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 to be taken, you should consult a licenced securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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(s) or the transferee(s) or to the bank, licenced securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

The circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of China Mandarin Holdings Limited.

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)

VERY SUBSTANTIAL ACQUISITION

Financial Adviser to the Company

VINCO 城高

Grand Vinco Capital Limited

(a wholly owned subsidiary of Vinco Financial Group Limited)

A letter from the Board is set out on pages 5 to 28 of this circular. A notice convening a special general meeting of China Mandarin Holdings Limited to be held at Room 4101, 41/F, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong on Monday, 24 January 2011 at 11:00 a.m. or any adjournment(s) thereof is set out on pages 169 to 170 of this circular. A form of proxy for use at the special general meeting is also enclosed.

Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to 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 as soon as possible and in any event not less than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

7 January 2011

* *For identification purpose only*

CONTENTS

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

"Acquisition"	the purchase of the Sale Capital by the Purchaser from the Vendor pursuant to the terms of the Agreement
"Agreement"	the sale and purchase agreement in relation to the Acquisition
"Announcement"	the announcement of the Company dated 23 November 2010 in respect of the Agreement
"associate"	shall have the same meaning as is in the Listing Rules
"Board"	the board of Directors
"Company"	China Mandarin Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the terms of the Agreement
"Consideration"	the total consideration of HK$700,000,000 for the Acquisition
"controlling Shareholder"	shall have the meaning ascribed to it under the Listing Rules
"Conversion Price"	the conversion price of HK$0.345 per Conversion Share (as adjusted following the Share Consolidation)
"Conversion Shares"	up to 1,493,124,637 new Shares to be issued upon the exercise of the conversion rights attached to the Convertible Bond
"Convertible Bond"	the convertible bond in the principal amount of HK$515,128,000 to be issued by the Company, which shall entitle the holder(s) thereof to convert the principal amount outstanding into the Conversion Shares at the Conversion Price (subject to adjustment)
"Directors"	directors of the Company
"Enlarged Group"	the Group and the Target Company
"GDP"	gross domestic product
"GFA"	gross floor area

"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	person(s) or company(ies) and their respective ultimate beneficial owner(s) which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of and not connected with the Company and its connected persons
"Land"	the parcel of land under Land Number: 2009GTJH041 and located at 湖南省湘潭市九華示範區黃河路以北，濱江路以西 (northern side of Huanghe Road and western side of Binjiang Road, Jiuhua Economic Development Zone, Xiangtan, Hunan Province, the PRC) with a gross area of approximately 325,989 sq. m held by the Target Company
"Last Trading Day"	16 November 2010, being the last trading day immediately prior to the entering into of the Agreement
"Latest Practicable Date"	4 January 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Loan"	the sum of RMB21,276,150 (equivalent to approximately HK$24,872,000) due from the Vendor to the Target Company
"Maturity Date"	the date falling on the fifth anniversary of the date of the issue of the Convertible Bond (or if that is not a business day, the first business day thereafter)
"Mr. Jin"	Mr. Jin Lei, a key management staff of the Target Company
"Mr. Li"	Mr. Li Fu Chu, one of the beneficial owners of the Vendor and a key management staff of the Target Company
"Open Offer"	the open offer of the Company completed in September 2010, details of which are contained in the Prospectus
"Original Share(s)"	share(s) of HK$0.01 each in the share capital of the Company prior to the Share Consolidation

"PBOC"	People's Bank of China
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Project"	the property/hotel development project to be built on the Land as currently planned
"Prospectus"	the prospectus of the Company dated 7 September 2010 in relation to the Open Offer
"Purchaser"	Brilliant Field Corporation Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of the Company
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"Sale Capital"	the interest in the entire registered and paid-up capital of the Target Company
"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 and held for the Shareholders to consider and approve, among other matters, if thought fit, the Agreement and the issue of the Convertible Bond in connection thereto
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Share Consolidation"	consolidation of the shares of the Company which took effect on 28 December 2010, details of which are set out in the Company's circular dated 8 December 2010 and announcement dated 24 December 2010
"Shareholders"	holders of the Shares
"Shopping Arcade"	Minzu Plaza (民族廣場), a five-story shopping arcade situated at 中國四川省成都市金牛區永陵路19號 (No.19 Yong Ling Road, Jinniu District, Chengdu, the PRC), a property acquired by the Group in 2008
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers

"Target Company"	湖南九華國際新城開發建設有限公司 (Hunan Jiuhua International City Development Construction Company Limited), a wholly foreign owned enterprise established in the PRC and wholly owned by the Vendor
"Vendor"	Ya Tai (China) Investment Limited, a company incorporated in Hong Kong with limited liability and an Independent Third Party
"Xiangtan"	Xiangtan City, Hunan Province, the PRC
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"km"	kilometer
"RMB"	Renminbi, the lawful currency of the PRC
"sq. m"	square metres

For the purpose of this circular, unless otherwise indicated, conversion of RMB into HK$ is calculated at the approximate exchange rate of RMB1 to HK$1.169. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate or at all.

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
Ms. Law Kee, Alice
Mr. Hui Wai Lee, Willy

Independent non-executive Directors:
Mr. Tsui Pui Hung
Mr. Chan Tung Tak, Alain
Mr. Tang Ping Sum

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

7 January 2011

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION

I. INTRODUCTION

On 23 November 2010, the Board announced that Brilliant Field Corporation Limited, an indirect wholly-owned subsidiary of the Company, and the Vendor entered into the Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Capital, representing the entire registered and paid-up capital of the Target Company, at the Consideration.

The purpose of this circular is to provide you with, among other things, further details of the Acquisition and the notice of the SGM.

* *For identification purpose only*

II. THE ACQUISITION

The Agreement

Set out below are the principal terms of the Agreement:

1. Date

16 November 2010

2. Parties to the Agreement:

(i) Purchaser: Brilliant Field Corporation Limited, an indirectly wholly-owned subsidiary of the Company

(ii) Vendor: Ya Tai (China) Investment Limited, a company incorporated in Hong Kong with limited liability and an Independent Third Party

The Vendor is beneficially owned as to 90% by Mr. Lo Chan Kau and as to 10% by Mr. Li. The principal business activity of the Vendor is investment holding in the Target Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, each of the Vendor, Mr. Lo Chan Kau and Mr. Li is an Independent Third Party and not related to the controlling Shareholder, Mr. Cheng Keung Fai (including parties acting in concert with him). There were no prior transactions between the Company and the Vendor and their associates in the past 12 months prior to the date of the Agreement which would otherwise require aggregation under Rule 14.22 of the Listing Rules.

3. Assets to be acquired

Sale Capital, representing the entire interest in the registered and paid-up capital of the Target Company.

4. Consideration and payment terms

The Consideration shall be satisfied by the Purchaser in the following manner:

(i) as to HK$160,000,000 by cash as initial refundable deposit payable on the date of the Agreement;

(ii) as to HK$24,872,000 to set off the Loan upon Completion; and

(iii) as to the remaining HK$515,128,000 by the issue of the Convertible Bond upon Completion at the Conversion Price.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor on normal commercial terms by reference to, among other things, the property valuation of HK$703,000,000 by RHL Appraisal Limited, an independent property valuer, of the Land currently held by the Target Company as at 30 September 2010. The market value of the Land as at 30 November 2010 was approximately HK$712,000,000. A valuation report has been included in Appendix IV to this circular in accordance with the Listing Rules.

The Company intends to satisfy the cash portion of the Consideration by internal resources, as to approximately HK$90 million by the proceeds from the Open Offer and as to approximately HK$70 million from the proceeds of the films rights mainly in respect of Ip Man 2.

Considering that the Acquisition and the Project have great investment potential and represent a valuable opportunity for the Group to increase its revenue and earning base, the Directors are of the opinion that the terms of the Agreement and the Consideration are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. Conditions precedent to the Completion

Completion is subject to the following conditions being fulfilled or waived (as the case may be):

(i) the Purchaser having been satisfied with the results of a due diligence review of the Target Company;

(ii) the receipt by the Purchaser of a legal opinion, in the form and substance satisfactory to the Purchaser, to be issued by a firm of lawyers nominated by the Purchaser in the PRC and covering such matters relating to the ownership and business of the Target Company as may be required by the Purchaser;

(iii) the Stock Exchange having granted the listing of and permission to deal in the Conversion Shares;

(iv) all other approvals, consents and acts required (including the Listing Rules) having been obtained and completed;

(v) the Board having approved and authorised, among other things, the issue of the Convertible Bond to the Vendor (or its nominee);

(vi) the passing of the ordinary resolution(s) by the Shareholders at the SGM for the approval of the transactions contemplated under the Agreement, including, but not limited to, the issue of the Convertible Bond and the allotment and issue of the Conversion Shares; and

(vii) none of the warranties given by the Vendor under the Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect.

Prior to the signing of the Agreement, apart from the due diligence visits to Xiangtan where the Land is located, the Company had engaged legal advisers and auditors to carry out due diligence review on, among others, the financial position and legal structure of the Target Company. In addition, the Company had engaged an independent property valuer to prepare a draft valuation report on the Target Company for the purpose of assessing the Acquisition and determining the consideration under the Agreement. The Company had also reviewed the preliminary feasibility study on the Project carried out by external consultants. As at the Latest Practicable Date, the Company has not identified any material adverse findings pursuant to the due diligence exercise.

Although conditions numbered (i) and (ii) are waivable by the Group, it is the intention of the Group to complete the due diligence review as required under condition numbered (i) and receive the legal opinion under condition numbered (ii) before proceeding to Completion. The Group will exercise such rights of waiver only if the irregularities, if any, found from its due diligence exercise and the legal opinion relating to the Target Company do not have any material adverse impact on the operation, business and financial conditions of the Target Company as well as the Enlarged Group. As such, the Directors consider that by granting such rights of waiver by the Group, the Group will have the flexibility to continue to proceed to Completion if insignificant deviations are identified in the Target Company so as to avoid the Acquisition being called off due to such insignificant deviations. The Directors believe that such terms are fair and reasonable and is in the interest of the Shareholders.

If the conditions set out above are not fulfilled or, as the case may be, waived (in respect of conditions numbered (i), (ii) and (vii) only) by the Purchaser on or before 12:00 noon on 31 March 2011, the obligations of the parties to the Agreement shall cease and neither party to the Agreement shall have any claims under the Agreement against the other save in respect of any antecedent breaches of the Agreement.

As at the Latest Practicable Date, none of the conditions set out above has been fulfilled.

6. Completion

Completion shall take place on any day falling within five business days after all conditions of the Agreement have been fulfilled or waived or such later date as may be agreed between the parties to the Agreement.

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the consolidated financial statements of the Group.

7. *Principal terms of the Convertible Bond*

Pursuant to the Agreement, the Company will issue the Convertible Bond in the principal amount of HK$515,128,000 upon Completion. Set out below are the principal terms of the Convertible Bond:

Issuer:	The Company
Principal amount of the Convertible Bond:	HK$515,128,000
Maturity Date:	The date falling on the fifth anniversary of the date of the issue of the Convertible Bond (or if that is not a business day, the first business day thereafter)
Interest:	The Convertible Bond carries a coupon interest rate of 0.5% per annum of the principal amount of the Convertible Bond payable to the holder(s) of the Convertible Bond. For any interest period calculation where the early redemption falls on the date before the end of the month, the interest payment for that particular period shall cover the interest payment for the whole month.
Conversion rights:	Holder(s) of the Convertible Bond may, during the period commencing from the date of issue of the Convertible Bond up to 4:00 p.m. on the day immediately prior to and exclusive of the Maturity Date, convert the whole or part (in the amount or integral multiples of HK$1,000,000) of the Convertible Bond into the Conversion Shares at the Conversion Price, credited as fully paid, and provided that no conversion right may be exercised if such exercise (i) triggers a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) of the Convertible Bond which exercised the conversion right attaching to the Convertible Bond, such that the holder(s) of the Convertible Bond and parties acting in concert with it, when taken together, will be interested in 30% or more of the then issued share capital of the Company or such other percentage that will trigger a mandatory general offer obligation under Rule 26 of the Takeovers Code or otherwise pursuant to other provisions of the Takeovers Code; or (ii) results in the public float of the Shares being less than 25% of the issued Shares at any one time in compliance with the Listing Rules.
Conversion Price:	HK$0.345 per Conversion Share, subject to the adjustment provision as contained in the instrument constituting the Convertible Bond.

Ranking of the Conversion Shares:	The Conversion Shares will rank pari passu in all respects with the Shares in issue on the date of their allotment and issue and shall entitle the holder(s) of the Convertible Bond to participate in all dividends or other distributions on or after the date of their allotment.
Final Redemption:	The Company shall redeem the Convertible Bond which remain outstanding on the Maturity Date at its principal amount.
Early Redemption by the Company:	The Company may redeem, at 100% of the principal amount in cash, all outstanding Convertible Bond by giving the holder(s) of the Convertible Bond 10 working days' prior written notice.
Transferability:	Subject to all applicable laws and regulations and prior notification to the Company, the Convertible Bond may be assigned or transferred in whole or in part (in the amount or integral multiples of HK$1,000,000) and in whole only if the outstanding amount of the Convertible Bond is less than or equal to HK$1,000,000 by the holder(s) of the Convertible Bond to any party other than a connected person of the Company. The Company and the Directors will notify the Stock Exchange any dealings by the connected persons of the Company in the Convertible Bond from time to time immediately upon the Company becoming aware of it.
Voting rights:	The holder(s) of the Convertible Bond shall not be entitled to attend or vote at any meetings of the Company by reason only of it being a holder of the Convertible Bond.
Governing law:	The laws of Hong Kong.

