the trading of odd lots, the Company has appointed Skyway Securities Investment Limited to stand in the market to match the purchase and sale of odd lots of the New Shares at the relevant market price per New Share for the period from Monday, 6 September 2010 to Monday, 27 September 2010 (both days inclusive). Holders of odd lots of the New Shares who wish to take advantage of this facility either to dispose of their odd lots of the New Shares or to top up to a full board lot may contact Mr. Ho Shu Shun Joseph of Skyway Securities Investment Limited at Room 3302, 33/F., The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong (Tel: 852-29072307; Fax: 852-29072309) during the aforesaid period. Holders of odd lots of the New Shares should note that the matching of the sale and purchase of odd lots of the New Shares is not guaranteed.

Free exchange of Share certificates

Subject to the Capital Reorganisation becoming effective, Shareholders may submit existing certificates for the Shares in board lot of 2,000 Shares to the branch share registrar of the Company in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for exchange from Monday, 6 September 2010 to Tuesday, 5 October 2010 (both dates inclusive), at the expense of the Company for certificates for New Shares in board lot of 60,000 New Shares. Thereafter, certificates for the Existing Shares will be accepted for exchange only on payment of a fee of HK$2.5 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each new share certificate issued for the New Shares. Nevertheless, the existing certificates for the Shares will continue to be good evidence of legal title and will be valid for dealings, trading and settlement purpose after the Capital Reorganisation has become effective and may be exchanged for certificates for the New Shares at any time in accordance with the foregoing.

PROPOSED OPEN OFFER

Issue statistics

Basis of the Open Offer:	Seven Offer Shares for every New Share held on the Record Date
Subscription Price:	HK$0.0109 per Offer Share payable in full upon application
Number of Existing Shares in issue:	2,613,480,000 Existing Shares as at the Latest Practicable Date
Number of New Shares in issue upon the Capital Reorganisation having become effective:	2,613,480,000 New Shares (assuming that no further Shares are issued or repurchased between the Latest Practicable Date and the date the Capital Reorganisation becoming effective)
Number of Offer Shares:	18,294,360,000 Offer Shares, representing approximately 700% of the existing issued share capital of the Company and approximately 87.5% of the then issued share capital of the Company as enlarged by the Offer Shares (assuming that no further Shares are issued or repurchased between the Latest Practicable Date and the Record Date)

Number of Offer Shares to be subscribed by the Underwriter under the Irrevocable Undertaking:	3,552,500,000 Offer Shares
Maximum number of Offer Shares underwritten:	Up to approximately 14,741,860,000 Offer Shares
Number of New Shares in issue immediately upon completion of the Open Offer:	20,907,840,000 New Shares

At the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into Shares.

Subscription Price

The Subscription Price of HK$0.0109 per Offer Share will be payable in full upon application for the Offer Shares. The Subscription Price represents:

(i) a discount of approximately 94.55% to the closing price of HK$0.2 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 94.67% to the average closing price of approximately HK$0.2044 per Share for the last 5 consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

(iii) a discount of approximately 94.64% to the average closing price of approximately HK$0.2032 per Share for the last 10 consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

(iv) a discount of approximately 68.41% to the theoretical ex-entitlement price of approximately HK$0.0345 per Share based on the closing price of HK$0.2 as quoted on the Stock exchange on the Last Trading Day;

(v) a discount of approximately 87.46% to the net tangible asset value per Share of approximately HK$0.0869 as shown on in the Group's audited consolidated financial statements made up to 31 December 2009; and

(vi) a discount of approximately 94.83% to the closing price of HK$0.211 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the prevailing market conditions. As the Offer Shares are offered to all Qualifying Shareholders, the Directors would like to set the Subscription Price at a level that would attract the Qualifying Shareholders to participate in the Open Offer.

The Board considers the Subscription Price is attractive enough to allow all Qualifying Shareholders to participate in the Open Offer on the basis of the following:

(i) the Subscription Price of HK$0.0109 represents substantial discount to the respective average closing price as set out above;

(ii) the Directors are optimistic that the Film and New Films would become box office success in view of the overwhelmingly positive feedback about the Ip Man Series;

(iii) the Directors believe that the Shareholders when considering the Subscription Price would also take into account of the Company's prospect; and

(iv) after the Capital Reorganisation becoming effective, the accumulated losses of the Company would be eliminated and the Company would be in a better position to distribute dividend to the Shareholders.

The Board considers that the terms of the Open Offer, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions of the Open Offer

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

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

(b) the Capital Reorganisation becoming effective;

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

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

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

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

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

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

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

(j) the performance in full by the Underwriter of his undertaking to take up his entitlement in full;

(k) the compliance by the Company with Rule 8.08(1) of the Listing Rules in relation to public float requirement upon completion of the Open Offer; and

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

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

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

Status of the Offer Shares

The Offer Shares, when allotted, issued and fully-paid, will rank pari passu with the New Shares in issue in all respect. Holders of such Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares. Dealings in the Offer Shares will be subject to payment of stamp duty in Hong Kong.

Qualifying Shareholders

The Open Offer will only be available to the Qualifying Shareholders. The Company will send the Prospectus Documents to the Qualifying Shareholders and the Prospectus, for information only, to the Prohibited Shareholders.

To qualify for the Open Offer, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and must be a Qualifying Shareholder.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (together with the relevant share certificates) with the Company's branch registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on the Latest Lodging Date.

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable.

Closure of register of members

The Company's register of members will be closed from Friday, 27 August 2010 to Friday, 3 September 2010, both dates inclusive, for the purpose of, among other things, establishing entitlements to the Open Offer. No transfer of Shares will be registered during this period.

Rights of Overseas Shareholders

If, at the close of business on the Record Date, a Shareholder's address on the register of members of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer. The Board will make enquiries to its legal advisers as to whether the offer or the issue of the Offer Shares to the Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory bodies or stock exchanges pursuant to Rule 13.36(2) of the Listing Rules. If, after making such enquiries, the Board is of the opinion that it would be necessary or expedient not to offer the Offer Shares to such Overseas Shareholders, the Open Offer will not be available to such Overseas Shareholders. The results of enquiries and the basis of any exclusion of the Overseas Shareholders will be disclosed in the Prospectus. The Offer Shares which would otherwise be allotted to those Overseas Shareholders will be taken up by the Underwriter and/or subscribers procured by him.

The Overseas Shareholders, so long as they are Independent Shareholders, will be entitled to vote at the SGM to consider and, if thought fit, pass the resolution(s) in relation to the Open Offer and the Whitewash Waiver.

No application for excess Offer Shares

After arm's length negotiation with the Underwriter and taking into account the administrative costs to be incurred by excess application arrangement, the Board has decided that the Qualifying Shareholders would not be entitled to apply for any Offer Shares which are in excess of their assured entitlements. The Offer Shares not validly applied for by the Qualifying Shareholders will be taken up by the Underwriter and/or subscribers procured by him. The absence of excess application and the alternative arrangement for the disposal of the Offer Shares not validly applied for must be specifically approved by the Independent Shareholders at the SGM by way of poll for the purpose of compliance with Rule 7.26A(2) of the Listing Rules, and the Underwriter and parties acting in concert with him and their respective associates shall abstain from voting on the relevant resolutions in this respect.

Fractions of Offer Shares

Given the Open Offer is on the basis of seven Offer Shares for every New Share, there will not be any fractions of Offer Shares.

Share certificates for the Offer Shares

Subject to the fulfillment of the conditions of the Open Offer, share certificates for all Offer Shares are expected to be posted to the Qualifying Shareholders who have accepted and applied for and paid for the Offer Shares on or before Wednesday, 29 September 2010 by ordinary post at their own risk.

Application for listing of the Offer Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares.

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

Reasons for the Open Offer and the use of proceeds

The Group is principally engaged in filming production and related businesses and property investments in the PRC.

On 21 June 2010, Grimston, a wholly-owned subsidiary of the Company entered into the JV Agreement with Filmko in connection with the formation of the JV Company to be engaged in the Film's development, production and promotion and to deal with matters concerning copyrights and distribution of the Film. Pursuant to the JV Agreement, the total investment amount is HK$206,000,000, Grimston and Filmko are required to make their investment contribution to the JV Company in proportion to their respective equity interests in the JV Company, which is 35% (HK$72,100,000) and 65% (HK$133,900,000) respectively. Details of the JV Agreement, among other matters, are set out in the Previous Announcement.

The estimated expense of the Open Offer is approximately HK$6 million, which will be borne by the Company. The estimated expenses include the commission to the Underwriter of approximately HK$4.0 million, the fees to the Company's professional and legal advisers of approximately HK$1.5 million, printing and translation costs of approximately HK$0.3 million and the prescribed application fees of approximately HK$0.2 million to the relevant authorities. Assuming all the Qualifying Shareholders taking up their entitlements under the Open Offer, the Company will receive gross proceeds of approximately HK$199.4 million and net proceeds of approximately HK$193.4 million. As at the Latest Practicable Date, Grimston has paid a sum of HK$15 million to the JV Company as its initial investment contribution pursuant to the JV Agreement. Approximately HK$57 million of the net proceeds will be used for funding the remaining investment under the JV Agreement and the remaining balance will be used for production of other New Films and as general working capital of the Company.

The net price of each Offer Share is approximately HK$0.0106 after expenses to the Company.

The Board had considered other alternative means of fund raising before resolving to the Open Offer, including but not limited to placing, debt finance and rights issue:

(i) placing would only be available to certain placees who were not necessarily the Shareholders. The Directors considered that it would be unfair to those Shareholders who had stayed with the Company for a considerable time, especially when the prospect of the Company would be improved;

(ii) debt financing or bank loans were not commonly available to the film companies due to the higher risk associated with the film industry, and the fact that limited securities could be provided as collateral; and

(iii) although rights issue was similar to an open offer except that it enabled the Shareholders to trade in nil-paid rights, trading arrangement needed to be set up with the share registrar at the expense of the Company and extra administrative work from the Company would be involved.

The Directors consider that although there would not be any trading in nil-paid rights in the Open Offer, with the entitlement of Offer Shares firmly attached to the Existing Shares held, it would ensure stability in the Company's shareholders base and allow the existing Shareholders an opportunity to participate in and share the growth of the Company.

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

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

Date of announcement	Event	Net proceeds (approximate)	Intended use of proceeds	Actual use of proceeds
2 November 2009	Placing of new shares under general mandate	HK$62.3 million	Repayment of debts and general working capital of the Group	Redemption of the convertible bonds held by Mr. Cheng

UNDERWRITING ARRANGEMENT

Irrevocable Undertaking

The Underwriter directly held 507,500,000 Shares at the Latest Practicable Date. Pursuant to the Underwriting Agreement, he has undertaken not to transfer or otherwise dispose of any Shares between the date of the Underwriting Agreement and the Latest Acceptance Date. He has also irrevocably undertaken to the Company to take up and accept 3,552,500,000 Offer Shares to which he is entitled under the Open Offer.

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

Underwriting Agreement

Date:	23 June 2010
Underwriter:	Mr. Cheng Keung Fai
Number of Offer Shares underwritten:	A maximum number of 14,741,860,000 Offer Shares (being the total number of Offer Shares less the assured entitlement of Offer Shares to the Underwriter) not taken up by the Qualifying Shareholders *(Note)*
Underwriting commission:	2.5% of the aggregate Subscription Price of the maximum number of Offer Shares underwritten by the Underwriter

Note: In view of the Sub-underwriting Arrangements in place, the maximum number of Offer Shares (excluding the assured entitlement of Offer Shares to the Underwriter) that could be taken up by the Underwriter would be 11,620,880,000 Offer Shares, which, together with his existing shareholding and the assured entitlement of Offer Shares, would amount to 15,680,880,000 New Shares, representing 75% of the issued share capital of the Company immediately upon completion of the Open Offer.

The Directors confirm that the Company has used its best endeavours to find potential underwriter. As advised by the Directors, the Company had approached several securities firms to underwrite any Offer Shares not taken up by the Qualifying Shareholders. Mr. Cheng, a substantial Shareholder, is the only one who has expressed his strong confidence in the prospect of the Group's film businesses, and the willingness to support and underwrite the Open Offer.

The Company will comply with the minimum public float requirement for the Shares under Rule 8.08(1) of the Listing Rules. To comply with such requirement, the Underwriter has made the Sub-underwriting Arrangements with the Sub-underwriter. Pursuant to the Sub-underwriting Arrangements, in respect of those Offer Shares not taken up by the Qualifying Shareholders, the Underwriter would take up to the maximum 11,620,880,000 Offer Shares, which, together with his existing shareholding and the assured entitlement of Offer Shares, would amount to 15,680,880,000 New Shares, representing 75% of the issued share capital of the Company immediately upon completion of the Open Offer, and the Offer Shares in excess of the 11,620,880,000 Offer Shares (if any) would be taken up by the Sub-underwriter or other persons (who are (i) not connected persons of the Company; and (ii) are not parties acting in concert with any connected persons of the Company and their respective associates) procured by the Sub-underwriter, such that the Company will be able to comply with the minimum public float requirement for the Shares under the Listing Rules immediately upon completion of the Open Offer. The Offer Shares (if any) to be taken up by the Sub-underwriter or persons procured by the Sub-underwriter pursuant to the Sub-underwriting Arrangements will be allotted and issued by the Company to the Sub-underwriter or such persons at the Subscription Price. The Sub-underwriter's obligations under the Sub-underwriting Arrangements will be subject to the fulfilment of the conditions of the Underwriting Agreement, and the Underwriter not having exercised his right to terminate the Underwriting Agreement pursuant to the term thereof, but are otherwise incapable of rescission or termination by the Sub-underwriter.

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

Conditions of the Underwriting Agreement

The conditions of the Underwriting Agreement have been set out in the paragraph headed "Conditions of the Open Offer" above.

Termination of the Underwriting Agreement

The Underwriter will be entitled to terminate the Underwriting Agreement by notice in writing to the Company served prior to the Latest Time for Termination if prior to the Latest Time for Termination:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CHANGES IN SHAREHOLDING STRUCTURE

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

Shareholder	As at the Latest Practicable Date		Immediately after Capital Reorganisation		Immediately after completion of the Open Offer (assuming all the Qualifying Shareholders take up their assured entitlement of Offer Shares)		Immediately after completion of the Open Offer (on the assumption as set out in Note 1)	
	Number of Existing Shares	*%*	*Number of New Shares*	*%*	*Number of New Shares*	*%*	*Number of New Shares*	*%*
Underwriter and parties acting in concert with him	507,500,000	19.42	507,500,000	19.42	4,060,000,000	19.42	15,680,880,000	75
Public Shareholders	2,105,980,000	80.58	2,105,980,000	80.58	16,847,840,000	80.58	5,226,960,000	25
Total	2,613,480,000	100	2,613,480,000	100	20,907,840,000	100	20,907,840,000	100

Notes:

1. Assuming: (1) no Qualifying Shareholders except the Underwriter take up their assured entitlements of Offer Shares; and (2) the Underwriter would have to take up his maximum underwriting obligation pursuant to the Underwriting Agreement and with the Sub-underwriting Arrangements being effected.

2. Apart from that discussed in the above chart, as at the Latest Practicable Date, the Underwriter and its concert parties do not hold any convertible securities, warrants or options or did not enter into any outstanding derivative in respect of any relevant securities (as defined in Note 4 to Rule 22 of Takeovers Code) of the Company.

In order to comply with the minimum public float requirement under Rule 8.08(1) of the Listing Rules, the Company, with the assistance of its branch share registrar, will closely monitor the acceptances of the Offer Shares by the Qualifying Shareholders.

APPLICATION FOR WHITEWASH WAIVER

Whitewash Waiver

The Underwriter is interested in 507,500,000 Existing Shares (equivalent to 507,500,000 New Shares after the Capital Reorganisation) as at the Latest Practicable Date, representing approximately 19.42% of the existing issued share capital of the Company. Pursuant to the Irrevocable Undertaking, the Underwriter has irrevocably undertaken to take up all of his entitlement under the Open Offer, being 3,552,500,000 Offer Shares.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the balance of the Offer Shares which are not subscribed by the Qualifying Shareholders on a fully underwritten basis. The Underwriter has however made the Sub-underwriting Arrangements with the Sub-underwriter to ensure that the Company will maintain the minimum public float for the Shares in compliance with the Listing Rules. Assuming the Underwriter would have to take up his maximum underwriting obligation pursuant to the Underwriting Agreement and with the Sub-underwriting Arrangements being effected, the Underwriter will increase his shareholding from approximately 19.42% of the existing issued share capital of the Company to 75% of the then enlarged issued share capital of the Company upon completion of the Open Offer.

Under Rule 26.1 of the Takeovers Code, the Underwriter and parties acting in concert with him will be required to make an unconditional mandatory general offer for all the issued Shares not already owned or agreed to be subscribed by him. An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensation from Rule 26.1 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders by way of a poll. If the Whitewash Waiver is not granted by the Executive, the Open Offer will lapse and will not proceed. As discussed in the above, it is possible that the maximum potential holding of voting rights of the Underwriter resulting from the Open Offer would exceed 50% of the voting rights of the Company. Shareholders should note that if this becomes the case, the Underwriter may increase his holding without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

WARNING OF THE RISKS OF DEALING IN THE SHARES

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

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

INFORMATION ON THE UNDERWRITER AND HIS FUTURE INTENTION REGARDING THE GROUP

The Underwriter is a substantial Shareholder who is a private investor not engaged in the business of underwriting. As at the Latest Practicable Date, the Underwriter held approximately 19.42% of the issued share capital of the Company.

It is the intention of the Underwriter that the Group will continue its existing business following the completion of the Open Offer. The underwriter has no intention to introduce any major changes to the existing business of the Group, including the continued employment of the Group's employees and has no intention to re-deploy the fixed assets of the Group other than in its ordinary course of business.

SGM

There is set out on pages N-1 to N-4 in this circular a notice convening the SGM to be held on Friday, 3 September 2010 at 2:30 p.m. at Room 4101, 41/F., The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong, at which resolutions will be proposed to the Shareholders (where applicable, the Independent Shareholders) to consider and, if thought fit, to approve the Capital Reorganisation, the Open Offer and the Whitewash Waiver.