8. Conversion Price

Prior to the Share Consolidation

The initial conversion price of HK$0.0345 per conversion share represented:

(i) a discount of approximately of 19.77% to the closing price of HK$0.043 per Original Share as at the Last Trading Day;

(ii) a discount of approximately 13.32% to the average of the closing prices of approximately HK$0.0398 per Original Share for the five consecutive trading days up to and including the Last Trading Day; and

(iii) A premium of approximately 155.56% over the unaudited net asset value per Original Share of approximately HK$0.0135 based on the unaudited net asset value of approximately HK$282,061,000 as at 30 June 2010 and the outstanding 20,907,840,000 issued Original Shares as at the date of the Announcement.

After the Share Consolidation

The Conversion Price of HK$0.345 per Conversion Share represents:

A discount of approximately 4.17% to the closing price of the Shares as quoted on the Stock Exchange of HK$0.36 per Share on the Latest Practicable Date.

The Conversion Price is subject to adjustment based on prescribed formulas as set out in the instrument creating the Convertible Bond for the happening of the following adjustment events:

(i) an alteration of the nominal amount of the Shares by reason of any consolidation or subdivision;

(ii) an issue (other than in lieu of a cash dividend) of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account, contributed surplus account or capital redemption reserve fund);

(iii) a capital distribution in cash or in specie other than out of distributable profits of the Company being made by the Company, whether on a reduction of capital or otherwise, to the Shareholders in their capacity as such;

(iv) an offer or grant being made by the Company to the Shareholders by way of rights, or a grant of options or warrants to subscribe for new Shares, at a price per Share which is less than 80% of the average closing price of one Share on the Stock Exchange for the last five Business Days on which dealings in the Shares took place ending on the last such dealing day preceding the day on or as of which the market price of the Shares is to be ascertained;

(v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per new Share is less than 80% of the average closing price of one Share on the Stock Exchange for the last five Business Days on which dealings in the Shares took place ending on the last such dealing day preceding the day on or as of which the market price of the Shares is to be ascertained, or the terms of any such rights of conversion, exchange or subscription attached to any such securities being modified so that the total effective consideration per Share is less than 80% of such average closing price;

(vi) an issue of Shares being made wholly for cash at a price less than 80% of the average closing price of one Share on the Stock Exchange for the last five Business Days on which dealings in the Shares took place ending on the last such dealing day preceding the day on or as of which the market price of the Shares is to be ascertained; and

(vii) an issue being made by the Company of Shares for the acquisition of asset at a total effective consideration per Share less than 80% of the of the average closing price of one Share on the Stock Exchange for the last five Business Days on which dealings in the Shares took place ending on the last such dealing day preceding the day on or as of which the market price of the Shares is to be ascertained.

No adjustment shall however be made in respect of:

(i) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon the exercise of any rights (including any conversion of the Convertible Bond) to acquire Shares;

(ii) an issue of Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or carrying rights to acquire, Shares to officers or employees of the Company or any of its subsidiaries pursuant to any employee or executive share scheme;

(iii) an issue by the Company of Shares or by the Company or any subsidiary of the Company of securities wholly or partly convertible into or carrying rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;

(iv) an issue of fully paid Shares by way of capitalisation of all or part of any subscription right reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities wholly or partly convertible into or carrying rights to acquire Shares; or

(v) an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value (calculation as provided in the instrument creating the Convertible Bond) of such Shares is not more than 120% of the amount of dividend which holders of the Shares could elect to or would otherwise receive in cash.

Every adjustment to the Conversion Price shall be certified either (at the option of the Company) by the auditors of the Company or by an approved merchant bank.

The initial conversion price of HK$0.0345 per conversion share was arrived at after arm's length negotiations between the Company, the Purchaser and the Vendor taking into account (i) the prevailing market price of the Original Shares; (ii) the unaudited net asset value per Original Share as at 30 June 2010, being HK$0.0135; (iii) the business prospect of the Enlarged Group; and (iv) the relatively low liquidity in the trading of the Original Shares. Although the initial conversion price represented a discount to the closing price of the Original Shares as at the Last Trading Day, it represented an opportunity for the Company to strengthen its capital base. Based on the above, the Directors consider the initial conversion price fair and reasonable and in the interests of the Company and the Shareholders as a whole. The initial conversion price of HK$0.0345 was adjusted to the Conversion Price of HK$0.345 following the Share Consolidation.

9. The Conversion Shares

As at the Latest Practicable Date, there were 2,090,784,000 Shares in issue. Assuming the conversion rights attached to the Convertible Bond are exercised in full, the maximum number of the Conversion Shares is 1,493,124,637 Shares, representing;

(i) approximately 71.41% of the existing issued share capital of the Company; and

(ii) approximately 41.66% of the issued share capital of the Company as enlarged by the Conversion Shares.

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with the Shares then in issue. The transaction will not result in a change of control of the Company.

There are no restrictions on the subsequent disposal of the Conversion Shares.

III. LISTING APPLICATION

Application has been made by the Company to the Listing Committee for the listing of, and permission to deal in the Conversion Shares.

No application will be made by the Company for the listing of the Convertible Bond on any stock exchange.

IV. INFORMATION ON THE TARGET COMPANY AND THE PROJECT

1. Background of the Target Company

The Target Company is a wholly foreign owned enterprise established in the PRC on 8 September 2008 and its entire registered and paid-up capital is owned by the Vendor. The principal scope of business of the Target Company is property development, property management and hotel management. The key management staff of the Target Company has extensive experience in the property development industry of the PRC. Their biographies are set out on page 23 of this circular. After Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

2. The Project

The Land is located at 湖南省湘潭市九華示範區黃河路以北, 濱江路以西 (the northern side of Huanghe Road and the western side of Binjiang Road, Jiuhua Economic Development Zone, Xiangtan, Hunan Province, the PRC). The Project is still in the planning stage and currently pending for future design and development. Under the current plan, subject to approval from local authorities, the Land is intended to be developed into low-density residential units with condominiums and townhouses targeting the affluent class of Hunan Province. A five-star hotel with convention facilities is also planned to be built on the Land. As the existing management of the Group does not have the particular expertise in hotel management, the Group may engage external consultants and/or hotel management companies to operate the hotel under the Project.

The Land is located in Xiangtan, a prefecture-level city in central Hunan Province which lies in the middle reaches of the Xiang River. Xiangtan is only 40 km away from Changsha, the provincial capital of Hunan Province, or Zhuzhou, which makes a "golden triangle" of politics, economy and culture in Hunan province. The total area of Xiangtan is 5,015 square kilometers with a population of around 2.95 million in 2009.

Xiangtan has over 1,200 years of history. It is the birthplace of many celebrities, including Mao Zedong, the preeminent leader and first chairman of the PRC. In addition, Xiangtan has advantageous transportation system. The Changsha-Xiangtan Highway connects the city with Changsha, Zhuzhou and other cities in Hunan. State Highway 107 (which runs from Beijing to Shenzhen) and State Highway 320 (which runs from Shanghai to Kunming) run through the city. Changsha Huanghua Airport, 60km from Xiangtan's downtown area, offers regular flights to 50 cities such as Beijing, Shanghai and Guangzhou.

Xiangtan is one of the important industrial bases of machinery manufacture in China. In 2005, it was ranked the third place in the top 20 cities that are the most suitable to establish factories in China by Forbes. It has been regularly remarked as "China Excellent Tourist City", "Top City for Doing Business" and "China Top 10 Cities to Live".

Further discussion on the strategic location of the Project is set out on pages 24 to 25 in the sub-paragraphs headed "Support of the government" and "Strategic location of the Project" under the paragraph headed "Competitive strengths of the Target Company" in this letter from the Board.

3. Major permits and certificates for the Project

On 20 February 2010, the Target Company entered into a land use rights grant contract with the land resources bureau of Xiangtan in respect of the Land. The land premium and tax were paid on 25 March 2010. The terms for the grant of the land use rights of the Land are 70 years expiring on 10 June 2080 for residential use and 40 years expiring on 10 June 2050 for commercial use respectively.

As advised by the Company's PRC legal adviser, the Target Company has obtained all of the permits/licences/certificates vital to the construction and development of the Project, namely,《國有土地使用權證》(certificate of state-owned land use) and《建設用地規劃許可證》(construction land planning permit). Pursuant to the certificate of state-owned land use, namely, Tan Jiu Guo Yong (2010) Di No. A01017 (潭九國用(2010)第A01017號), and the construction land planning permit, namely, Di Zi Di Tan Jiu Gui No. 2010015223 (地字第潭九規2010015223號), the Land has a site area of approximately 290,338.00 sq. m and a total permitted GFA of approximately 435,507.00 sq. m Other necessary permits/licenses such as《建設工程規劃許可證》(construction works planning permit) and《施工許可證》(construction permit) will be applied from relevant governmental authorities and/or regulatory bodies regarding the construction and development of the Project at later stages in accordance with the progress of the Project. At present, the Directors are not aware of any foreseeable obstacles in obtaining such permits/licences/certificates. Nevertheless, the Directors cannot assure you that all of the required permits, licences, certificates or government approvals for the construction and development of the Project can be obtained. In the event that the Group fails to obtain such permits, licences, certificates or approvals in accordance with the planned schedule or at all, the development of the Project may be adversely disrupted or even, in the worst scenario, may not be completed at all.

In view of the potential risks, the Group intends to engage well-established contractor(s) for the construction and development of the Project so as to ensure up-to-standard quality and compliance with any applicable rules and regulations pertaining to the grant of the relevant permits/certificates/licences. As a mitigating measure, the construction agreement(s) to be entered into between the Group and the contractor(s) would contain provisions which would allow the Group to claim for damages should the Group fail to obtain any relevant permits/licences/certificates as a result of the poor quality or default in the construction and development of the Project on the part of the contractor(s). Furthermore, in order to ensure that all relevant permits/licences/certificates would be obtained in accordance with the planned schedule, the Target Company will enter into a three-year service contract with Mr. Li and Mr. Jin who are familiar with the regulatory requirements and application procedures in this aspect.

4. Expected timetable

As advised by the Directors, to the best of their estimation, the construction and development of the Project is expected to take place in the third quarter of 2011. The expected time which the Project would be developed into residential units ready for sale is around the fourth quarter of 2012. The five-star hotel is expected to be completed and put into operation in early 2014 and the Target Company is expected to commence generating revenue/profits in the fourth quarter of 2012. Nevertheless, as at the Latest Practicable Date, the Project is still at the planning stage and as confirmed by the Directors, no architecture plan such as the allocation of the condominiums and the townhouses, and/or business plan has been finalised at this initial stage. Hence the expected time frame disclosed above is indicative only and subject to change.

5. Costs and financing plan

It is estimated that the total development costs of the Project will not be less than RMB500 million, which normally involves the construction costs, sales and marketing expenses and indirect costs such as administrative and management expenses. The construction costs which normally consist of construction material costs and labor costs are estimated to account for approximately 80% or more of the total development costs.

Given the capital intensive and long-term nature of property development projects, it is not uncommon for a property developer in the PRC to outsource the construction and development part of the project to a third-party contractor, which will not only be responsible for the construction, but also the funding of the construction and the contractor will be paid at a later stage. In order not to pose any eminent major pressure on the Group's cash flow and capital commitment, the Directors intend to source potential contractors who are well-established with sound financial position to construct and develop the Project with deferred payment by way of internal resources and/or sales proceeds from the properties. The Group has made initial contact with several third-party construction contractors in the PRC. Formal negotiation on the terms and conditions of the construction agreement will commence upon Completion. The Directors would insist that it be a material term, among other things, under the construction agreement for the Group having the option to request the selected contractor to fund the total construction costs during the construction stage. The contractor would be paid in accordance with the agreed payment schedule by proceeds from the pre-sale and/or sale of the property units and/or internal resources. As advised by the Directors, the costs mainly to be incurred by the Target Company during the design and construction stages would then be for its daily operation and these general operating costs would be financed by internal sources of the Group and/or bank borrowings (if necessary).

The Group may consider engaging property agent to conduct sales activities and any sales and marketing costs associated are expected to be incurred at a later stage.

6. Summary of the unaudited financial information of the Target Company

Set out below is a summary of the audited financial information of the Target Company for the period from 1 January 2010 to 30 November 2010, for the year ended 31 December 2009 and for the period from 8 September 2008 (date of establishment) to 31 December 2008:

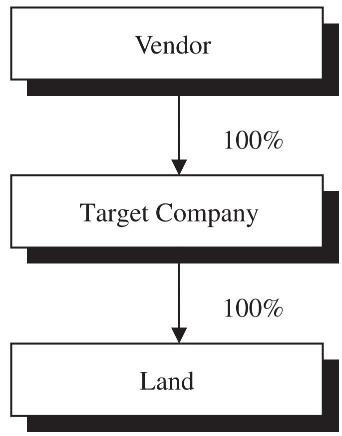
	1 January 2010 to 30 November 2010	**Year ended 31 December 2009**	**8 September 2008 (date of establishment) to 31 December 2008**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
Turnover	0	0	0
Loss after tax	(5,111)	(3,438)	(127)

	As at 30 November 2010	**As at 31 December 2009**	**As at 31 December 2008**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
Net assets/(liabilities)	91,480	26,854	(127)

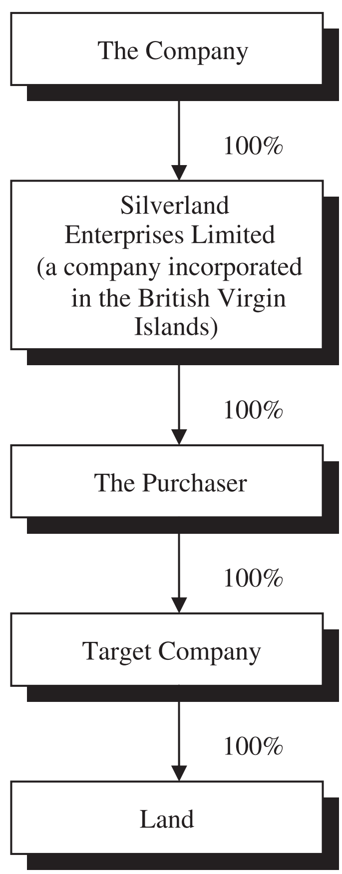
Apart from the Land, the Target Company has no major assets/liabilities.