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

The Underwriter and parties acting in concert with him and those who are involved in or interested in the Open Offer and the Whitewash Waiver and their respective associates are required to abstain from voting on resolutions approving the Open Offer and the Whitewash Waiver. Save as aforesaid, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, no Shareholders have material interest in the Open Offer and the Whitewash Waiver and are required to abstain from voting on the relevant resolutions at the SGM.

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

A form of proxy for the SGM is enclosed with this circular. If you are unable to attend the SGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor

Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish.

RECOMMENDATION

The Board believes that the terms of the Capital Reorganisation are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM in relation to the Capital Reorganisation. The executive Directors consider the terms of the Open Offer are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Open Offer and the Whitewash Waiver are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the SGM. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

You are advised to read carefully the letter from the Independent Board Committee and the letter from the Independent Financial Adviser set out on page 30 and pages 31 to 42 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Open Offer and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolutions approving the Open Offer and the Whitewash Waiver at the SGM.

Upon passing of the necessary resolutions by the Shareholders (where applicable, the Independent Shareholders) at the SGM approving the Capital Reorganisation, the Open Offer and the Whitewash Waiver, the Prospectus Documents will be despatched to the Qualifying Shareholders as soon as practicable in accordance with the Takeovers Code.

ADDITIONAL INFORMATION

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

Yours faithfully
By order of the board,
China Mandarin Holdings Limited
Ms. Lai Pik Chi, Peggy
Chairman

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

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

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

11 August 2010

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company dated 11 August 2010 (the "Circular") of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the Open Offer and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Nuada Limited has been appointed as the Independent Financial Adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of the Independent Financial Adviser, as set out in its letter of advice to you and us on pages 31 to 42 of the Circular, we are of the opinion that the Open Offer and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned.

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

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

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

* *For identification purpose only*

Nuada Limited
Corporate Finance Advisory

17th Floor, BLINK, 111 Bonham Strand
Sheung Wan, Hong Kong
香港上環文咸東街 111 號 BLINK 17 字樓

11 August 2010

To the Independent Board Committee
and the Independent Shareholders

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

Dear Sirs,

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

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Open Offer and the Whitewash Waiver, details of which are set out in the section headed "Letter from the Board" (the "Letter") in the Company's circular dated 11 August 2010 (the "Circular") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 9 July 2010, the Company announced, among other things, that the Company proposed to raise approximately HK$199.4 million before expenses, by an open offer of 18,294,360,000 Offer Shares at a subscription price of HK$0.0109 per Offer Share, payable in full on application, on the basis of seven Offer Shares for every New Share held on the Record Date. The Open Offer is fully underwritten by the Underwriter, who has however entered into the Sub-underwriting Arrangements with the Sub-underwriter to ensure that the Company will maintain the minimum public float requirement in compliance with the Listing Rules. The terms of the Open Offer are agreed after arm's length negotiation between the Company and the Underwriter.

The Underwriter was interested in 507,500,000 Existing Shares as at the Latest Practicable Date, representing approximately 19.42% of the existing issued share capital of the Company. Pursuant to the Irrevocable Undertaking, the Underwriter has irrevocably undertaken to take up all of his entitlement under the Open Offer, being 3,552,500,000 Offer Shares. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the balance of the Offer Shares which are not subscribed by the Qualifying Shareholders on a fully underwritten basis. The Underwriter has however entered into the Sub-underwriting Arrangements with the Sub-underwriter to ensure that the Company will maintain the minimum public float requirement in compliance with the Listing Rules. Assuming the Underwriter would have to take up his maximum underwriting obligation pursuant to the Underwriting Agreement and with the Sub-underwriting Arrangements being effected, the Underwriter would increase his shareholding from approximately 19.42% of the existing issued share capital of the Company to 75% of the then enlarged issued share capital of the Company upon completion of the Open Offer.

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

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

Mr. Choy Sze Chung, Jojo, Mr. Tsui Pui Hung and Mr. Chan Tung Tak, Alain being the independent non-executive Directors, have been appointed by the Board to form the Independent Board Committee to advise and make recommendation to the Independent Shareholders as to how to vote at the SGM on the ordinary resolutions regarding the Open Offer and the Whitewash Waiver.

Our role as the independent financial adviser is to (i) give our independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Open Offer and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) advise the Independent Shareholders on how to vote in relation to (i) above.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so as at the date of the SGM.

Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular, or the reasonableness of the opinions expressed by the management of the Company and the Director provided to us. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we relied on the Company that it has provided us with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such information and opinions but have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the terms of the Open Offer and the Whitewash Waiver, we have considered the following principal factors and reasons.

1. Background information and outlook of the Group

The Company is an investment holding company and the Group is principally engaged in filming production and related businesses and property investments in the PRC.

The table below summarised the financial results of the Group for the two years ended 31 December 2009 as extracted from the annual report for the year ended 31 December 2009 of the Company (the "Annual Report").

	For the year ended 31 December	
	2008	**2009**
	(audited)	**(audited)**
	HK$'000	*HK$'000*
Revenue	52,594	119,488
Profit (loss) for the year	(228,682)	7,280
Earnings (loss) per share –basic	HK(18.53) cents	HK0.30 cents

As shown above, the revenue increased by 127% in 2009 to approximately HK$119.5 million. The increase is mainly due to the increase of revenue from the film production, distribution and licensing businesses.

Loss for the year ended 31 December 2008 was approximately HK$228.7 million and the loss for the Group was mainly attributable to (i) the impairment loss due to decrease in revaluation on the fair value of the investment property in the PRC; (ii) the impairment loss on the fair value of film rights of certain films of the Group; (iii) realized losses on disposal of Hong Kong listed shares; and (iv) decrease in revenue due to the unexpected market situation relating to the film distribution.

According to the Annual Report, the Group recorded an audited net current assets of approximately HK$29.0 million as at 31 December 2009. As at 31 December 2009, the Group had cash and bank balances of approximately HK$32.9 million.

As stated in the Letter and the Previous Announcement, on 21 June 2010, Grimston, a wholly-owned subsidiary of the Company entered into the JV Agreement with Filmko in connection with the formation of the JV Company to be engaged in the Film's development, production and promotion and to deal with matters concerning copyrights and distribution of the Film. Pursuant to the JV Agreement, the total investment amount is HK$206,000,000, Grimston and Filmko are required to make their investment contribution to the JV Company in proportion to their respective equity interests in the JV Company, which is 35% (HK$72,100,000) and 65% (HK$133,900,000) respectively. The Company advised that Grimston has paid a sum of HK$15,000,000 to the JV Company as its initial investment contribution. The Directors expect that the entire contribution will be fully made in approximately 15 months following the date of the JV Agreement.

Filmko is the holding company of Filmko Entertainment Limited ("Filmko Entertainment") and Filmko Films Distribution (Hong Kong) Limited ("Filmko Films Distribution") which have constituted a Hong Kong-based entertainment group dedicated to making films for audiences all over Asia and beyond. It has produced and released a number of films including "July Rhapsody", "Inner Senses", "The Floating Landscape", "Star Runner", "Koma", "Butterfly", "Home Sweet Home" and "Black Night". Under the JV Agreement, Filmko will engage Filmko Entertainment for the Film's production and production administration and Filmko Films Distribution for the Film's promotion and distribution. The Board is of the view that through the cooperation with Filmko, the Company would be able to benefit from the resources, expertise and business connections of Filmko in the film industry in Hong Kong which in turn would benefit the business of the Group.

According to the JV Agreement, Filmko is mainly responsible for obtaining relevant licences, permits and approvals in relation to the filming, production, distribution, and promotion of the Film in the PRC or other countries. It will provide assistance to the JV Company in relation to the filming and production of the Film. Filmko will procure Filmko Entertainment to (i) transfer all intellectual property rights and distribution rights to the JV Company upon the completion of the Film production; and (ii) prepare and maintain a detailed and complete accounts and records in relation to the production and production administration of the Film. Further, Filmko will also procure Filmko Films Distribution to (i) pay to the JV Company the balance of the distribution revenue (after deducting distribution commission of 3% to Filmko

Films Distribution) on a monthly basis which will be included in the total revenue of the Film; and (ii) prepare and maintain a detailed and complete accounts and records in relation to the promotion and distribution of the Film. Grimston is mainly responsible for the placement of suitable personnel to supervise and manage the accounting matters of the JV Company.

We consider and concur with the view of the Directors that the formation of the JV Company is in line with the objective of the Company as stated in the Annual Report that the Group will continue to maintain steady growth in the film production, distribution and licensing business and to further expand market share.

2. Reasons for the Open Offer and the use of proceeds

As stated in the Letter, the estimated expense of the Open Offer is approximately HK$6 million, which will be borne by the Company. Assuming all the Qualifying Shareholders taking up their entitlements under the Open Offer, the Company will receive gross proceeds of approximately HK$199.4 million and net proceeds of approximately HK$193.4 million. Approximately HK$57 million of the net proceeds will be used for funding the remaining investment under the JV Agreement and the remaining balance will be used for production of other New Films and as general working capital of the Company.