The structures of the Group before and after the Completion are as follows:

Before the Completion:



After the Completion:



7. Financial effects of the Acquisition

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company with its financial result to be consolidated with that of the Group.

The Completion will result in an increase in the total assets and the total liabilities of the Group by approximately HK$819,841,000 and HK$728,841,000 respectively. The unaudited pro forma statement of financial position of the Enlarged Group is set out in Appendix III to this circular. According to the financial information of the Target Company set out in Appendix II to this circular, the loss after taxation of the Target Company for the year ended 31 December 2009 were approximately RMB3,438,000 and that for the eleven months ended 30 November 2010 were approximately RMB5,111,000. However, in light of the potential future prospects of the Target Company after completion of the development of the Project, the Directors are of the view that the Acquisition would have a positive impact on the future earnings of the Enlarged Group.

V. REASONS FOR AND BENEFITS OF THE ACQUISITION

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

During the recent years, the Group has experienced fierce competition from other market competitors and has been actively exploring new business opportunities with a view to diversifying its existing business. In 2008, the Group began to tap into the growing PRC property market by acquiring the Shopping Arcade in Chengdu, Sichuan Province, the PRC. The acquisition has proven to be beneficial to the Group as it has provided a steady income stream to the Group.

Since the government's first supportive intervention in the property market back in October 2008 to offset the slowdown resulting from the global economic downturn, China's property sector has staged a remarkable recovery. In 2009, the government's supportive attitude changed on concerns over the potential formation of an asset bubble and it shifted its focus towards eliminating speculation in the property market. From late 2009, the central government introduced a series of austerity measures to cool the property market (detailed discussion on the regulatory regime of the PRC property sector is set out in Appendix V to this circular) such as tightened credit for property. The trend in the PRC property market was eminently affected by the government policies in the past few months with the transaction volumes reduced and prices for some of the projects in some cities lowered.

Over the past few years, property developers have invested heavily in the PRC, raising concerns that certain sectors of the property market are subject to overheating. In response, the PRC government has from time to time introduced austerity measures intended to curtail the overheating of property development and discourage speculation in the residential property market. These measures include the following, among others:

– requiring that at least 70% of the land supply approved by a local government for residential property development for any given year must be used for developing low– to medium-cost and small– to medium-size units and low-cost rental properties;

– adopting the "70/90 rule" which requires at least 70% of the total GFA of residential projects approved or constructed on or after June 1, 2006 consist of units with a GFA of less than 90 sq. m per unit;

– stipulating that a purchaser's down payment for such purchaser's first property purchase may not be less than 30% of the purchase price regardless of the GFA of the property; a purchaser's down payment for such purchaser's second property purchase using mortgage loans may not be less than 50% of the purchase price and the loan interest rate may not be less than 1.1 times the benchmark lending rate published by the PBOC; and a purchaser's down payment and interest rate must significantly increase for such purchaser's third and additional property purchases using mortgage loans. In addition, banks are required to suspend the granting of mortgage loans for third and additional property purchases using mortgage loans or to non-residents who can not provide proof of tax or social security insurance payments for more than one year. Local governments may adopt interim measures restricting the maximum amount of residential properties that may be purchased;

– for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down payment to 50% of the purchase price of the underlying property, (iii) increasing the minimum mortgage loan interest rate to 1.1 times the relevant benchmark lending interest rate, and (iv) limiting the terms of such bank loans to no more than 10 years, although commercial banks are allowed flexibility based on their risk assessment;

– for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down payment to 45% of the purchase price of the underlying property, with the other terms similar to those for commercial properties;

– imposing a business tax levy on the entire sales proceeds from re-sale of properties if the holding period is shorter than five years as of June 1, 2006. There were certain business tax reductions or exemptions provided by the PRC government in 2009 such as: (i) business tax exemption for the transfer of an ordinary residential property made more than two years after its last transfer, (ii) reduced tax which is levied on the difference between the transfer price and the original price for any transfer of non-ordinary residential property made more than two years after its last transfer or any transfer of ordinary residential property within two years of its last transfer, and (iii) tax levied on the entire sale price of any non-ordinary residential property sold within two years of its last transfer. On December 22, 2009, the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjusting the Policy of Business Tax on Transfer of Personal Residential Properties (《關於調整個人住房轉讓營業稅政策的通知》) to curtail speculation in the property market in response to property price increases across the country. Pursuant to the notice, effective from January 1, 2010, business tax is imposed on the full amount of the sale income upon the transfer of a non-ordinary residence by any individual within five years, instead of two years, from the purchase date. For the transfer of any non-ordinary residence which is more than five years from the purchase date and any ordinary residence which is within five years of the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price. In the case of an ordinary residence, the business tax is exempted if the transfer occurs after five years from the purchase date;

– revoking certain preferential individual income tax treatment to purchasers who sell their residential property and purchase another residential property within one year of the sale;

– imposing a ban on onward transfer of uncompleted properties;

– limiting the monthly mortgage payment to 50% of an individual borrower's monthly income and limiting all monthly debt service payments of an individual borrower to 55% of his or her monthly income;

– imposing an idle land fee for land which has not been developed for one year starting from the commencement date stipulated in the land grant contract and cancellation of the land use right for land being idle for two years or more;

– requiring banks not to provide loans for the development of new commercial property projects to any developers who hold idle land or speculate in land;

– imposing sanctions or even revoking business qualifications of developers who are hoarding properties for speculation or in order to drive up properties prices;

– revoking the approvals for projects not in compliance with the planning permits; and

– banning land grants for villa construction and restricting the provision of land for high-end residential property construction.

Under the current plan, subject to approval from local authorities, the Land is intended to be developed into low-density residential units with condominiums and townhouses targeting the affluent class of Hunan Province. A five-star hotel with convention facilities is also planned to be built on the Land in view of the promising prospect and the developing tourism business of Xiangtan.

Some of the above restrictive regulations and measures to curtail the overheating of the property sector may affect the future business of the Group, limit our access to capital resources or restrict the development of the Project as currently planned. In particular, the "70/90 rule" as set out above requires that at least 70% of the total GFA of residential projects approved or constructed on or after June 1, 2006 consist of units with a GFA of less than 90 sq. m per unit. According to《關於落實新建住房結構比例要求的若干意見》(Construction the Opinions on Carrying Out the Residential Property Size Ratio in Newly Built Residential Buildings) promulgated by the Ministry of Construction on 6 July 2006, the restriction shall relate to all new residential projects within a city taken as a whole. This means that for any given city, at least 70% of the total GFA for development and construction of that city should comprise residential housing with a GFA of less than 90 sq. m.

Since the "70/90 rule" restriction relates to all new residential projects within a city taken as a whole, the restriction may or may not affect the Project. The Directors therefore have no current intention to modify the development plan. As the Project is still in the planning stage and currently pending for future design and development, and is subject to approval from local authorities, should the development plan of the Project be affected by any of the restrictive measures, depending on the extent the development plan would be so affected by the restrictive measures, the Company will work with its management and professional advisers to devise appropriate steps to cope with the situation.

Nevertheless, Directors believe that the central government's goal on the property market is simple and clear, which is to induce stable property prices with sufficient supply of public housing for low-income groups. The government may not desire drastic corrections in price and volume as it may create potential banking system risk as well as a potential drag on GDP. Therefore, the Directors believe that those cooling measures are mostly focused on curbing speculation and transactions in cities (such as Shanghai, Beijing and Shenzhen) where prices are relatively high. The Directors believe that the second or third-tiers cities should be fare relatively better, given their organic demand. In addition, the Directors are optimistic about the medium and long term development of the PRC property market. Coming through the global financial crisis, further balancing of Chinese regional economies and urbanisation will inevitably be the trend of the next few years. Speeding up of urbanisation throughout the country will bring great prospect for the real estate industry.

The Directors consider that the Acquisition and the Project have great investment potential given its location and sizeable area of the site and represent a valuable opportunity for the Group to increase its revenue and earning base. The Directors (including the independent non-executive Directors) are of the view that the Acquisition is in the interest of the Company and the Shareholders as a whole.

After the Completion, the Company intends to continue engaging in the business of film production and related business in parallel with property investment in the PRC. The Company has no present intention to change the composition of the Board upon Completion. As at the Latest Practicable Date, the Company had no agreement, arrangement, understanding or negotiation to dispose of or discontinue or scale down its existing principal business or relevant assets (whether concluded or not).

VI. INFORMATION ON THE KEY MANAGEMENT STAFF OF THE TARGET COMPANY

At present, the Group holds the Shopping Arcade as investment. The experience of the senior management responsible for the Shopping Arcade mainly lies in property management. As none of the Directors and senior management of the Group currently has the specific experience and expertise in the field of property construction and development, the Target Company will enter into a three-year service contract with each of the two key management staff of the Target Company, namely, Mr. Li and Mr. Jin, who have extensive experience and expertise required to monitor and operate the new business of the Target Company and the Project. As confirmed by the Directors, each of Mr. Li and Mr. Jin will become a member of the senior management of the Group but not a Director upon Completion. The Board will retain the responsibility of monitoring and supervision of the corporate management and financial affairs of the Target Company. The Company currently has no recruitment plan apart from entering into the service contracts with Mr. Li and Mr. Jin.

Background information on Mr. Li and Mr. Jin is set out as follows:

Mr. Li Fu Chu, aged 64, chairman and managing director of the Target Company and one of the beneficial owners of the Vendor, joined the Target Company since its incorporation. Mr. Li was the managing director of 湖南華宇企業有限公司 (Hunan Huayu Enterprise Company Limited) from 1985 to 1988 and 華湘（海南）有限公司 (Huaxiang (Hainan) Company Limited) from 1989 to 1992. Mr. Li was also appointed as the vice chairman of 長沙恒鑫置業有限公司 (Changsha Hengxin Property Company Limited) from 2004 to 2007. In 2006, 恒鑫 • 南北灣 (Hengxin North South Bay), being one of the properties of 長沙恒鑫置業有限公司 (Changsha Hengxin Property Company Limited), was awarded the best property in Changsha. Mr. Li has over 10 years experience in property development and sales management and over 30 years experience in corporate management in the PRC. In addition, he is a member of the 7th, 8th, 9th and 10th Hunan Committee of Chinese People's Political Consultative Conference, an associate head of 湖南省政協港澳台僑及外事委員會 (Hong Kong, Macau and Taiwan and Foreign Affairs Committee of the Chinese People's Political Consultative Conference of Hunan Province), executive director of 湖南省旅遊協會常務理事 (Hunan Tourism Association), council member of 湖南省旅遊學會常務理事 (Hunan Tourism Society) and the vice-president of 湖南省海外聯誼會 (Hunan Overseas Friendship Association).

Upon Completion, Mr. Li will be responsible for the Group's property and hotel management division.

Mr. Jin Lei, aged 38, vice-chairman and executive director of the Target Company, joined the Target Company in September 2008. Mr. Jin has over 17 solid years experience in property development. Mr. Jin was a chief civil engineer of 山東淄川建築設計院 (Architectural Design Institute of Shandong Zichuan) from 1993 to 1995. Additionally, from 1995 to 2001, Mr. Jin was 主任工程師 (engineer supervisor) of 山東黃淮糧油機械集團 (濟寧機械設計院土木建築室) (Shandong Huanghuai Cereals & Oils Machinery Group Company (Civil Construction House of Jining Machinery Design Institute)). In 2002, Mr. Jin was awarded by the municipal government of Jining City, Shandong Province, the PRC as one of the Top 100 Managerial Talents in Economics (百名經濟管理人才). Mr. Jin holds a bachelor degree of 工業及民用建築 (industrial and residential architecture) from 華東交通大學 (East China Jiaotong University) and a master degree of business administration from 中國人民大學 (Renmin University of China).

Mr. Jin will be responsible for the Group's property development division upon Completion.

VII. COMPETITIVE STRENGTHS OF THE TARGET COMPANY

Extensive experience and expertise in the property development industry held by the key management staff of the Target Company

As disclosed above in the paragraph headed "Information on the key management staff of the Target Company" in this letter from the Board, the senior management of the Target Company, namely, Mr. Li and Mr. Jin, have substantial experience and expertise in the PRC property industry. For instance, 恒鑫 • 南北灣 (Hengxin North South Bay), being one of the properties of 長沙恒鑫置業有限公司 (Changsha Hengxin Property Company Limited) which Mr. Li had served as its vice chairman from 2004 to 2007, was awarded the best property of

Changsha in 2006. As for Mr. Jin, he has over 17 years of experience in property development and was awarded by the municipal government of Jining City, Shandong Province, the PRC as one of the Top 100 Managerial Talents in Economics (百名經濟管理人才) in 2002. Their extensive experience in the PRC property development industry makes the Target Company an ideal strategic partner of national property developer.

Understanding of the local market and extensive network of resources in Hunan Province

The senior management of the Target Company has in-depth understanding of the local market. Mr. Li started his own business in Hunan Province back in 1985 and has been focused on property development for over 10 years. He has extensive network of resources in Hunan Province including but not limited to, the established relationship with the local municipal government, which may assist the Target Company to establish its position in the robust property market in Xiangtan and further expand its operations to other cities of Hunan Province.

Support of the government

The Project is close to the north of Jiuhua Economic Development Zone (九華經濟區) ("Jiuhua Economic Zone"), which to the east is adjacent to the ecological economic scenic belt of Xiang River, and to the west is close to XiangTan University. Jiuhua Economic Zone is only 5 kilometers away from the downtown of Xiangtan and 27 kilometers from the downtown of Changsha City.

Jiuhua Economic Zone is located in the centre of 長株潭試驗區 (Changsha, Zhuzhou and Xiangtan Comprehensive Reform Experimental Zone, or "Chang-Zhu-Tan City Cluster"). Its development has been supported by the PRC government to build Chang-Zhu-Tan City Cluster into an important engine to drive the economic development in Hunan and make the Xiang River a Rhine in China. As disclosed by the senior government official of Hunan Province in March 2010, the Chang-Zhu-Tan City Cluster will be built into the demonstration zone of the "Two-Oriented" Society across the country as well as the core growth pole to drive the sound and rapid social and economic development in Hunan. In order to achieve the objective, efforts would be made to improve the infrastructure, including but not limited to the advancement of the traffic network construction, energy integration, information sharing, ecological construction and environmental treatment, to lay down refined oil and natural gas pipelines for Changsha, Zhuzhou and Xiangtan, to set up a uniform information platform and to improve the construction of ecology and protection mechanisms.

Under the regional planning of Chang-Zhu-Tan City Cluster and "the Eleventh Five-Year" economic and social development plan of Hunan Province and Xiangtan respectively, Jiuhua Economic Zone has been listed as one of the key development areas in Chang-Zhu-Tan City Cluster. Meanwhile it is also the industrial base of electromechanical integration endorsed by the Ministry of Science and Technology of the PRC and the automobile industrial base envisaged by the municipal government. As such, the Directors are confident that the continuing development of Chang-Zhu-Tan City Cluster and Jiuhua Economic Zone, particularly in terms of improvement on the infrastructure and recreational facilities, will benefit the Project considerably in the foreseeable future.

Strategic location of the Project

As disclosed above, the Project is strategically located within the Chang-Zhu-Tan City Cluster. Moreover, it is on the west of Xiang River and opposite to the famous local tourist attraction, namely, Shaoshan Mountain (韶山). It is only 15 kilometres from the city centre of Changsha, 20 kilometres from the city centre of Zhuzhou and 15 kilometres from the city centre of Xiangtan. According to the preliminary feasibility study conducted by external consultants, there is only one five-star hotel in Xiangtan, which is on the east side of Xiang River. No hotel of four-star or above is available in the west side of Xiangtan as at the Latest Practicable Date. The Directors believe that the low competition in respect of the hotel business represents more business opportunities for the Group.

VIII. INFORMATION ON THE GROUP

The Group is principally engaged in the film production, distribution and licensing businesses and property investments in the PRC.

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 property investment in the PRC. 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. The increase in turnover from film distribution and licensing business is attributable to the turnover received from two best-selling and well-received films, "Ip Man" and "All's Well End's Well 2009", in Hong Kong, the PRC and throughout the Southeast Asia and other overseas' markets.

"Ip Man" was distributed globally to major film markets and has been 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.

As advised by the Directors, the Group will actively look into the research and development of film technology mainly in relation to 3-dimentional (3D) movie production. With the new form of amusement brought along by 3D movies, the Directors consider that it will result in revolutionary changes to the film industry. As a major player in the market, the Group intends to maintain its leading position by actively seeking out and capturing profitable opportunities.

The first all-star 3D movie invested by the Company namely, "大鬧天宮" (working title) has started shooting and is expected to be released in 2012.

In respect of property investment, majority of the Shopping Arcade currently has been leased out. With the growing reputation and popularity of the Shopping Arcade, the Board is confident that future leasing renewal agreements will be entered in more favorable terms for the Group, which would bring in better rental returns to the Group and the Shareholders.

In the future, the Group will continue to maintain steady growth in its film production, distribution and licensing business as well as the property investment business in the PRC. The Group aims to further expand market share in both businesses with an ultimate goal to add value for the Shareholders.

IX. SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the exercise of the conversion rights attaching to the Convertible Bond up to 29.9% of the issued share capital of the Company; and (iii) immediately after the exercise of the conversion rights attaching to the Convertible Bond in full (for illustration purposes only):

	As at the date of this circular		**Immediately after the exercise of the conversion rights attaching to the Convertible Bond up to 29.9% of the issued share capital of the Company**		**Immediately after the exercise of the conversion rights attaching to the Convertible Bond in full** *(Note)*	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Mr. Cheng Keung Fai and parties acting in concert with him	1,105,390,690	52.87	1,105,390,690	37.06	1,105,390,690	30.84
Public Shareholders	985,393,310	47.13	985,393,310	33.04	985,393,310	27.49
The Vendor and the parties acting in concert with it	–	–	891,789,466	29.9	1,493,124,637	41.66
Total	2,090,784,000	100	2,982,573,466	100	3,583,908,637	100

Note:

1. The Convertible Bond cannot be converted into Shares if the holder of the Convertible Bond and its parties acting in concert will be holding more than 30% of the entire issued Shares or such other percentage as it will trigger off general offer obligations on the part of the holder of the Convertible Bond. The figures shown in this column is for illustration purposes only.

X. FUND-RAISING IN THE PAST 12 MONTHS

The Company successfully placed a total of 435,580,000 placing shares to not less than six placees at a placing price of HK$0.145 per placing share on 20 November 2009. The net proceeds of approximately HK$62.3 million were applied for repayment of debts and general working capital of the Group as intended.

The Company completed the Open Offer of seven offer shares for one existing share held on hand at a price of HK$0.0109 per share in September 2010 and raised net proceeds of approximately HK$193.4 million. As disclosed in the Prospectus, approximately HK$57 million of the net proceeds will be used for funding the remaining investment under the joint venture agreement dated 21 June 2010 (details of which are contained in the announcement of the Company dated 21 June 2010) and the remaining balance will be used for production of other "kung-fu" films similar or related to the Ip Man series and the general working capital of the Group. The Company intends to use HK$90 million from the pool of the general working capital for partial payment of the initial refundable deposit of the Consideration. The Directors consider that allocation of the general working capital for partial payment of such initial refundable deposit does not entail a change of use of proceeds. Accordingly, the Directors confirm that there has been no change of use of proceeds. The remaining balance of approximately HK$46 million has been and will be used for film production.

Save as disclosed above, the Company has not conducted any fund raising activities in the past 12 months.

XI. LISTING RULES IMPLICATION

As the applicable percentage ratios under the Listing Rules exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and approval requirements of the Listing Rules. As none of the Shareholders has interest in the Agreement, no Shareholders will be required to abstain from voting on the resolution(s) to be proposed at the SGM in respect of the Agreement and the transactions contemplated thereunder.

XII. SGM

A notice convening the SGM is set out on pages 169 to 170 of this circular. The SGM will be held at Room 4101, 41/F, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong on Monday, 24 January 2011 at 11:00 a.m. for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder by way of poll. A proxy form for use at the SGM is enclosed herewith. Whether or not you propose to attend the SGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to 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 at as soon as possible and in any event no later than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

XIII. RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Agreement are on normal commercial terms, fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

XIV. GENERAL

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

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

You should carefully consider all of the information in this circular, including the risks and uncertainties described below, before making the voting decision at the SGM. You should pay particular attention to the fact that the business of the Target Company is located exclusively in the PRC and the Target Company is governed by a legal and regulatory environment that differs in certain respects from that which prevails in other countries. The business, financial condition or results of operations of the Enlarged Group could be materially and adversely affected by any of the risks described below.

RISKS RELATING TO THE ACQUISITION

The Acquisition constitutes an investment in new business sector and may pose significant challenges to the Group's administrative, financial and operational resources.

The Acquisition constitutes an investment in the new business sector of property development and hotel management, which the Company has not previously had exposure to or experience in. The new businesses, coupled with the regulatory environment, may pose significant challenges to the Group's administrative, financial and operational resources. Since the Group does not have exposure to or experience in the new businesses, it is not in a position to assure the timing and amount of any return that may be generated from the new businesses, nor is it in a position to control the operational risks that could lead to a loss.

In such respect, as a risk mitigating measure and an integral part of the Acquisition, the Project will continue to be managed by the key management of the Target Company who together have extensive knowledge and experience in the property development sector in the PRC in which the Group will be entering.

Completion of the Acquisition is subject to conditions precedent set out in the Agreement having been fulfilled and there is no assurance that all of the conditions precedent can be fulfilled.

Completion of the Acquisition is conditional upon fulfillment of the conditions precedent, details of which are set out in the paragraph headed "Conditions precedent to the Completion" in the "Letter from the Board" of this circular. Fulfillment of certain conditions precedent is not within control of the parties involved in the Acquisition as they involve decisions of third parties. Such conditions precedent include, among other things, obtaining approval from the Shareholders at the SGM, obtaining approval from the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. Since fulfillment of such conditions precedent is beyond the control of the parties involved in the Acquisition, there is no assurance that the Acquisition will be completed as intended.

There will be substantial dilution of the shareholding percentages of the existing Shareholders in the Company immediately following the Completion.

Pursuant to the Agreement, the Convertible Bond, if exercised in full, shall be converted into a total of 1,493,124,637 Conversion Shares. The Conversion Shares shall represent approximately 41.66% of the enlarged issued share capital of the Company after allotment and issue to the Vendor. Pursuant to the terms of the Convertible Bond, the Convertible Bond cannot be converted into Shares if the holder of the Convertible Bond and its parties acting in concert will be holding more than 30% of the entire issued Shares or such other percentage as it will trigger off general offer obligations on the part of the holder of the Convertible Bond. Nevertheless, if the holder(s) of the Convertible

Bond exercises its maximum conversion rights as permitted under the Convertible Bond, i.e. 29.9%, the shareholding percentages of the existing Shareholders in the Company would still be substantially diluted. Further details are set out in the sub-section headed "Shareholding structure" in the "Letter from the Board" of this circular. Any improvement in the value of the Shares resulting from the Acquisition may not necessarily be reflected in their market price and may not offset the dilution effect to the existing Shareholders.

The Enlarged Group may not be able to obtain additional funding or generate sufficient cash from its operations to fund capital requirements.

Additional funding from external sources and internally generated cash may be required by the Enlarged Group to finance the operations of the Target Company and the Project. There can be no assurance that external source of funds or cash generated internally will be sufficient or available to meet the financial needs of the Enlarged Group. There is no guarantee that the Enlarged Group will be able to obtain additional external funding on terms acceptable to it or at an acceptable cost or at all. If the Enlarged Group cannot secure adequate funding at an acceptable cost, or any current banking facilities granted to the Enlarged Group are terminated or reduced, its ability to expand its business and to finance its operations may be restricted or limited.

The business of the Enlarged Group depends substantially on the continuing efforts of the senior management and executive officers of the Target Company and its ability to attract and retain qualified management team.

As none of the Directors currently has the specific experience and expertise in the field of property constructions and development, our future success will depend heavily upon the services of the members of the Target Company's senior management team, in particular, Mr. Li and Mr. Jin. Both of them have more than ten years of property development experience in the PRC. If one or more of the senior executives or other personnel of the Target Company are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, our future business may be disrupted and our financial condition and results of operations may be materially and adversely affected. As competition in the PRC for senior management and key personnel with experience in property development is intense and the pool of qualified candidates is limited, we may not be able to attract and retain high-quality senior executives or key personnel in the future, and our business and prospects may be adversely affected.

RISKS RELATING TO THE TARGET COMPANY'S BUSINESS AND THE INDUSTRY IN WHICH THE TARGET COMPANY OPERATES

The Target Company does not have proven track record on property development.

Since established on 8 September 2008, the Target Company has not commenced any property development project. The Target Company has been mainly holding the Land for investment and it has no proven track record in respect of property development and/or hotel management. Albeit the extensive experience and expertise of the key management staff, in particular, Mr. Li and Mr. Jin, in the field of property development in the PRC, there is no guarantee that upon Completion the Target Company will be able to capitalise on the experience and expertise of the key management staff. Any inability to capitalise on their extensive experience and expertise could have a material adverse effect on the successful development of the Project, and in turn, our future prospects, profitability and financial results.

We may not be successful in leveraging our past experience in property investment in expanding into our new hotel businesses.

We are entering into the business of managing hotel(s). The Group is currently holding and managing the high-end Shopping Arcade in Chengdu for investment. However, our experience in film production and commercial property investment may not be applicable to hotel management. We cannot assure you that we will be able to leverage our past experience to face the challenges in this new hotel business. We may have to rely on external consultants or third party hotel management companies to conduct the daily operation of the hotel under the Project. If their performance is not satisfactory, the occupancy rate and/or rental value for our hotel rooms, and hence our results of operations would be adversely affected. Furthermore, the financial results of the hotel under the Project will be subject to various factors beyond our control, such as the economic conditions and the level of business activities, business travel and tourism in the region. There may not be sufficient and consistent market demand for high-end hotels in Xiangtan, and, as a result, our results of operations in this new segment may not be profitable or generate recurring income or cash flow as we expect, and we could even operate at a loss.

We may not be able to leverage our previous experience in property investment in expanding into other cities.