The Board had considered other alternative means of fund raising before resolving to the Open Offer, including but not limited to placing, debt finance and rights issue:

(i) placing would only be available to certain placees who were not necessarily the Shareholders. The Directors considered that it would be unfair to those Shareholders who had stayed with the Company for a considerable time, especially when the prospect of the Company would be improved;

(ii) debt financing or bank loans were not commonly available to the film companies due to the higher risk associated with the film industry, and the fact that limited securities could be provided as collateral; and

(iii) although rights issue was similar to an open offer except that it enabled the Shareholders to trade in nil-paid rights, trading arrangement needed to be set up with the share registrar at the expense of the Company and extra administrative work from the Company would be involved.

Besides, as stated in the Letter, the Directors confirm that the Company has used its best endeavours to find potential underwriter. As advised by the Directors, the Company had approached several securities firms to underwrite any Offer Shares not taken up by the Qualifying Shareholders. Mr. Cheng, a substantial Shareholder, is the only one who has expressed his strong confidence in the prospect of the Group's film businesses, and the willingness to support and underwrite the Open Offer.

The Directors consider that although there would not be any trading in nil-paid rights in the Open Offer, with the entitlement of Offer Shares firmly attached to the Existing Shares held, it would ensure stability in the Company's shareholders base and allow the existing Shareholders an opportunity to participate in and share the growth of the Company. The Directors are of the view that the Open Offer is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Taking into account that (i) rights issue has a higher cost and takes a longer time to complete as compared to open offer; (ii) debt financing and bank borrowing will increase the gearing and incur further interest burden to the Company; (iii) any placing of new Shares without first offering the existing Shareholders the opportunity to participate in the Company's equity raising exercise would result in dilution of shareholding of and per Share value to the existing Shareholders; and (iv) the Open Offer will enable the Shareholders to maintain their proportionate interests in the Company should they so wish, we are of the view that fund raising by way of the Open Offer is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

We are of the view that as (i) the Company could not obtain debt financing after discussion with several banks due to the higher risk associated with the film industry and limited securities could be provided as collateral; (ii) the existing cash level of the Group is unable to support investment in the JV Company and production of other New Films; and (iii) the proceeds from the Open Offer is to finance the existing business of the Group, we consider the Open Offer is in the interest of the Group.

Given the nature of the business of the Group, the current financial position of the Group and that all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer and to take up their entitlement in full at the same price to maintain their respective shareholdings in the Company, we consider that the Open Offer is an equitable means to raise capital for the Group and we are of the view and concur with the view of the Directors that the Open Offer is fair and reasonable and is in the interests of the Group and the Independent Shareholders as a whole.

3. Principal terms of the Open Offer

Basis of the Open Offer

The Company proposed to raise approximately HK$199.4 million before expenses, by an open offer of 18,294,360,000 Offer Shares at a subscription price of HK$0.0109 per Offer Share, payable in full on application, on the basis of seven Offer Shares for every New Share held on the Record Date. The Open Offer will not be available to the Prohibited Shareholder (if any). Qualifying Shareholders are not entitled to apply for any Offer Shares which are in excess of their assured entitlements.

The Offer Shares, when allotted, issued and fully-paid, will rank pari passu with the Shares in issue in all respects. Holders of such Offer Shares will be entitled to receive full future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the fully paid Offer Shares. Dealings in fully-paid Offer Shares will be subject to the payment of stamp duty in Hong Kong.

The Open Offer is fully underwritten and is subject to the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms.

Subscription Price

The Subscription Price of HK$0.0109 per Offer Share will be payable in full upon application for the Offer Shares. The Subscription Price represents:

(i) a discount of approximately 94.55% to the closing price of HK$0.2 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 94.67% to the average closing price of approximately HK$0.2044 per Share for the last 5 consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

(iii) a discount of approximately 94.64% to the average closing price of approximately HK$0.2032 per Share for the last 10 consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

(iv) a discount of approximately 68.41% to the theoretical ex-entitlement price of approximately HK$0.0345 per Share based on the closing price of HK$0.2 as quoted on the Stock exchange on the Last Trading Day;

(v) a discount of approximately 87.46% to the net tangible asset value per Share of approximately HK$0.0869 as shown on in the Group's audited consolidated financial statements made up to 31 December 2009; and

(vi) a discount of approximately 94.83% to the closing price of HK$0.211 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the prevailing market conditions. As the Offer Shares are offered to all Qualifying Shareholders, the Directors would like to set the Subscription Price at a level that would attract the Qualifying Shareholders to participate in the Open Offer.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the trading price of the Shares for the period from 1 June 2009, being the 12-month period prior to the date of the Underwriting Agreement, up to and including the Latest Practicable Date (the "Review Period"). The chart below illustrates the daily closing price of the Shares versus the Subscription Price during the Review Period:

Note: The trading of the Shares was suspended on 2 November 2009, from 18 December to 23 December 2009 and from 24 June 2010 to 9 July 2010.

During the Review Period, the highest closing price and the lowest closing price of the Shares were HK$0.4 on 3 June 2009 and HK$0.165 on 29 October 2009 respectively. The Subscription Price is lower than all the monthly lowest closing price of the Shares and the monthly average daily closing price of the Share during the Review Period, representing a discount of approximately 97.3% and 93.4% to such highest and lowest closing prices of the Shares during the Review Period.

The Directors advised that, given the financial requirements of the Company for the existing business and the need to increase the attractiveness of the Open Offer to the Qualifying Shareholders, the proposed discount of the Subscription Price as stated above is appropriate.

Having considered that (i) the Group is in need for the funding to support its investment in the JV Company and production of other New Films; (ii) the Group has cash on hand of approximately HK$32.9 million as at 31 December 2009 which is insufficient to meet its investment obligation; (iii) the Directors have advised that debt financing or bank loans were not commonly available to the film companies due to the higher risk associated with the film industry and limited securities could be provided as collateral, we consider it is inevitable for the Company to set the Subscription Price at a higher discount so as to increase the attractiveness of the Open Offer. Having considered the abovementioned and that all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer and to take up their entitlements in full at the same price to maintain their respective shareholdings in the Company, we are of the opinion and concur with the Directors that the discounts of the Subscription Price as compared to the recent market prices of the Shares would encourage Shareholders to participate in the Open Offer and the future growth of the Company and that the Subscription Price is fair and reasonable insofar as the Independent Shareholders are concerned.

Underwriting Commission

The underwriting commission, after arm's length negotiation between the Company and the Underwriter, is 2.5% for the Open Offer. As advised by the Directors, although the Company had approached several securities firms to underwrite any Offer Shares not taken up by the Qualifying Shareholders, Mr. Cheng, a substantial Shareholder, is the only one who has expressed his strong confidence in the prospect of the Group's film businesses, and the willingness to support and underwrite the Open Offer. To ensure the amount of funds to be raised by the Company under the Open Offer and that the Company could not find other underwriters, we consider the underwriting commission to be fair and reasonable.

Excess Application

There is no arrangement for the Qualifying Shareholders to apply for any Offer Shares which are in excess of his/her/its entitlement, however we note that the Company has set the Subscription Price at a considerable discount to the prevailing market price of the Shares so as to encourage the Qualifying Shareholders, who are positive to the future development of the Company, to exercise its rights to subscribe for the Offer Shares.

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

In view of the above, although it is beneficial to have excess application for the Qualifying Shareholders who wish to take up additional Offer Shares, we consider that the Open Offer has already enable the Qualifying Shareholders to maintain their proportionate interests in the Company should they so wish by applying the Offer Shares according to their shareholding in the Company, which we consider to be fair and reasonable. Therefore, the absence of the excess application arrangement is acceptable.

4. Potential dilution effect on the shareholding interests of the Independent Shareholders

Upon completion of the Open Offer, 18,294,360,000 New Shares will be issued. Qualifying Shareholders who elect to subscribe for in full their assured entitlements under the Open Offer will retain their current shareholding in the Company. Qualifying Shareholders who do not elect to subscribe for in full their assured entitlements under the Open Offer will be diluted after completion of the Open Offer by a maximum of approximately 87.5%. Despite the dilution effect by the Open Offer of a maximum of approximately 87.5%, having taken into account: (i) the Group has cash on hand of approximately HK$32.9 million as at 31 December 2009 which is insufficient to meet its investment obligation in the JV Company and the production of other New Films; (ii) the Open Offer would provide the fund to the Group for investment and future development; (iii) the Open Offer would strengthen the capital base and financial flexibility of the Group; (iv) the Open Offer is on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportional interests in the Company and allows the Qualifying Shareholders to participate in the growth of the Company; (v) debt financing or bank loans were not commonly available to the film companies due to the higher risk associated with the film industry and limited securities could be provided as collateral; and (vi) the inherent dilutive nature of Open Offer in general, we consider the possible dilution effect on the Independent Shareholders to be acceptable.

5. Financial effects of the Open Offer

(a) Net tangible asset

According to the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group (the "Pro Forma Statement") set out in Appendix II to the Circular, the adjusted consolidated net tangible assets of the Group was approximately HK$227.2 million as at 31 December 2009. The pro forma adjusted consolidated net tangible assets of the Group would increase to approximately HK$420.7 million upon completion of the Open Offer.