The Group commenced its property investment business in 2008 when we acquired the Shopping Arcade. The new venture has proved to be a success as it provides a steady rental income stream to the Group. However, the Project is located in Hunan Province, where the market and circumstantial situations may differ from Chengdu in terms of the level of economic development, topography, culture, regulatory practices, level of familiarity with contractors and business practices and customs, and customer tastes, behavior and preferences. Accordingly, our prior experience may not be applicable to Hunan Province. In addition, when we enter into a new market and geographical area, it is likely that we will compete with local developers who have an established local presence, more familiarity with local regulatory and business practices and customs, and stronger relationships with local contractors, all of which may give them a competitive advantage over us. We will be depending on the continuing services of Mr. Li and Mr. Jin who have the local understanding and established relationship with the local government and local contractors. Otherwise, we may fail to leverage our past experience or fail to understand the property market in Hunan Province which we target for expansion. Our financial condition or results of operations may be adversely affected.

Our business, financial condition and results of operations may be materially and adversely affected if we fail to obtain, or are considered by relevant governmental authorities to have failed to obtain, or experience material delays in obtaining, PRC government approvals or certificates for the Project.

The property industry in the PRC is heavily regulated by the PRC government. PRC property developers must comply with various requirements mandated by applicable laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property project, a property developer must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of the project, including land use rights documents, planning permits, construction permits, pre-sale permits and certificates or confirmation of completion and acceptance.

Each approval is dependent on the satisfaction of certain conditions. As advised by the Company's PRC legal adviser, the Target Company has obtained all of the permits/licences/certificates vital to the construction and development of the Project, namely,《國有土地使用權證》(certificate of state-owned land use) and《建設用地規劃許可證》(construction land planning permit). Other necessary permits/licenses such as《建設工程 規劃許可證》(construction works planning permit) and《施工許可證》(construction permit) will be applied from relevant governmental authorities and/or regulatory bodies regarding the construction and development of the Project at later stages in accordance with the progress of the Project. The expected timetable for the development of the Project is set out in the paragraph headed "Information on the Target Company and the Project" in the section headed "Letter from the Board" of this circular.

At present, the Directors are not aware of any foreseeable obstacles in obtaining such permits/licences/certificates. However, we cannot assure you that we will not encounter major problems in obtaining the permits, licenses, certificates or approvals as required, or that we will be able to adapt ourselves to new laws, regulations or policies that may come into effect from time to time with respect to the property industry in general or the particular processes with respect to the granting of the approvals. In addition, there may also be delays on the part of the relevant regulatory bodies in reviewing our applications and granting approvals. In the event that the Group fails to obtain such permits, licences, certificates or approvals in accordance with the planned schedule or at all, the development of the Project may be adversely disrupted or even, in the worst scenario, may not be completed at all.

We may not be able to complete the Project on time or at all.

Property development projects require substantial capital expenditure prior to and during the construction period. The timing and costs involved in completing a development project can be adversely affected by many factors, including:

– delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;

– state, provincial or local government regulations;

– relocation of existing site occupants and/or demolishment of existing structures;

– shortages of materials, equipment, contractors and skilled labor;

– increases in prices of raw materials;

– quality issues with construction materials;

– labor disputes;

– construction accidents;

– delays in remitting offshore funds to the PRC;

– natural catastrophes; and

– adverse weather conditions.

Construction delays or the failure to complete the construction of a project according to its planned specifications, schedule or budget as a result of the above factors may result in loss of or delay in recognising revenues and lower returns. If a pre-sold property development is not completed on time, the purchasers of pre-sold units may be entitled to compensation for late delivery. If the delay extends beyond a certain period, the purchasers may even be entitled to terminate the pre-sale agreements and claim damages. In addition, further regulatory changes, competition, and inability to procure governmental approvals or required changes in project development practice could occur at any stage of the planning and development process. We may not be able to complete the Project on time or at all.

We may need to maintain a substantial level of indebtedness to finance the development of the Project, and we may not have adequate cash flow to fund our operations or to service our financing obligations.

The property development business is capital intensive. It typically requires substantial capital outlays for land acquisition and property development and may take months or years before a cash inflow, if any, can be generated by the pre-sale or sale of a completed property development. As such, the Group intends to source potential contractors who are well-established with sound financial position to construct and develop the Project with deferred payment. In order to finance the development of the Project, if we fail to engage the contractors who agree to such deferred payment arrangements, we may need to maintain a substantial level of indebtedness to be secured by certain of our properties and land use rights held. Nevertheless, we cannot assure you that we will be able to obtain any bank loans or credit facilities on terms acceptable to us or at all. Our ability to do so will depend on a number of factors, many of which are beyond our control. The PRC Government has in the past implemented a number of policy initiatives in the financial sector to further tighten lending requirements in general and in particular for property developers, which, among other things:

- increased the reserve requirement ratio for deposit-taking financial institutions (which represents the minimum amount of funds that such institutions must hold in reserve with the PBOC against deposits made by their customers) by a total of 1.5% since the beginning of 2010;

- forbid PRC commercial banks from granting loans to property developers for funding the payments of land grant fees;

- forbid PRC commercial banks from granting loans to a property developer if the property developer's internal funds available for the relevant project are less than 20% of the total estimated capital required for such project;

- restrict the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;

- prohibit the grant of new project loans to property developers that leave land parcels idle or are engaged in land speculation;

- prohibit commercial banks from taking commodity properties that have been vacant for more than three years as security for mortgage loans;

- prohibit property developers from financing property developments with loans obtained from banks in regions outside the location of the relevant property developments; and

- restrict PRC commercial banks from providing financing for the development of luxury residential properties.

As confirmed by our PRC legal advisors, the PRC regulations and local regulations applicable in Xiangtan/Changsha in which the Project is located do not currently provide for the specific definition of luxury residential property developments. Commercial banks and local government authorities typically consider various aspects of a project, such as the plot ratio of the overall project, when determining whether a project is subject to the restriction. We cannot assure you that we will not be subject to any financing restrictions as a result of a change in regulations or their interpretation or implementation by commercial banks or local government authorities, or otherwise. We cannot assure you that the PRC Government will not introduce other initiatives which may limit our access to capital. The foregoing and other initiatives introduced by the PRC Government may limit our flexibility and ability to use bank loans or other forms of financing to fund the development of the Project and therefore may require us to maintain a relatively high level of internally sourced funds. As a result, our business and financial condition may be materially and adversely affected.

In addition, we cannot assure you that we will have adequate cash flow to service our financing obligations. As at the Latest Practicable Date, we have certain interest obligations for our borrowings, and for the years ended 31 December 2008, 2009 and from 1 January 2010 to 30 June 2010, our interest expense on bank borrowings (including the capitalised portion) was HK$279,000, HK$148,000 and HK$36,000 respectively. As at 30 June 2010, the annual interest rate on our borrowings, was 3.375% which is prime rate less 1.5% per annum. As the Project is located in Hunan Province, the Group may obtain loans from the local banks in China. As such, a substantial portion of our borrowings may be linked to benchmark lending rates published by the PBOC. The PBOC from time to time adjusts the benchmark lending rates. For example, the PBOC raised the benchmark one-year lending rate six times during 2007, from 6.12% at the beginning of the year to 7.47% as of 21 December 2007. Such benchmark lending rates have been continuously lowered, and the benchmark lending rate for RMB denominated loans with a one-year term had declined to 5.31% as of 23 December 2008, which is at its lowest level since 2006. However, the PBOC may raise the benchmark lending rate again in order to control the growth rate of the Chinese economy or for other policy objectives. Any increases in interest rates by the PBOC may have a material adverse effect on our financial condition and results of operations.

Mortgage financing may become more costly or otherwise less attractive or available.

Property purchasers generally rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing and affect the affordability of properties. The PBOC lowered the benchmark lending rate for loans bearing a maturity of more than five years to 5.94% in December 2008, which is at its lowest level since 2006. Should the PBOC decide to raise the benchmark lending rate, mortgage financing will be more expensive for our potential customers. In addition, the PRC Government and commercial banks may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework or lending policies in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. Under current PRC laws and regulations, purchasers of residential properties with a unit floor area of less than 90 sq. m generally must pay at least 20% of the purchase price of the properties before they can finance their purchases through mortgages. Since May 2006, the PRC Government has increased the minimum amount of down payment to 30% of the purchase price for first-time home owners if such property has a unit floor area of 90 sq. m or more. Since September 2007, for second-time home buyers that use mortgage financing, the PRC Government has increased the minimum down payment to 40% of the purchase price, and further increased the minimum down payment to 50% in April 2010, with minimum mortgage loan interest rates at 110% of the relevant PBOC benchmark lending interest rate. The minimum down payment for commercial property buyers has increased to 50% of the purchase price, with minimum mortgage loan interest rates at 110% of the relevant PBOC benchmark lending interest rate and maximum maturities of no more than 10 years. In addition, mortgagee banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan would exceed 50% of the individual borrower's monthly income or if the total debt service of the individual borrower would exceed 55% of such individual's monthly income. If the availability or attractiveness of mortgage financing is reduced or limited, many of our prospective customers may not be able to purchase the residential units under the Project and, as a result, our business, financial condition and results of operations could be adversely affected.

Our results of operations may be negatively affected by increases in the cost of construction materials.

Construction materials constitute a key driver of the construction costs of the property projects. In general, the construction materials costs are included in the contract fee payable to the contractors, who are generally responsible for procuring the required construction materials. Nonetheless, we may be required to bear certain of the increased costs when the prices of the construction materials exceed a certain threshold. Due to the rapid growth in the property development industry in recent years in the PRC, construction materials have substantially increased in price. Such price adjustment terms are not uncommon in the property construction agreements. We may be required to enter into contracts with similar pricing terms with the third party contractor(s), which will, in part, be affected by market practices which may be beyond our control. Furthermore, there can be no assurance that our contractors will actually complete their contract performance without any fee adjustment, or at all, or that we can find replacement contractors at the same fee if construction materials continue to increase in price. Should our contractors fail to perform under the fixed price contracts as a result of increases in prices of construction materials or otherwise, we may incur significant litigation costs and replacement costs, which would adversely affect our results of operations.

We rely on independent contractors.

We intend to engage independent contractors to provide various services, including construction, piling and foundation, engineering, interior decoration, mechanical and electrical installation and utilities installation. The selection of such contractors will be largely based on their reputation for quality, track record and references. However, we cannot assure you that the services rendered by any of these contractors will always be satisfactory or match our requirements for quality. Moreover, we cannot assure you that the Project will be completed on time, or at all. If our contractors cannot deliver satisfactory services due to financial or other difficulties, we might incur additional costs and suffer adverse effect on our business, financial condition and results of operations.

Increasing competition in the PRC may adversely affect our business and financial condition.

The property market in the PRC is increasingly competitive. Our potential competitors include major domestic state-owned and private developers in the PRC, as well as developers from Hong Kong and elsewhere in the world. A number of our potential competitors have greater marketing, financial and technical resources, greater economies of scale, broader name recognition, and more established track records and relationships in certain markets. The intense competition among property developers may result in increased land acquisition costs, increased construction costs and difficulty in obtaining high quality contractors and qualified employees, an oversupply of properties, a decrease in property prices or a slowdown in the rate at which new property developments will be approved or reviewed by the relevant government authorities, any of which may adversely affect our business and financial position. In addition, the property market in the PRC is rapidly changing. If we cannot respond to changes in market conditions swiftly or effectively than our competitors, our business, results of operations and financial condition could be adversely affected.

Any failure by us to comply with the terms of the land use rights grant contract may subject us to fines or forfeiture of land.

Under the PRC law, if we fail to develop a property project according to the terms of the land use rights grant contract, including those relating to the payment of land grant premium, demolition and resettlement costs and other fees, specified use of the land and the time for commencement and completion of the property development, the PRC Government may issue a warning, impose a penalty, and/or order us to forfeit the land. Specifically, under current PRC law, if we fail to commence development for more than one year but less than two years from the commencement date stipulated in the land use rights grant contract, the relevant PRC land bureau may serve a warning notice on us and impose an idle land fee on the land of up to 20% of the land grant premium. The relevant PRC land bureau may forfeit our land use rights without compensation if we fail to commence development within two years from the construction commencement date set forth in the land use rights grant contract.

According to the land use rights grant contract dated 20 February 2010 in respect of the Land, the Land should have commenced construction by 1 July 2010. The Target Company may apply for extension if the construction cannot be commenced on time, however, the extension period cannot be longer than one year. As advised by our PRC legal advisers, the delay in commencement of construction is due to the delay in relocation and settlement programme of the local government. The delay in relocation and settlement by the local government constitutes a defence for the Target Company against any claims and/or penalties by the local government for delay in commencement of construction. As of the Latest Practicable Date, the Target Company has not received any notice from the PRC authority identifying any idle land held by it or incurred any idle land fee. However, any future failure to comply with the terms of the land use rights grant contracts or idle land regulations may subject us to penalties as mentioned in the previous paragraph, including forfeiture of the Land. The Target Company will attempt to negotiate with the land bureau to modify the land use rights grant contract to extend the time limit for commencement of construction, which will effectively minimize the risk of being punished for delay in commencement of construction.

Potential liability for health and environmental problems could result in substantial costs.

We will be subject to laws and regulations concerning the protection of health and the environment. The particular health and environmental laws and regulations which may apply to the Project depend on its location, its environmental condition, its present and former uses, as well as the adjoining properties. Compliance with health and environmental laws and conditions may result in delays, may cause us to incur substantial compliance and other costs and can severely restrict project development activities in environmentally sensitive regions or areas.

In addition, under PRC law, each of the project is required to undergo environmental assessments, and an environmental impact assessment document is required to be submitted to the relevant government authorities for approval before the commencement of construction. It cannot be assured that Target Company will satisfy the environmental assessments for the Project in the future. Although the environmental investigations conducted to date have not revealed any environmental liability that would have a material adverse effect on the Target Company's business, financial condition or results of operations, it is possible that these investigations did not reveal all environmental liabilities, or that there are material environmental liabilities of which the Target Company is not aware of.

The valuation in the property valuation report may materially differ from prices that can be achieved.

The valuation of the Target Company's properties as at 30 November 2010, prepared by RHL Appraisal Limited, is contained in Appendix VI to this circular. The valuation is based upon certain assumptions, which, by its nature, are subjective and uncertain and may differ materially from actual values. The valuation is based on the following assumptions:

(i) the Land will be developed and completed as planned;

(ii) all consents, approvals and licenses from relevant government authorities for the Land have been obtained without onerous conditions or delays;

(iii) transferable land use rights in respect of the property interests for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid; and

(iv) we have enforceable titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

The valuation is not a prediction of the actual value the Target Company may achieve from the Project in a public market transaction as at the date of valuation. Unforeseen changes in a particular property development or in general or local economic conditions, and other factors, could affect the value of the Land/Target Company.

RISKS RELATING TO THE PRC PROPERTY INDUSTRY

The PRC government may adopt further measures to curtail the overheating of the property sector.

Over the past few years, property developers have invested heavily in the PRC, raising concerns that certain sectors of the property market are subject to overheating. In response, the PRC government has from time to time introduced austerity measures intended to curtail the overheating of property development and discourage speculation in the residential property market. These measures include the following, among others:

– requiring that at least 70% of the land supply approved by a local government for residential property development for any given year must be used for developing low– to medium-cost and small– to medium-size units and low-cost rental properties;

– adopting the "70/90 rule" which requires at least 70% of the total GFA of residential projects approved or constructed on or after June 1, 2006 consist of units with a GFA of less than 90 sq. m per unit;

– stipulating that a purchaser's down payment for such purchaser's first property purchase may not be less than 30% of the purchase price regardless of the GFA of the property; a purchaser's down payment for such purchaser's second property purchase using mortgage loans may not be less than 50% of the purchase price and the loan interest rate may not be less than 1.1 times the benchmark lending rate published by the PBOC; and a purchaser's down payment and interest rate must significantly increase for such purchaser's third and additional property purchases using mortgage loans. In addition, banks are required to suspend the granting of mortgage loans for third and additional property purchases using mortgage loans or to non-residents who can not provide proof of tax or social security insurance payments for more than one year. Local governments may adopt interim measures restricting the maximum amount of residential properties that may be purchased;

- for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down payment to 50% of the purchase price of the underlying property, (iii) increasing the minimum mortgage loan interest rate to 1.1 times the relevant benchmark lending interest rate, and (iv) limiting the terms of such bank loans to no more than 10 years, although commercial banks are allowed flexibility based on their risk assessment;

- for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down payment to 45% of the purchase price of the underlying property, with the other terms similar to those for commercial properties;

- imposing a business tax levy on the entire sales proceeds from re-sale of properties if the holding period is shorter than five years as of June 1, 2006. There were certain business tax reductions or exemptions provided by the PRC government in 2009 such as: (i) business tax exemption for the transfer of an ordinary residential property made more than two years after its last transfer, (ii) reduced tax which is levied on the difference between the transfer price and the original price for any transfer of non-ordinary residential property made more than two years after its last transfer or any transfer of ordinary residential property within two years of its last transfer, and (iii) tax levied on the entire sale price of any non-ordinary residential property sold within two years of its last transfer. On December 22, 2009, the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjusting the Policy of Business Tax on Transfer of Personal Residential Properties (《關於調整個人住房轉讓營業稅政策的通知》) to curtail speculation in the property market in response to property price increases across the country. Pursuant to the notice, effective from January 1, 2010, business tax is imposed on the full amount of the sale income upon the transfer of a non-ordinary residence by any individual within five years, instead of two years, from the purchase date. For the transfer of any non-ordinary residence which is more than five years from the purchase date and any ordinary residence which is within five years of the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price. In the case of an ordinary residence, the business tax is exempted if the transfer occurs after five years from the purchase date;

- revoking certain preferential individual income tax treatment to purchasers who sell their residential property and purchase another residential property within one year of the sale;

- imposing a ban on onward transfer of uncompleted properties;

- limiting the monthly mortgage payment to 50% of an individual borrower's monthly income and limiting all monthly debt service payments of an individual borrower to 55% of his or her monthly income;

– imposing an idle land fee for land which has not been developed for one year starting from the commencement date stipulated in the land grant contract and cancellation of the land use right for land being idle for two years or more;

– requiring banks not to provide loans for the development of new commercial property projects to any developers who hold idle land or speculate in land;

– imposing sanctions or even revoking business qualifications of developers who are hoarding properties for speculation or in order to drive up properties prices;

– revoking the approvals for projects not in compliance with the planning permits; and

– banning land grants for villa construction and restricting the provision of land for high-end residential property construction.

Some of the above restrictive regulations and measures to curtail the overheating of the property sector may affect the future business of the Group, limit our access to capital resources or restrict the development of the Project as currently planned. In particular, the "70/90 rule" as set out above requires that at least 70% of the total GFA of residential projects approved or constructed on or after June 1, 2006 consist of units with a GFA of less than 90 sq. m per unit. According to《關於落實新建住房結構比例要求的若干意見》(Construction the Opinions on Carrying Out the Residential Property Size Ratio in Newly Built Residential Buildings) promulgated by the Ministry of Construction on 6 July 2006, the restriction shall relate to all new residential projects within a city taken as a whole. This means that for any given city, at least 70% of the total GFA for development and construction of that city should comprise residential housing with a GFA of less than 90 sq. m Unlike any project specific requirement, the implications of such city-wide restrictions will vary from city to city. Local planning authorities, construction authorities and real estate authorities at the city level (including county and town) will be responsible for the implementation and monitoring of the compliance with the aforesaid opinion. As the Land is intended to be developed into low density residential units, our current plan may have to be modified in order to comply with the restrictions affecting Xiangtan as a whole.

The first measure mentioned above was intended to strictly strengthen disposal of idle land. The land resources administrative bureau at the city or county level is required to give priority to the construction land of low rental houses, affordable house and low-to-medium size ordinary residence at low-to-medium prices when drafting the annual land supply plan, and the annual supply amount of such houses shall not be less than 70% of the total amount of annual land supply. The Directors consider that this measure would not have material effect on the development of the Project, since the Land is currently held by the Target Company with valid certificate of state-owned land use.

We cannot be certain that the PRC government will not issue additional and more stringent regulations or measures, which could further slow down property development in China and adversely affect our business, financial condition, results of operations and prospects.

The property market in the PRC is at an early stage of development and is volatile.

The property market in the PRC is still at an early stage of development, and social, political, economic, legal and other factors may affect its development. For example, the lack of a mature and active secondary market for private properties and the limited amount of mortgage loans available to individuals in the PRC have been cited as factors which may inhibit demand for residential properties. We expect to be dependent upon the growth of the urban middle and upper-middle classes in China. A significant downturn in the PRC economy could adversely affect such demand, as well as the demand by corporations and other institutional entities for commercial properties. The PRC property market is volatile and may experience undersupply or oversupply and property price fluctuations. The central and local governments frequently adjust monetary and other economic policies to prevent and curtail the overheating of the PRC and local economies, and such economic adjustments may affect the property market in China. We cannot assure you that there will not be overdevelopment in the property sector in China in the future. Any future overdevelopment in the property sector in China may result in an oversupply of properties and a decrease in property prices, as well as an undersupply of available sites for future development and an increase in the cost of acquiring land in our markets, which could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE PRC

Fluctuation in the value of RMB may have a material adverse effect on our business and on your investment.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC Government changed its policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in appreciation of the Renminbi against the U.S. dollar by approximately 25.26% from July 21, 2005 to the Latest Practicable Date. As the Project is located in the PRC and the construction costs will be denominated in RMB, any significant further appreciation of RMB may materially and adversely affect our cash flow, earnings and financial position, and the value of, and any dividends payable on, the Shares in foreign currency terms.

PRC Government control of currency conversion may affect the value of your investment.

Restrictions on currency exchange may limit our ability to utilise our revenue effectively. Upon Completion, substantially all of our revenue and operating expenses in respect of the Project will be denominated in Renminbi, which is currently not a freely convertible currency. The PRC Government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currency may restrict the ability of the Target Company to remit sufficient foreign currency to pay dividends or other amounts to us, or to satisfy their foreign currency denominated obligations.

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate PRC Government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital account items, such as the repayment of bank loans denominated in foreign currencies.

Interpretation of PRC laws and regulations involves uncertainty.

The Target Company is established in the PRC and will be governed by applicable PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be used as a reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty. Some of these laws may be changed without being immediately published or may be amended with retroactive effect. Depending on the government agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors, particularly if a competitor has long been established in the locality of, and has developed a relationship with, such agency. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under its permits, and other statutory and contractual rights and interests.

Certain facts, statistics and data presented in this section and elsewhere in this circular are derived from various publications issued by PRC governmental entities and other third parties. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. No independent verification has been carried out on such information and statistics by the Company, the financial adviser or their respective directors, agents and advisors. The Company, the financial adviser, and their respective directors, agents and advisors make no representation as to the accuracy of such information and statistics.

OVERVIEW OF THE PRC PROPERTY MARKET

The favorable economic environment in the PRC has fuelled the growth of the PRC property market. According to the National Bureau of Statistics of the PRC, investment in real estate development has increased at a compound annual growth rate of 27% over the last five years. Construction of floor space commenced during 2009 was more than double that of 2002.

	2002	2003	2004	2005	2006	2007	2008	2009
Investment in real estate (RMB billion)	779.1	1,015.4	1,315.8	1,590.9	1,942.3	2,528.9	3,120.3	3,623.2
Construction of floor space commenced during the year (million sq. m)	428.0	547.1	622.2	680.6	792.5	954.0	1,025.5	1,153.9

Source: National Bureau of Statistics of China, 2009

Prices for real estate in the PRC also experienced remarkable growth between 2004 and 2008, with average prices of residential properties growing at a compound annual growth rate of 8.8% over the same period, increasing from RMB2,608 per sq. m in 2004 to RMB3,655 per sq. m in 2008.

The upward trend of the PRC property industry is also evidenced by the growth in revenue from the sale of properties, with the total real estate sales revenue leaping from RMB1,037.6 billion in 2004 to RMB2,407.1 billion in 2008. During the same period, total GFA sold increased from approximately 382.3 million sq. m in 2004 to approximately 620.9 million sq. m in 2008.

Key influences on the PRC property market

In addition to the strong sustainable growth of the PRC economy which has resulted in rising disposable income among the population in the PRC, the rapid pace of urbanisation, real estate market reforms undertaken by the central government and the availability of mortgages are other key factors contributing to the growing demand in the PRC property sector.

Urbanisation

In recent years, the pace of urbanisation in the PRC has been tremendous. Urbanisation rates rose from 41.8% in 2004 to 46.6% in 2009. Urban disposable income has also dramatically increased from RMB9,421.6 in 2004 to RMB17,174.7 in 2009. The China National Bureau of Statistics estimates PRC urbanisation rates to reach 50% by 2020 and 70% by 2050. Should this materialise, there is expected to be further demand for urban properties. The table below sets out selected data relating to urbanisation trends in the PRC for the years indicated:

	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Population (million)	1,299.90	1,307.60	1,314.50	1,321.3	1,328.0	1,334.7
Urban population (million)	542.8	562.1	577.1	593.8	606.7	621.9
Urbanisation rate (%)	41.8	43.0	43.9	44.9	45.7	46.6
Per capita disposable income of urban households (RMB)	9,421.6	10,493.0	11,759.5	13,785.8	15,781.0	17,174.7

Main Source: China Statistical Yearbook and China Statistical Communique, 2005 to 2010

Rising disposable income

Average annual disposable income per capita of urban households increased substantially between 2004 and 2009, rising from approximately RMB9,422 to approximately RMB17,175. Increased purchasing power is also demonstrated by the rising annual per capita consumption expenditure of city residents, which is a positive sign for the property and retail markets.

PRC Government's real estate reforms

Real estate reforms in the PRC did not commence until the l990s, prior to which the PRC property sector was part of the PRC's centrally planned economic system. In the 1990s, China's property sector began its transition to a market-based system. A brief timeline of the key real estate reforms and the changes in government policies during 1988 to 2010 is set out below:

1988 The PRC Government amended the Constitution of the PRC to permit the transfer of State-owned land use rights.

1992 Public housing sales in major cities commenced.

1994 The PRC Government implemented further reforms and established an employer/employee-funded housing fund.

1995 The PRC Government issued regulations on the sales and pre-sales of real estate, establishing a regulatory framework for property sales.

1998 The PRC Government abolished the policy on state-allocated housing.

1999 The PRC Government extended the maximum mortgage term to 30 years, increased maximum mortgage financing from 70% to 80% and formalised procedures for the sale of real estate properties in the secondary market.

2000 The PRC Government issued regulations to standardize the quality of construction projects, establishing a framework for administering construction quality.

2001 The PRC Government issued regulations relating to the sales of commodity properties.

2002 The PRC Government promulgated the Regulation on the Grant of State-owned Land Use Rights by Way of Tender, Auction or Listing-for-Sale and eliminated the dual system for domestic and overseas home buyers in China.

2003 The PRC Government promulgated rules for more stringent administration of property loans with a view to reducing the credit and systemic risks associated with such loans. The State Council issued a notice for sustained and healthy development of the property market.