Upon completion of the Open Offer, the unaudited pro forma adjusted consolidated net tangible assets per Share would decrease from HK$0.0869 to approximately HK$0.0201.

(b) Working capital

According to the Annual Report, the Group had cash and cash equivalent of approximately HK$32.9 million. Upon completion of the Open Offer, there will be estimated net proceeds of approximately HK$193.4 million which the Board intends to apply for funding investment under the JV Agreement and the remaining balance will be used for production of other New Films and as general working capital of the Company.

Although the unaudited pro forma adjusted consolidated net tangible assets per Share would decrease, upon completion of the Open Offer, the cash and cash equivalent would increase which provide the funding required by the Group to fulfill its existing obligation, i.e. the investment in the JV Company, and for the future production of other New Films, we consider the Open Offer to be beneficial to the Group.

6. Whitewash Waiver

As at the date of the Underwriting Agreement, the Underwriter and parties acting in concert with it were interested in 507,500,000 Existing Shares, representing approximately 19.42% of the issued share capital of the Company. Pursuant to the Irrevocable Undertaking, the Underwriter has irrevocably undertaken to take up all of his entitlement under the Open Offer, being 3,552,500,000 Offer Shares. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the balance of the Offer Shares which are not subscribed by the Qualifying Shareholders on a fully underwritten basis. The Underwriter has however made the Sub-underwriting Arrangements with the Sub-underwriter to ensure that the Company will maintain the minimum public float for the Shares in compliance with the Listing Rules. Assuming the Underwriter would have to take up his maximum underwriting obligation pursuant to the Underwriting Agreement and with the Sub-underwriting Arrangements being effected, the Underwriter will increase his shareholding from approximately 19.42% of the existing issued share capital of the Company to 75% of the then enlarged issued share capital of the Company upon completion of the Open Offer.

In such case, the Underwriter and parties acting in concert with him will then be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code accordingly. An application has been made to the Executive by the Underwriter for the Whitewash Waiver under Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders by way of a poll. If the Whitewash Waiver is not granted by the Executive, the Open Offer will lapse and will not proceed.

Based on our analysis of the terms of the Open Offer, we consider that the Open Offer is in the interests of the Company and the Shareholders as a whole. If the Whitewash Waiver is not approved by the Independent Shareholders at the SGM, the Open Offer will not proceed and the Company will lose all the benefits that are expected to be brought by the completion of the Open Offer, i.e. the funding for fulling its obligation under the JV Agreement and production of other New Films. Accordingly, we are of the view that for the purposes of implementing the Open Offer, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Taking into account the factors and reasons as mentioned above, which include (i) background information of the Group; (ii) reasons for the Open Offer and the use of proceeds; (iii) principal terms of the Open Offer; (iv) potential dilution effect on the shareholding interests of the Independent Shareholders; and (v) financial effects of the Open Offer, we consider that, on balance, the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interest of the Company and the Independent Shareholders as a whole and would advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolution to approve the Open Offer to be proposed at the SGM.

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

Yours faithfully,
For and on behalf of
Nuada Limited
Kevin Chan
Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

A summary of the audited results and the assets and liabilities of the Group for the last three financial years ended 31 December 2007, 2008 and 2009, as extracted from the annual reports of the Company are as follows:

Consolidated Income Statement

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
CONTINUING OPERATIONS			
REVENUE	119,488	52,594	68,943
Cost of sales	(89,716)	(73,667)	(81,690)
Gross profit (loss)	29,772	(21,073)	(12,747)
Other income and gains	3,132	4,341	2,082
Gain on disposal of subsidiaries	17,622	–	–
Impairment of interest in jointly controlled entities	–	–	(3,500)
Fair value gain on derivative component of convertible bonds	9	14,176	–
Loss on redemption of convertible bonds	(7,050)	–	–
Fair value gain (loss) on investments held for trading, net	1	(2,898)	(1,711)
Fair value loss on an investment property	–	(165,654)	–
Impairment of goodwill	–	(69,034)	–
Gain on disposal of available for sale investments	–	–	2,173
Gain on disposal of items of property, plant and equipment	39	–	–
Administrative expenses	(24,553)	(24,521)	(23,180)
Finance costs	(6,207)	(2,596)	(939)
Share of results of jointly-controlled entities	(4,038)	(2,992)	(2,341)
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	8,727	(270,251)	(40,163)
Income tax (expense) credit	(1,236)	41,433	126
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	7,491	(228,818)	(40,037)
DISCONTINUED OPERATION			
(Loss) Profit for the year from a discontinued operation	(211)	136	(30)
PROFIT (LOSS) FOR THE YEAR	7,280	(228,682)	(40,067)

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
ATTRIBUTABLE TO:			
Owners of the Company	6,694	(216,317)	(40,067)
Minority interests	586	(12,365)	–
	7,280	(228,682)	(40,067)
EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic			
– For profit (loss) for the year	HK0.30 cent	HK(18.53) cents	HK(8.86) cent
– For profit (loss) from continuing operations	HK0.31 cent	HK(18.54) cents	HK(8.86) cent
Diluted			
– For profit (loss) for the year	N/A	N/A	N/A
– For profit (loss) from continuing operations	N/A	N/A	N/A

No qualified opinion has been issued by the auditors for each of the three financial years ended 31 December 2009, 2008 and 2007.

No dividend was paid or proposed for each of the three financial years ended 31 December 2009.

There were no other extraordinary nor exceptional items except for the items disclosed above existing during each of the three financial years ended 31 December 2009.

Consolidated Balance Sheet

	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	2,604	3,355	3,765
Investment property	283,801	283,640	–
Prepaid land lease payments	2,278	2,353	2,428
Deposits paid	1,666	–	–
Interests in jointly-controlled entities	–	13,672	16,664
Total non-current assets	290,349	303,020	22,857
CURRENT ASSETS			
Film rights	1	62	720
Film production in progress	55,767	63,325	53,202
Prepaid land lease payments	75	75	75
Inventories	2,237	2,007	1,853
Property held for sale	–	–	4,561
Investments held for trading	–	1	16,350
Trade receivables	7,320	5,487	2,997
Loan receivable	–	–	5,500
Other receivables, prepayments and deposits paid	1,786	1,351	8,511
Due from a minority shareholder	–	12,372	–
Due from a jointly-controlled entity	–	–	1,349
Tax receivable	–	–	297
Pledged deposits	–	536	533
Cash and cash equivalents	32,892	15,961	100,358
	100,078	101,177	196,306
Assets of a disposal group classified as held for sale	686	–	–
Total current assets	100,764	101,177	196,306
CURRENT LIABILITIES			
Trade payables	1,027	4,081	3,514
Other payables, accruals and deposits received	70,365	50,493	31,706
Loans from former shareholders	–	13,036	13,036
Due to former directors	–	104	–
Due to a shareholder	–	6,991	–
Interest-bearing bank and other borrowings	169	12,445	6,846
Obligations under a finance lease	92	92	92
Tax payable	1	142	83
	71,654	87,384	55,277
Liabilities directly associated with the assets classified as held for sale	134	–	–
Total current liabilities	71,788	87,384	55,277

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
NET CURRENT ASSETS	28,976	13,793	141,029
TOTAL ASSETS LESS CURRENT LIABILITIES	319,325	316,813	163,886
NON-CURRENT LIABILITIES			
Convertible bonds	–	51,538	–
Interest-bearing bank and other borrowings	1,789	166	537
Loans from former shareholders	–	20,000	–
Deposits received	1,078	–	–
Deferred tax liabilities	65,474	64,060	508
Obligations under a finance lease	8	100	192
Total non-current liabilities	68,349	135,864	1,237
Net assets	250,976	180,949	162,649
EQUITY			
Equity attributable to owners of the Company			
Issued capital	261,348	217,790	57,600
Reserves	(34,106)	(59,642)	105,049
	227,242	158,148	162,649
Minority interests	23,734	22,801	–
Total equity	250,976	180,949	162,649

2. AUDITED FINANCIAL STATEMENTS

Set out below are the audited financial statements together with the relevant notes thereto as extracted from the annual report of the Company for the year ended 31 December 2009.

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)

	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

Consolidated Statement of Comprehensive Income
Year ended 31 December 2009

	2009	2008
	HK$'000	*HK$'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

	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

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)	–

	Notes	2009 HK$'000	2008 HK$'000
Cash generated from (used in) operations		23,245	(154,100)
Hong Kong profits tax refunded		–	250
Hong Kong profits tax paid		–	(10)
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)

	Notes	2009 HK$'000	2008 HK$'000
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

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).*

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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 equity-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.

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;

(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.

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.

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.

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.

Year ended 31 December 2009

	Continuing operations					Discontinued operation	
	Film distribution and licensing	Film processing	Property investment	Elimination	Total	Advertising and promotional services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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

Year ended 31 December 2009

	Continuing operations					Discontinued operation	
	Film distribution and licensing	Film processing	Property investment	Unallocated	Total	Advertising and promotional services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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

Year ended 31 December 2008

	Continuing operations					Discontinued operation	
	Film distribution and licensing	Film processing	Property investment	Elimination	Total	Advertising and promotional services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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)

Year ended 31 December 2008

	Continuing operations					Discontinued operation	
	Film distribution and licensing	Film processing	Property investment	Unallocated	Total	Advertising and promotional services	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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

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	2008
	HK$'000	*HK$'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	2008
	HK$'000	*HK$'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	2008
	HK$'000	*HK$'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

2009

	Fees	**Salaries, allowances and benefits in kind**	**Retirement benefit scheme contributions**	**Total remuneration**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Ms. Lai Pik Chi, Peggy	–	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.