2004 The State Council issued a notice requiring property developers to finance 35% rather than 20% of the total projected capital outlay of any property development projects (excluding ordinary standard residences). The Ministry of Construction ("MOC") amended the Administrative Measures on the pre-sales of Commodity Properties in Cities to institute a permit system for the pre-sales of commodity properties.

2005 The PRC Government instituted additional measures to discourage speculative activities in the property market and maintain an adequate supply, including:

- increasing the minimum required down payment to 30% of the total purchase price; and
- imposing a business tax of 5% for sales within two years of purchase.

2006 The PRC Government instituted additional measures aimed at guiding and promoting the sustainable and healthy development of the property sector in China through adjusting the housing supply structure, curbing increasing housing prices and regulating foreign investment, including:

- requiring that a foreign investor making real estate investments in the PRC must establish a foreign-invested enterprise ("FIE") and if its investment is over USD10 million, the registered capital of the FIE must be at least 50% of the total investment amount; and

- Prohibiting a foreign-invested property developer from obtaining loans (domestic or overseas) unless its registered capital has been fully paid up, the Certificate of State-owned Land Use has been obtained or at least 35% of the total project investment has been funded.

2007 The Ministry of Commerce of the People's Republic of China ("MOFCOM") and SAFE issued 商務部、國家外匯管理局關於進一步加強、規範外商直接投資房地產業審批和監管的通知 (Notice on Strengthening and Regulating the Examination, Approval and Supervision of Foreign Direct Investment in the Real Estate Industry). PBOC and the China Banking Regulatory Commission ("CBRC") jointly issued 中國人民銀行、中國銀行業監督管理委員會關於加強商業性房地產信貸管理的通知 (Notice on Strengthening the Administration of Commercial Real Estate Credit Loans) to further regulate the management of credit loans for commercial real estate.

2008 The State Council issued 國務院關於促進節約集約用地的通知 (Notice on Promoting the Saving and Intensive Use of Land). The Ministry of Finance ("MOF") and State Administration of Taxation issued 財政部國家稅務總局關於調整房地產交易環節稅收政策的通知 (Notice on the Adjustments to Taxation on Real Estate Transactions) to encourage the first-time purchases of ordinary residential properties. The PBOC issued 中國人民銀行關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知 (Notice on Extending the Downward Movement of Interest Rates for Loans for Residential Premises of a Commercial Nature for Individuals in Support of First-time Purchase of Ordinary Residential Premises by Residents).

2009 The State Council issued 國務院關於調整固定資產投資項目資本金比例的通知 (Notice on Adjusting the Proportions of Registered Capital in Fixed Asset Investment Projects) to stimulate the development of the PRC real estate industry. These measures include:

- lowering the minimum capital ratio for ordinary residential property development projects and social security housing development projects from 35% to 20%; and

- lowering the minimum capital ratio for any other project development projects (e.g., commercial property and high-end housing projects) from 35% to 30%.

2010 The State Council issued 國務院關於堅決遏制部分城市房價過快上漲的通知 (Notice on Restraining Resolutely Over-rise of Housing Prices in Some Cities) to raise mortgage rates on second homes to 1.1 times the central bank's benchmark lending rate, up from the current 80%. Moreover, Chinese local banks in the PRC were also asked not to approve loans for third home purchases and to those who fails to provide proof of at least one year of local social security contributions or tax payments. The Ministry of Land and Resource of the People's Republic of China ("MLR") issued 國土資源部關於加強房地產用地供應和市場監管的通知 (Circular on Issues Relevant to Strengthening the Supply and Regulation of Land Use for Real Property). The PBOC announced on 19 October 2010 to increase the one-year benchmark lending rate by 25 basis points to 5.56%, effective on 20 October 2010.

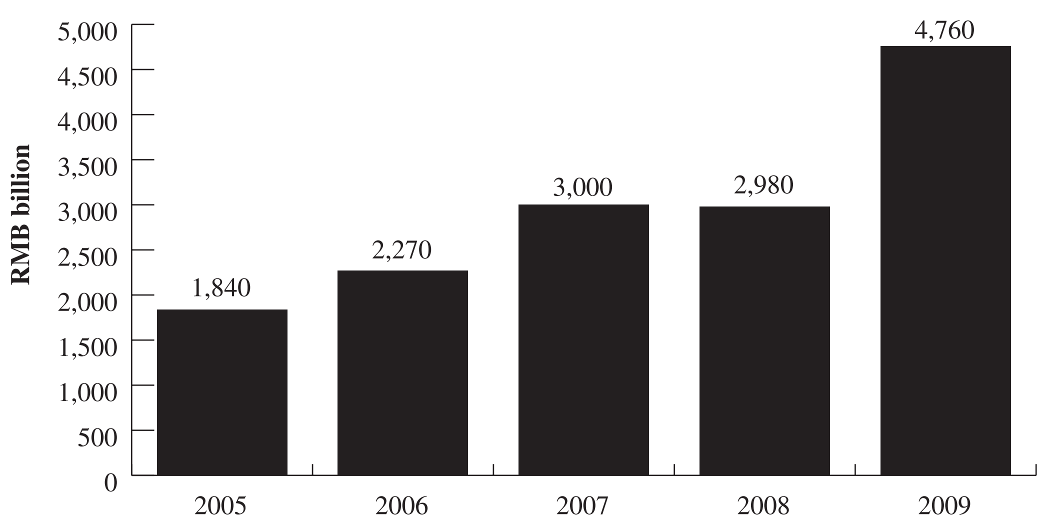
Real estate business is subject to extensive governmental regulation and the PRC Government actively exerts influence on the development of the PRC property sector by imposing industry policies as shown above. Further information regarding the laws and regulations relating to the property development sector in the PRC are set out in Appendix V to this circular.

Availability of residential mortgage

Since the introduction of housing reforms and related government policies allowing individuals to purchase their own housing properties, the PRC residential mortgage market has grown significantly. The increase in disposable income has also encouraged individuals to purchase properties and take mortgages. As at the end of 2009, the aggregate balance of outstanding residential mortgages for residential properties in the PRC amounted to approximately RMB4,760 billion. It is expected that the trend of more urban residents to own their private properties backed by residential mortgages would continue in the future.

The following chart shows the aggregate balance of outstanding residential mortgages from 2005 to 2009:

2005-2009 Aggregate balance of outstanding residential mortgages in China (CAGR: 26.8%)



Source: The People's Bank of China

PROSPECT OF THE PRC PROPERTY MARKET

The global economic and financial crisis that began in 2008 generally caused a slowdown in the global capital and credit markets as well as the world economy, which in turn affected the PRC domestic economy. The PRC government therefore has adopted increasingly flexible macroeconomic policies, including an announced RMB4 trillion fiscal stimulus package, aimed at offsetting the slowdown resulting from the global economic downturn.

With the government stimulus package and availability of onshore capital, the real estate market in China enjoyed a strong rebound in the second half of 2009. According to the figures released by the National Bureau of Statistics of China, the completed value of China's real estate developments for 2009 amounted to RMB3,623 billion, up 16.1 percent compared with the same period in 2008. Total real estate investment in 2009 accounted for 16 percent of the country's total fixed asset investment. Also, in 2009, the real estate development enterprises obtained funds totaling RMB5,712.8 billion, a year-on-year increase of 44.2 percent. Of the total, domestic loans amounted to RMB1,129.3 billion, up by 48.5 percent; in contrast, foreign funds utilised reached RMB47.0 billion, down 35.5 percent year on year.

The strength of the recovery and consequent price increases has once again caused the government's policy focus to shift, with various measures being introduced in an attempt to maintain control over rapidly increasing property and land prices. The high frequency of policy changes reveals the government's determination to stabilise the real estate market. The residential sector is considered to have benefited the most from the government stimulus package. As a result, residential sales recorded a substantial increase in the first half of 2009. In July 2009, several cities tightened the financing regulations governing mortgage on second homes, which led to a decrease in residential sales transactions in both primary and secondary markets in the second half of 2009. However, the selling price of residential units continued to rise due to the shrinkage in new supply after the bumper sales in the first half of the year and the subsequent surge in land sale prices. In December 2009, the government introduced more measures to curb the surging real estate prices. These measures proved futile, as prices continued to climb.

On 17 April 2010, the central government tightened the market further with the introduction of a set of measures focused on dampening demand, including raising the down payment ratio and mortgage rates for multi-home buyers. Once again, the effects of these measures were shortlived, reflected in the strong rebound in volume and decent price performance since July, following corrections in May and June.

On 29 September 2010, the central government moved to tighten the property market. In this instance, it: 1) introduced restrictions on third-home purchase/suspension of non-local resident purchases, 2) imposed property tax, and 3) made it clear that it would hold local governments liable if they fail to implement its measures. The government has demonstrated its determination as top local officials will now be held ultimately accountable for successful implementation of its measures. Transaction volumes dropped for most cities after the announcement of the new measures. Weekly transaction volume in Beijing fell to about 150,000 sq. m from the previous peak of 350,000 sq. m in early October. The transaction volume in other tier-one cities' followed a similar trend. On selling prices, contrary to market expectation of declines, levels remained fairly stable, which may be due to product mix as more high-end projects were launched during the period. Another reason is that developers are still reluctant to make meaningful price cuts due to their relatively strong financial positions as a result of good sales year to date. The second/third tier cities such as Chongqing, Wuhan, Tianjin and Chengdu seem to have fared better, with overall transaction volume being only slightly affected. Volume in some cities even grew sequentially, possibly due to the strength of genuine demand.

As the first-tier cities, such as Beijing and Shanghai, were experiencing limited availability and the high cost of urban sites, the hunt for higher yields continues to push investors to ever more distant frontiers. In 2009, developers and investors continued to shift their investment towards second- and third-tier cities, creating a powerful second-tier market. Dalian, Tianjin, Chengdu, Suzhou, and Hangzhou have been leading this trend, with Wuhan, and Changsha also readying themselves for investment. Across all second– and third-tier cities, the most promising areas appear to be retail and residential developments, with Grade-A office space coming in third, followed by tertiary buildings such as hotels and logistics hubs. A key factor contributing to the development rush in second-and third-tier cities is that these cities have less stringent laws and lower acquisition costs, than say Beijing or Shanghai, in relation to investment and ownership. Volatility has also tended to be lower.

HUNAN PROVINCE

The real estate market in Hunan Province

Hunan Province is one of the important provinces in China, located in the southwest region of China. In 2009, Hunan Province had a population of approximately 69 million. Hunan Province's GDP reached approximately RMB1,293.1 billion in 2009, representing a per capita GDP of approximately RMB20,226. The table below sets out selected economic statistics for Hunan Province for the years indicated:

	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Nominal GDP (RMB in billions)	434.1	463.4	561.2	647.4	749.3	914.5	1,115.7	1,293.1
GDP growth rate (%)	9	9.6	12	11.6	12.1	14.4	12.8	13.6
Per capita GDP (RMB)	6,565	7,247	9,117	10,366	11,830	14,405	17,521	20,226
Per capita disposable income for urban households (RMB)	6,959	7,674	8,618	9,523	10,505	12,293	13,821	15,084

Source: *Hunan Province National Economy and Social Development Statistical Communique*

Real estate investments in Hunan Province reached approximately RMB108.5 billion in 2009, representing an increase of approximately 21% over 2008. Total residential GFA sold in Hunan province in 2009 was approximately 35.1 million sq. m, representing an increase of approximately 47% over 2008. The table below sets out selected statistics relating to the property market in Hunan province of the years indicated:

	2007	**2008**	**2009**
Real estate investment (RMB billion)	76.1	89.6	108.5
GFA of residential properties completed (million sq. m)	20.6	20.4	29.65
GFA of residential properties sold (million sq. m)	27.5	23.8	35.1
Sales revenue from residential properties (RMB billion)	61.4	55.8	94.2
Average price of residential properties (RMB/sq. m)	2,069.7	2,347	2,532

Sources: *Hunan Province National Economy and Social Development Statistical Communique, www.realestate.cei.gov.cn, www.rednet.cn, news.dichan.sina.com.cn*

CHANGSHA CITY

The real estate market in Changsha City

Changsha is the capital city of Hunan Province and an economic centre in south central China. It is 40 kilometers from the Project. The table below sets out selected economic statistics for Changsha for the years indicated:

	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Nominal GDP (RMB in billions)	81.3	92.8	110.9	152.0	179.1	219.0	300.1	374.5
GDP growth rate (%)	12.7	14.0	14.8	14.9	14.8	16.0	15.1	14.7
Per capita GDP (RMB)	13,747	15,506	18,296	23,968	27,982	33,711	45,765	56,620
Per capita disposable income for urban households (RMB)	9,021	9,933	11,021	12,434	13,924	16,153	18,282	20,238

Source: *Changsha National Economy and Social Development Statistical Communique*

Real estate investments in Changsha reached approximately RMB49.7 billion in 2009, representing an increase of approximately 5.74% over 2008. The GFA of completed residential properties in Changsha was approximately 6.3 million sq. m in 2008, representing an increase of approximately 8.3% over 2007. Total residential GFA sold in Changsha in 2009 was approximately 14.1 million sq. m, representing a substantial increase of approximately 83% over 2008.