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.

(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	**2008**
	HK$'000	*HK$'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)

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	**2008**
	HK$'000	*HK$'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

The net cash flows incurred by Chili are as follows:

	2009	2008
	HK$'000	*HK$'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	Furniture and fixtures	Leasehold improvements	Motor vehicles	Plant, machinery and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:						
At 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

	Buildings	Furniture and fixtures	Leasehold improvements	Motor vehicles	Plant, machinery and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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.

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

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 Limited	Hong Kong	HK$10,000	100	100	Investment holding
Film City Enterprises Limited ("Film City")	BVI	US$1	–	100	Investment holding
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.

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)
	–	–

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 2009	2008	Nature of business
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.

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	**2008**
	HK$'000	*HK$'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	**2008**
	HK$'000	*HK$'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.

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	**2008**
	HK$'000	*HK$'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	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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		Company	
			2009	**2008**	**2009**	**2008**
	%		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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		Company	
	2009	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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	2008	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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.

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

Deferred tax assets

Group	Losses available for offsetting against future taxable profits
	HK$'000
At 1 January 2008, 31 December 2008 and 1 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	2008
	HK$'000	*HK$'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:

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.

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:

		2009
	Note	*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

(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.

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	

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%.

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	**2008**
	HK$'000	*HK$'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	**2008**
	HK$'000	*HK$'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.

(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	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
(a) Financial assets at fair value through profit or loss				
– Investments held for trading	–	1	–	–
(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

	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.

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.

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

Company

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.

3. FINANCIAL AND TRADING PROSPECTS

Financial Review

For the year ended 31 December 2009, the Group's turnover increased by 91% to HK$120,993,000 (2008: HK$63,229,000). The increase in turnover was primarily due to the better return from film production and mainland properties. 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).

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 in our film production, distribution and licensing segment. The increase in turnover from this segment is attributable to the turnover received from two best-selling and well-received films of the Group, "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.

The Group had disposed one loss-making subsidiary and one loss-making jointly controlled entity during the year ended 31 December 2009. Both disposals has generated gain of HK$198,000 and HK$17,424,000 respectively, and cash flow of HK$24,363,000 to the Group, which will enhance the future development of the Group.

Financial and Trading Prospects

The Hong Kong total box office receipts of the Group was over HK$1,290,000,000 in 2009, which is 29% higher of 2008. The PRC total box office receipts of the Group was approximately RMB6,206,000,000 which was increased by 43% as compared to 2008. The Chinese film market provides tremendous opportunities and is attractive to the investors. With the tremendous success of the Group's Ip Man Series, the Group intends to take on the heat and produce more "kung-fu" films similar or related to Ip Man Series.

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. In 2010, the Group will consider the continuous film production through the cooperation with other company or funding from its own resources. For example, with the formation of joint venture with Filmko, the Group would be able to benefit from the resources, expertise and business connections of Filmko in the film industry in Hong Kong which in turn would benefit the business of the Group.

The Group foresees a better film production environment in the PRC in the years ahead. The Group expects that the PRC film production market will improve due to the economy growth of the PRC and the higher living standard of its people. However, the Group's film business may be adversely affected by counterfeit issues and competition from other market competitors, such as local and overseas film production companies and DVD distributors and retailers. Moreover, any policies and measures adopted by the PRC Government to affect film productions and distributions in China or to curb the property market in China may adversely affect the Group's film business and property investment in the Mainland.

In the meantime, the Group will continue to look for opportunities for our existing business that may increase the shareholders' value of the Group and further reduce the business risk of the Group.

4. INDEBTEDNESS

Borrowings and debt securities

At the close of the businesses on 30 June 2010, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had indebtedness of a secured long-term bank loan of approximately HK$1,874,000.

As at 30 June 2010, the Group's secured long-term bank loan is secured by certain of the Group's buildings and leasehold land with total carrying value of approximately HK$3 million.

Operating lease commitments

As at 30 June 2010, the Group had operating lease commitments of approximately HK$12,326,000 (of which approximately HK$4,872,000 is repayable within one year and approximately HK$7,454,000 is repayable in the second to fifth years, inclusive) in respect of rental of premises under operating lease arrangements.

Disclaimer

Save as disclosed above and apart from the intra-group liabilities and normal trade bills arising in the ordinary course of business, at the close of business on 30 June 2010, the Group did not have any other outstanding indebtedness, loan capital, bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase or finance lease commitments, guarantees or contingent liabilities.

The Directors confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group since 30 June 2010 and up to and including the Latest Practicable Date.

5. WORKING CAPITAL

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

6. MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2009, being the date of which the latest audited financial statements of the Group were made up to and including the Latest Practicable Date.

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

The unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Open Offer on the consolidated net tangible assets of the Group as if the Open Offer had been completed on 31 December 2009.

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

Open offer for 18,294,360,000 Offer Shares

Adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2009	Estimated net proceeds from the Open Offer	Pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company upon completion of the Open Offer	Audited adjusted consolidated net tangible assets per Share attributable to owners of the Company as at 31 December 2009	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to owners of the Company immediately upon completion of the Open Offer
(note 1)	*(note 2)*		*(note 3)*	*(note 4)*
HK$'000	*HK$'000*	*HK$'000*	*HK$*	*HK$*
227,241	193,409	420,650	0.0869	0.0201

Notes:

(1) This figure represented the consolidated net assets attributable to owners of the Company (HK$227,242,000) less the intangible assets, being film rights (HK$1,000) and these figures are extracted from the audited consolidated statement of financial position of the Company as at 31 December 2009.

(2) The estimated net proceeds from the Open Offer are based on the gross proceeds from the Open Offer of the 18,294,360,000 Offer Shares at the Subscription Price of HK$0.0109 per Offer Share totalling approximately HK$199,409,000 and after deduction of the estimated related expenses of approximately HK$6,000,000.

(3) The audited adjusted consolidated net tangible assets per Share attributable to owners of the Company before completion of the Open Offer is based on 2,613,480,000 New Shares in issue as at 31 December 2009.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Open Offer is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company upon completion of the Open Offer on the basis of 20,907,840,000 Shares issued and issuable, comprising 2,613,480,000 New Shares in issue as at 31 December 2009 and 18,294,360,000 Offer Shares to be issued.

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

The following is the text of a report received from Robert Chui & Co., certified public accountants, for the purpose of inclusion in this circular.

Robert Chui & Co.

2109 China Resources Building
26 Harbour Road, Wanchai
Hong Kong

11 August 2010

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

Dear Sirs,

We report on the unaudited pro forma financial information of China Mandarin Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on page II-1 of Appendix II to the circular dated 11 August 2010 (the "Circular") in connection with the Open Offer of 18,294,360,000 Offer Shares at HK$0.0109 per Offer Share on the basis of seven Offer Shares for every New Share held (the "Open Offer"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Open Offer might have affected the financial information presented. The basis of preparation of the unaudited pro forma financial information is set out on page II-3 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

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

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

Basis of opinion

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

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

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2009 or any future date.

Opinion

In our opinion:

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

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

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

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

RESPONSIBILITY STATEMENT

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

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

SHARE CAPITAL

The Company has an authorised ordinary share capital of HK$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK$0.10 each. As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into Shares. The authorised and issued ordinary share capital of the Company as at the Latest Practicable Date were and immediately upon completion of the Capital Reorganisation and the Open Offer will be as follows:

Authorised ordinary share capital as at Latest Practicable Date:		*HK$*
10,000,000,000	Shares as at the Latest Practicable Date and upon completion of the Open Offer	1,000,000,000
Issued and fully paid:		
2,613,480,000	Existing Shares as at the Latest Practicable Date	261,348,000
2,613,480,000	New Shares as at the Latest Practicable Date (assuming the Capital Reorganisation becoming effective)	26,134,800
18,294,360,000	Offer Shares to be issued (assuming no further Shares will be issued or repurchased on or before the Record Date)	182,943,600
20,907,840,000	New Shares upon completion of the Capital Reorganisation and Open Offer	209,078,400

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

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

MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the Last Trading Day; (ii) the last trading day of each calendar month during the period commencing six months preceding the date of the Announcement; and (iii) the Latest Practicable Date:

Date	**Share price** *(HK$)*
31 December 2009	0.212
29 January 2010	0.209
26 February 2010	0.213
31 March 2010	0.236
30 April 2010	0.250
31 May 2010	0.203
23 June 2010 (Last Trading Day)	0.200
30 June 2010	0.200
30 July 2010	0.216
Latest Practicable Date	0.211

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing six months prior to the date of the Announcement up to and including the Latest Practicable Date were HK$0.270 on 28 April 2010 and HK$0.168 on 13 July 2010 respectively.

DISCLOSURE OF INTERESTS

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

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

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

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

Name of Shareholders	Nature of Interest	Number of Shares interested or deemed to be interested (long position)	Approximate percentage of the issued share capital of the Company
Cheng Keung Fai	Beneficial owner	507,500,000	19.42%
Fang Han Song	Beneficial owner	269,500,000	10.31%

ARRANGEMENTS IN CONNECTION WITH THE OPEN OFFER

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

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

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

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

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

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

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

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

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

(i) the Underwriter and parties acting in concert with him were interested in 507,500,000 Existing Shares in the Company, representing approximately 19.42% of the existing issued share capital of the Company;

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

(k) the Underwriter and parties acting in concert with him did not borrow or lend any Shares;

(l) no party whose shareholdings were required by paragraph 4 of Schedule 1 to the Takeovers Code to be disclosed, including a party who had no shareholdings, had dealt for value in the Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the period beginning 6 months prior to the date of the Announcement and ending with the Latest Practicable Date prior to the posting of this circular;

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

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

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

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

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

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

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

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

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

(v) there were no outstanding options, warrants and conversion rights affecting the Shares.

MATERIAL CONTRACTS

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

a. the Underwriting Agreement;

b. the joint venture agreement dated 21 June 2010 and entered into between Filmko International Limited and Grimston Limited in connection with the formation of the joint venture Company, Talent Films Limited, to be engaged in the Film's development, production and promotion and to deal with matters concerning copyrights and distribution of the Film;

c. the sale and purchase agreement dated 17 December 2009 and entered into between Pegasus Motion Pictures Limited as purchaser and Grimston Limited as vendor in relation to, among others, the sale and purchase of 100 shares of HK$1 each in the issued share capital of Elite Films Limited, 500,000 shares of HK$1 each in the issued share capital of Motion Picture Limited, 10,000 shares of US$1 each in the issued share capital of Pioneer Films Limited;

d. the sale and purchase agreement dated 3 December 2009 and entered into between Grimston Limited, as vendor and Billion Base Investments Limited, as purchaser in relation to, among others, the disposal of the entire issued share capital of Film City Enterprises Limited, and the inter-company balance for a total consideration of HK$23,863,636;

e. the placing agreement dated 30 October 2009, subsequently replaced by a new placing agreement dated 2 November 2009 and entered into between the Company and Skyway Securities Investment Limited pursuant to which Skyway Securities Investment Limited agreed to place, on a best effort basis, up to 435,580,000 new Shares to independent placees at a price of HK$0.145 per placing share;

f. the service agreement dated 31 August 2009 and entered into between Paramount Universal Limited, a wholly owned subsidiary of the Company and Mr. Cheng Ka Sing, a son of Mr. Cheng Keung Fai who is a substantial Shareholder, pursuant to which Mr. Cheng Ka Sing should render his service as an actor to shoot Ip Man 2 for the period commencing from 10 August 2009 to 9 November 2009 (both dates inclusive) for a total consideration of HK$80,000;

g. the master agreement dated 6 May 2009 and entered into between Grimston Limited, and Mr. Wong Pak Ming ("Mr. Wong") pursuant to which Grimston Limited will procure that any of the companies (being a member of the Group) nominated and procured by the Company to enter into service agreement(s) with Mr. Wong and/or Mr. Wong Chi Woon, Edmond, Mr. Wong Pak Nin, Herrick, Ms. Wong Kit Chun, Jenny, Pure Project Limited, Big Bright Investment Limited, Pegasus Motion Pictures Production Limited, Pegasus Motion Pictures Limited, 東影影視出品有限公司, Prime Moon International Limited and any other associates of Mr. Wong ("PM Wong Associates") with a term commencing from the date of the master agreement up to 31 December 2011 in which each of the aggregate annual amount to be paid by the Group to Mr. Wong and/or PM Wong Associates for the period from the date of the master agreement up to 31 December 2009 and for the two years ending 31 December 2010 and 2011 shall not exceed HK$5,000,000;

h. the sale and purchase agreement dated 27 March 2009 and entered into between Grimston Limited, as vendor and Mr. Lam Sze Ho, Owen, an Independent Third Party, as purchaser in relation to the disposal of sale share, representing the entire issued capital of Chili Advertising & Promotions Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Company with a consideration of HK$500,000;

i. the loan agreement dated 20 November 2008 and entered into between the Company as borrower and Mr. Wong in relation to the loan of HK$20 million at the interest rate of Bank of China prime rate minus 2% per annum on the outstanding principal;

j. the service agreement I dated 20 November 2008 and entered into between Mandarin Films Limited ("Mandarin Films"), a wholly-owned subsidiary of the Company and Big Bright Investment Limited ("Big Bright") pursuant to which, Big Bright should procure Mr. Wong to render his service as executive producer for a film with consideration of HK$300,000. On the same date, Mandarin Films and Mr. Wong entered into the service agreement II and service agreement III respectively. Pursuant to the service agreement II, Mr. Wong should render his services as an actor to shoot another film for the period up to 10 January 2009 with consideration of HK$1,000,000. Pursuant to the service agreement III, Mr. Wong should also render his services as executive producer for a film with consideration of HK$500,000;

k. on 5 November 2008, Mandarin Films Distribution Company Limited, a wholly owned subsidiary of the Company, as tenant entered into a tenancy agreement with Pure Project Limited, as landlord in relation to the renewal of the lease in respect of a premise for the monthly rental fee of HK$51,920 for the period from 1 February 2009 to 31 August 2009. 99% of the shareholdings in Pure Project Limited is beneficially owned by Mr. Wong and the remaining 1% of the shareholdings is beneficially owned by the sister of Mr. Wong;

l. the settlement agreement dated 30 October 2008 and entered into among Chengshang Group Co., Ltd.# (成商集團股份有限公司), Chengdu Songde Investment Limited# (成都崇德投資有限公司), Chengdu Renmin Plaza Huanghe Commercial City Limited# (成都人民商場黃河商業城有限責任公司), Chengdu Zhongfa Huanghe Real Estate Development Co., Ltd.# (成都中發黃河實業有限公司), a non-wholly owned subsidiary of the Company (the "PRC Subsidiary") and Sichuan Huanghe Commercial Limited# (四川黃河商業有限責任公司), pursuant to which the PRC Subsidiary agreed to pay RMB136,463,900 in aggregate to other parties for the settlement of the civil litigations number (2007)成民初字第270號, (2007)成民初字第241號, (2007)成民初字第205號, (2007)成民初字第165號, (2006)成民初字第608號, (2006)成民初字第616號, (2005)成民初字第138號 and (2007)成民初字第941號；

m. the management agreement dated 25 August 2008 with Sichuan Huanghe Commercial Limited# (四川黃河商業有限責任公司), a non-wholly owned subsidiary of Guangdong Huanghe Enterprise Group Limited# (廣東黃河實業集團有限責任公司), a company incorporated in the PRC with limited liability, being owned as to 89% by Mr. Cheng Keung Fai, pursuant to which Sichuan Huanghe Commercial Limited# (四川黃河商業有限責任公司) agreed to provide management service to Minzu Plaza# (民族廣場) which is legally and beneficially owned by Chengdu Zhongfa Huanghe Real Estate Development Co., Ltd.# (成都中發黃河實業有限公司), a non-wholly owned subsidiary of the Company, for a monthly management fee of RMB70,000 for the period commencing from 1 September 2008 to 31 August 2009; and

n. the underwriting agreement dated 2 July 2008 and entered into between the Company and Orient Securities Limited and Mr. Wong in relation to the open offer of not less than 1,426,900,000 offer shares and not more than 1,569,400,000 offer shares at HK$0.1 per offer share on the basis of nineteen offer shares for every ten shares held on the relevant record date.

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

LITIGATION

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

DIRECTORS' SERVICE CONTRACTS

Ms. Lai Pik Chi, Peggy, an executive Director and chairman of the Board, entered into a service contract with the Company on 10 October 2008 with a monthly remuneration of HK$50,000 and for an initial term of one-year commencing from 10 October 2008 and the term shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice. As at the Latest Practicable Date, Ms. Lai was entitled to a monthly remuneration of HK$54,000.

Ms. Law Kee, Alice, an executive Director and chief executive officer of the Company, entered into a service contract with the Company on 16 October 2007 with a monthly remuneration of HK$26,000 and for an initial term of one-year commencing from 16 October 2007 and the term shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice. As at the Latest Practicable Date, Ms. Law was entitled to a monthly remuneration of HK$54,000.

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

Mr. Choy Sze Chung, Jojo signed an appointment letter with the Company on 24 August 2009 for an initial term of one-year commencing from 1 September 2009 which should be renewable automatically for successive terms of one year and either party may terminate the appointment letter by giving to the other not less than one month's prior written notice. Pursuant to his letter of appointment, Mr. Choy's remuneration is fixed at HK$10,000 per month, which commensurated with his duties and responsibilities as the independent non-executive Director and the prevailing market situation.

Mr. Tsui Pui Hung signed an appointment letter with the Company on 7 September 2009 for an initial term of one-year commencing from 10 September 2009 which should be renewable automatically for successive terms of one year and either party may terminate the appointment letter by giving to the other not less than one month's prior written notice. Pursuant to his letter of appointment, Mr. Tsui's remuneration is fixed at HK$10,000 per month, which commensurated with his duties and responsibilities as the independent non-executive Director and the prevailing market situation.

Mr. Chan Tung Tak, Alain signed an appointment letter with the Company on 3 June 2009 for an initial term of one year commencing from 3 June 2009 which should be renewable automatically for successive terms of one year and either party may terminate the appointment letter by giving to the other not less than one month's prior written notice. Pursuant to his letter of appointment, Mr. Chan's remuneration is fixed at HK$10,000 per month, which commensurated with his duties and responsibilities as the independent non-executive Director and the prevailing market situation.

As at the Latest Practicable Date, save as aforesaid, none of the Directors had a service contract with the Company or any of its subsidiaries or associated companies (i) which (including both continuous and fixed term contracts) has been entered into or amended within 6 months before the date of the Announcement; (ii) which is a continuous contract with a notice period of 12 months or more; (iii) which is a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

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

DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

(a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2009, the date to which the latest published audited financial statements of the Group were made up.

(b) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group since 31 December 2009, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

COMPETING INTERESTS

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

EXPERT AND CONSENT

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

Name	**Qualification**
Grand Vinco Capital Limited	a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Nuada Limited	a licensed corporation to carry on type 6 (advising on corporate finance) regulated activities under the SFO
Robert Chui & Co.	Certified public accountants

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

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

3. None of Grand Vinco Capital Limited, Nuada Limited and Robert Chui & Co. had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2009, the date to which the latest published audited consolidated financial statements of the Group were made up.

PARTIES INVOLVED IN THE OPEN OFFER AND CORPORATE INFORMATION

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

Principal share registrar and transfer office	Butterfield Corporate Services Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
Hong Kong branch share registrar and transfer office	Tricor Standard Limited 26/F Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal bankers	ICBC (Asia) Limited Bank of China (Hong Kong) Limited The Hongkong and Shanghai Banking Corporation Limited Chong Hing Bank Limited
Underwriter	Mr. Cheng Keung Fai
Independent Financial Adviser	Nuada Limited 17/F Blink 111 Bonham Strand Sheung Wan Hong Kong
Legal advisers	*as to Hong Kong Laws* Winnie Mak, Chan & Yeung Solicitors 8th Floor, Two Chinachem Plaza, 68 Connaught Road Central Hong Kong *as to Bermuda Laws* Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
Reporting accountants	Robert Chui & Co. 2109 China Resources Building 26 Harbour Road Wanchai Hong Kong

PARTICULARS 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 was appointed as an executive Director in October 2008. Ms. Lai obtained a Master of Business Administration Degree from University of Manchester. Ms. Lai has over 20 years experience in auditing, accounting, financial management and corporate finance spanning a diverse range of business from media, entertainment, manufacturing, publishing, distribution and retailing. She is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

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 was appointed as an executive Director in October 2007. Ms. Law holds a Bachelor Degree in Business Administration from University of Management and Technology, USA. She has extensive experience in business development, operation and marketing management. She is a member of The Hong Kong Institute of Directors and a member of The Hong Kong 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, an honorary president of Shantou Overseas Friendship Association, an honorary president of Shantou Overseas Exchanges Association, an 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 the High Court of Hong Kong and an independent non-executive 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 the United Kingdom. He obtained a bachelor degree in architecture from the Polytechnic of North London, the United Kingdom. He is also a member of Architects Registration Council in the United Kingdom, Royal Institute of British Architect in the United Kingdom and Royal Architectural Institute of Canada. He is an independent non-executive director of First Credit Holdings Limited.

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 58, 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.

MISCELLANEOUS

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

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

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

(d) The Underwriter considers and confirms that:

(i) the Group will continue with its existing business following the completion of the Open Offer;

(ii) the Open Offer is in the interests of the Group in the long run as the Group requires funding for the continuation and expansion of its existing business;

(iii) he has no intention to introduce any major changes to the existing business of the Group, including the continued employment of the Group's employees and has no intention to re-deploy the fixed assess of the Group other than in its ordinary course of business;

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

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company at Room 4101, 41/F., The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong, during the period from the date of this circular up to and including the date of the SGM:

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

(b) the consolidated audited annual reports of the Group for the two years ended 31 December 2008 and 2009;

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

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

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

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

(g) the service contracts referred to in the paragraph headed “Directors’ Service Contracts” in this Appendix III to this circular;

(h) a copy of each of the material contracts referred to in the paragraph headed “Material contracts” in this Appendix III to this circular; and

(i) a copy of each circular issued pursuant to the requirements set out in Chapter 14 and/or 14A which has been issued since 31 December 2009 (the date on which the latest published audited consolidated financial statements of the Group were made up).

Copies of the above documents in electronic form will be displayed on (i) the Company’s website (www.hmdatalink.com/ChinaMandarin); and (ii) the SFC’s website (www.sfc.hk) and available for inspection from the date of this circular until the date of the SGM.

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

(incorporated in Bermuda with limited liability)

(Stock Code: 00009)

NOTICE IS HEREBY GIVEN THAT a special general meeting (the "**SGM**") of China Mandarin Holdings Limited (the "**Company**") will be held at Room 4101, 41/F., The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong at 2:30 p.m. on Friday, 3 September 2010 for the following purpose of considering and, if thought fit, passing with or without amendments, the following special and ordinary resolutions:

SPECIAL RESOLUTION

1. "**THAT**, conditional upon (a) the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting the listing of, and the permission to deal in, the New Shares (as defined below) in issue; (b) the compliance with the relevant legal procedures and requirements under the Companies Act 1981 of Bermuda to effect the Capital Reorganisation (as defined below); and (c) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation (as defined below);

   (i) the issued share capital of the Company be reduced by cancelling the paid up capital to the extent of HK$0.09 on each ordinary share of HK$0.10 each (the "**Existing Share(s)**") in the existing share capital of the Company (the "**Capital Reduction**") such that the nominal value of all issued Existing Shares will be reduced from HK$0.10 each to HK$0.01 each (the "**New Shares**");

   (ii) subject to the Capital Reduction becoming effective, each of the authorised but unissued Existing Shares of HK$0.10 each in the share capital of the Company be subdivided into ten New Shares of HK$0.01 each (the "**Share Subdivision**");

   (iii) the entire amount standing to the credit of the share premium account of the Company be reduced (the "**Share Premium Reduction**"); and

* *For identification purpose only*

(iv) the credit arising from the Capital Reduction and the Share Premium Reduction be transferred to the contributed surplus account of the Company, and the application of the appropriate sum therein to set off against the total accumulated losses of the Company (the "**Elimination of Accumulated Losses**", together with the Capital Reduction, the Share Subdivision and the Share Premium Reduction, are herein referred to as the "**Capital Reorganisation**").

(v) any one of the directors of the Company (the "**Directors**") be and is hereby authorised to sign and execute such documents and do all such acts and things incidental to any of the foregoing or as he/she considers necessary, desirable or expedient in connection with the implementation of or giving effect to any of the foregoing and the transactions contemplated thereunder."

ORDINARY RESOLUTIONS

2. "**THAT,** subject to the passing of the resolutions numbered 1 and 3 and conditional upon fulfillment of the conditions of the Underwriting Agreement (as defined below):

(a) the allotment and issue by way of open offer (the "**Open Offer**") of 18,294,360,000 New Shares of HK$0.01 each in the share capital of the Company (the "**Offer Shares**") to the shareholders of the Company (the **"Shareholders**") whose names appear on the register of members of the Company on the date by reference to which entitlement under the Open Offer will be determined (excluding those Shareholders (the "**Prohibited Shareholders**") with registered addresses outside Hong Kong whom the Directors consider it necessary or expedient to exclude after making the relevant enquiries regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in the place where those overseas Shareholders reside) on the basis of seven (7) Offer Shares for every New Share then held at the subscription price of HK$0.0109 per Offer Share and otherwise pursuant to and subject to the terms and conditions set out in the underwriting agreement dated 23 June 2010 (the "**Underwriting Agreement**") entered into between the Company and Cheng Keung Fai (the "**Underwriter**") be and is hereby approved;

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

(c) the absence of arrangements for application for the Offer Shares by the Shareholders in excess of their entitlements under the Open Offer be and is hereby approved, confirmed and ratified; and

(d) any Director be and is hereby authorised to sign and execute such documents and do all such acts and things incidental to the Open Offer or as he/she considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder."

3. "**THAT** subject to the passing of the resolution numbered 2, the waiver (the "**Whitewash Waiver**") from the Executive Director (including his delegates) of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong pursuant to Note 1 on dispensation from Rule 26.1 of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**") in respect of the Underwriter's obligation to make a mandatory general offer under Rule 26.1 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Underwriter and parties acting in concert with him as a result of the transaction contemplated under the Underwriting Agreement be and is hereby approved and that any Director be and is hereby authorised to do all things and acts and sign all documents which he/she considers desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Whitewash Waiver."

By order of the Board
China Mandarin Holdings Limited
Lai Pik Chi Peggy
Chairman

Hong Kong, 11 August 2010

Registered office
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

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

Notes:

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

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

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

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

5. All the resolutions are to be voted by way of poll.

As at the date hereof, 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.

* *For identification purpose only*