The average price of residential GFA sold in Changsha in 2009 was RMB3,404.0 per sq. m, representing an increase of approximately 6.34% over 2008. The table below sets out selected statistics relating to the property market in Changsha for the years indicated:

	2004	2005	2006	2007	2008	2009
Real estate investment (RMB billion)	17.6	25.6	30.4	41.3	47.0	49.7
GFA of residential properties completed (million sq. m)	4.4	4.7	4.8	5.8	6.3	9.8*
GFA of residential properties sold (million sq. m)	4.1	6.1	6.9	9.4	7.7	14.1
Sales revenue from residential properties (RMB billion)	7.2	12.8	16.9	29.8	24.6	48.0
Average price of residential properties (RMB/sq. m)	1,775.0	2,089.0	2,431.0	3,191.0	3,201.0	3,404.0

Source: *Changsha National Economy and Social Development Statistical Communique, news.dichan.sina.com.cn*

* *Projected from record between January 2009 and November 2009*

XIANGTAN CITY

The real estate market in Xiangtan

Xiangtan is one of the important cities in Hunan Province, located in the Central China region. In 2009, Xiangtan had a population of approximately 2.95 million. Xiangtan's GDP reached approximately RMB73.9 billion in 2009, representing a per capita GDP of approximately RMB26,608. The table below sets out selected economic statistics for Xiangtan for the years indicated:

	2002	2003	2004	2005	2006	2007	2008	2009
Nominal GDP (RMB in billions)	26.2	26.7	33.3	36.7	42.2	52.3	65.5	73.9
GDP growth rate (%)	10.5	11	13.4	9.26	13.2	15.4	13.8	13.7
Per capita GDP (RMB)	9,340	9,467	11,775	13,000	14,900	19,036	23,672	26,608
Per capita disposable income for urban households (RMB)	7,117	7,671	8,602	9,685	10,495	12,742	14,377	16,109

Source: *Xiangtan National Economy and Social Development Statistical Communique*

Real estate investments in Xiangtan reached approximately RMB4.8 billion in 2009, representing an increase of approximately 41.18% over 2008. The GFA of completed residential properties in Xiangtan was approximately 1.3 million sq. m, representing an increase of 30% over 2008. Total residential GFA sold in Xiangtan in 2009 was approximately 1.5 million sq. m, representing an increase of 25% over 2008.

The average price of residential GFA sold in Xiangtan in 2009 was approximately RMB2,451.8 per sq. m, representing an increase of approximately 22.6% over 2008. The table below sets out selected statistics relating to the property market in Xiangtan for the years indicated:

	2006	**2007**	**2008**	**2009**
Real estate investment (RMB billion)	2.4	3.5	3.4	4.8
GFA of residential properties completed (million sq. m)	1.7	1.4	1.0	1.3
GFA of residential properties sold (million sq. m)	(1.7)	1.9	1.2	1.5
Sales revenue from residential properties (RMB billion)	2.6	3.4	2.4	3.7
Average price of residential properties (RMB/sq. m)	1,557.0	1,789.0	2,000.0	2,451.8

Source: *Xiangtan National Economy and Social Development Statistical Communique*

1. SUMMARY OF THE FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the six months ended 30 June 2010 and the past three years ended 31 December 2007, 2008 and 2009 has been published in the interim report and the annual reports respectively per below:

(i) the financial information of the Group for the six months ended 30 June 2010 is disclosed in the interim report of the Company for the six months ended 30 June 2010 published on 16 September 2010, from pages 3 to 22. Such information has been published on the website of the Stock Exchange (http://www.hkexnews.hk/listedco/listconews/sehk/20100916/LTN20100916213.pdf).

(ii) the financial information of the Group for the year ended 31 December 2009 is disclosed in the annual report of the Company for the year ended 31 December 2009 published on 26 April 2010, from pages 33 to 119. Such information has been published on the website of the Stock Exchange (http://www.hkexnews.hk/listedco/listconews/sehk/20100426/LTN20100426737.pdf).

(iii) the financial information of the Group for the year ended 31 December 2008 is disclosed in the annual report of the Company for the year ended 31 December 2008 published on 28 April 2009, from pages 27 to 95. Such information has been published on the website of the Stock Exchange (http://www.hkexnews.hk/listedco/listconews/sehk/20090428/LTN20090428495.pdf).

(iv) the financial information of the Group for the year ended 31 December 2007 is disclosed in the annual report of the Company for the year ended 31 December 2007 published on 29 April 2008, from pages 27 to 83. Such information has been published on the website of the Stock Exchange (http://www.hkexnews.hk/listedco/listconews/sehk/20080429/LTN20080429825.pdf).

All of the above information have been also published on the website of the Company (http://www.hmdatalink.com/ChinaMandarin/eng/index.html).

2. INDEBTEDNESS

Borrowing and debt securities

As the close of the business on 30 November 2010, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had indebtedness of approximately HK$60,253,000 comprises a secured instalment bank loan which contains a repayment on demand clause of approximately HK$1,803,000 and an unsecured long-term loan of approximately HK$58,450,000.

As at 30 November 2010, the Group's secured instalment bank loan is secured by certain of the Enlarged Group's leasehold land and building with total carrying value of approximately HK$3 million.

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 November 2010, the Enlarged 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.

3. WORKING CAPITAL

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

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2009, being the date of which the latest audited financial statements of the Group were made up.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP AND THE TARGET GROUP

The Group

The following is the management discussion and analysis of the performance of the Group extracted from the interim report of the Company for the six months ended 30 June 2010 and the annual reports of the Company for the past three years ended 31 December 2007, 2008 and 2009.

For the six months ended 30 June 2010

Financial review

For the six months ended 30 June 2010, the Group's turnover decreased by 76% to HK$21,237,000 (2009: HK$87,106,000) while gross profit dropped to HK$10,696,000 (2009: HK$15,841,000). Various business arms contributed to the Group's revenue with HK$3,079,000 from film production, distribution and licensing, HK$10,975,000 from film processing and HK$7,183,000 from property investment. Profit attributable to owners of the Company made a turnaround recording HK$30,097,000 (2009: loss of HK$23,040,000). The Group's basic earnings per share was 1.15 HK cents (2009: loss per share: 1.05 HK cents). The Board of Directors did not recommend dividend payout for the six months ended 30 June 2010 (2009: Nil). As at 30 June 2010, cash on hand was about HK$57,692,000.

Turnover dropped mainly due to the fact that no income from new film released by the Group was recognised in the first half of 2010 but the same period of 2009 where income from "Ip Man" and "All's Well End's Well 2009" was booked. The turnaround was due to the disposal gain of HK$29,761,000 of the Disposal Group; the operating gain on film processing and property investment business for the six months ended 30 June 2010.

Business review

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

Film production business

For the six months ended 30 June 2010, turnover from film production business decreased by 96% to HK$3,079,000 (2009: HK$72,148,000). The receipts of "Ip Man 2" will be reflected in our book in the second half of 2010.

On 21 June 2010, Grimston Limited ("Grimston"), a wholly-owned subsidiary of the Company entered into an agreement (the "JV Agreement") with Filmko International Limited ("Filmko") to form the joint venture company (the "JV Company") with Filmko for the development, production and promotion, and dealing with matters concerning copyrights and distribution of the film "大鬧天宮" (working title) (the "Film"), details of which are contained in the announcement dated 21 June 2010. The total investment cost would amount to HK$206,000,000, of which the Group shares HK$72,100,000.

According to the JV Agreement, Filmko will be mainly responsible for obtaining relevant licences, permits and approvals in relation to the filming, production, distribution, and promotion of the Film in the PRC and/or other countries. It will also assist the JV Company in relation to the filming and production of the Film. Grimston will be mainly responsible for the placement of suitable personnel to supervise and manage the accounting matters of the JV Company. Under the JV Agreement, Filmko will engage Filmko Entertainment Limited for the Film's production and production administration, and will engage Filmko Films Distribution Limited for the Film's promotion and distribution. The Board is confident 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.

Film processing

For the six months ended 30 June 2010, film processing business generated a turnover of HK$10,975,000 comparing to HK$7,845,000 for the same period of 2009. Operating profit increased by 8 times to HK$3,279,000 (2009: HK$356,000). The Group had a market share of more than 40% among the three film processing factories in Hong Kong.

The increase in contribution was the result of increasing film output for the six months ended 30 June 2010, coupled with the drop of film output in 2008 due to the Beijing Olympic Games.

In June 2010, the Group installed an advanced and brand-new digital sound recorder in order to expand its services to sound mixing on top of visual and subtitle. The recorder is now under the testing stage. This service is expected to be well received by the industry as the filmmakers in Hong Kong will have one more option to mix sound in Hong Kong. Currently, most of them mix sound in Thailand. The Group expects growing contribution from this operation thereafter.

Property investments

For the period ended 30 June 2010, the property investments business was operated at a profit before tax of HK$4,660,000 (2009: HK$2,822,000).

The rental income of HK$7,183,000 was recorded in the financial period of 2010 and majority of the income came from the 10-year tenancy agreement starting from April 2009 signed with a department store in Chengdu. This would provide secure income and stable cash inflow to the Group and save the management cost of maintaining the investment property in the coming years.

Save as disclosed above, as at 30 June 2010, the Group did not have any other material investments.

Future developments

According to the statistics released by the State Administration for Radio, Film and Television ("SARFT"), the Chinese box office amounted to RMB6.206 billion in 2009, up 43% from 2008. Overseas sales income was RMB2.77 billion and domestic TV rights sales was RMB1.689 billion. And, 456 films were produced, representing an increase of 12.3% compared to 406 films in 2008. It highlights the potential of the film market in the PRC.

2009 was a year for 3D films. The success of "Avatar" and the latest Hollywood 3D blockbuster "Alice in Wonderland" brought about 3D hits to the PRC, both for 3D film making as well as 3D screens. At the moment, the PRC has about 1,100 3D screens, a third of the total number of cinema screens in the PRC.

Based on the above trends and as 3D films are in vogue, we are pleased to announce that the newly set up JV Company would produce the Film as a 3D film based on the Chinese legend that has been popular over the centuries, "Journey to the West". Our main actor in "Ip Man", Donnie Yen, would take the role of main actor again in the Film. The Group plans to engage part of the production team of 3D icon film "Avatar" to work on the Film. The Film is now shooting in Beijing.

Looking ahead, the hit on kung fu movie still dominates the market and the Group would continue to put resources in high quality kung fu movies and other film genres.

Liquidity and financial resources

As at 30 June 2010, the Group's net current assets was HK$56,618,000 (31 December 2009: HK$28,901,000), with current assets of HK$133,913,000 (31 December 2009: HK$100,689,000) and current liabilities of HK$77,295,000 (31 December 2009: HK$71,788,000), representing a current ratio of 1.73 (31 December 2009: 1.40).

As at 30 June 2010, the Group had cash and bank balances of HK$57,692,000 (31 December 2009: HK$32,892,000).

Gearing ratio

The gearing ratio based on interest-bearing bank and other borrowings over total equity for the period was 0.01 (31 December 2009: 0.01).

Charges on group assets

As at 30 June 2010, the Group's leasehold land and buildings with carrying value of HK$2,796,000 (31 December 2009: HK$3,062,000) were pledged to secure banking facilities granted to the Group.

Hedging

As at 30 June 2010, no financial instruments are used for hedging.

Material litigation

As at 30 June 2010, the Group had not involved in any material litigation or arbitration.

Capital commitment

As at 30 June 2010, the Group had contracted for capital commitments in respect of a newly set up joint venture in Hong Kong with Filmko amounting to HK$72,100,000.

Contingent liabilities

As at 30 June 2010, the Group did not have any significant contingent liabilities.

Employees and remuneration policies

Staff cost for the six months ended 30 June 2010 was HK$6,714,000 (30 June 2009: HK$8,936,000) representing a decrease of 25%. The Group had a workforce of 70 (30 June 2009: 77) staff including 48 (30 June 2009: 49) staff in the film processing department as at 30 June 2010. Salaries of employees were maintained at competitive levels while bonuses were granted on a discretionary basis.

The Group has adopted a share option scheme under which the Directors may, at their discretion, invite executive Directors and employees of the Group to take up options which entitle them to subscribe for shares representing up to a maximum of 10% of the issued share capital of the Company from time to time. For the six months ended 30 June 2010, no options were granted or exercised.

Exposure to foreign exchange

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

Capital structure

The Group's total equity amounted to HK$282,061,000 as at 30 June 2010 (31 December 2009: HK$250,976,000). The change mainly is due to the profit for the six months ended 30 June 2010.

Capital expenditures

For the six months ended 30 June 2010, the Group's capital expenditure were approximately HK$3 million.

Acquisition and disposal of subsidiaries and associated companies

On 17 December 2009, Grimston and Pegasus Motion Pictures Limited ("Pegasus"), a company owned by Mr. Wong Chi Woon, Edmond ("Mr. Edmond Wong"), the son of Mr. Wong Pak Ming ("Mr. Wong") and a former director of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement"). Pursuant to the Sale and Purchase Agreement, Grimston would dispose of and Pegasus would acquire the entire 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 together with the balance of payment from the sale of film rights which were signed before the date of disposal and were remained to be performed in whole or in part, a tax indemnity of HK$1,000,000 and the inter-companies balances with Grimston.

On 3 March 2010, the Sale and Purchase Agreement was completed and resulted a disposal gain of HK$29,761,000.

For the year ended 31 December 2009

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). Gross profit was HK$30,580,000 as compared with a gross loss of HK$16,713,000 in the year of 2008. Profit attributable to owners of the Company amounted to HK$6,694,000 (2008: loss of HK$216,317,000). Basic earnings per share was HK0.3 cent (2008: HK18.53 cents loss per share).

The Group has successfully diversified its business since 2008 to focus primarily on film production and related businesses and property investments in the PRC. For the year ended 31 December 2009, film businesses of the Group have brought along better return and leverage while strategic investment in the PRC property market provides stable income stream and cash flow to the Group.

Business review

The Group is principally engaged in film production and related businesses and property investments in China.

Film Industry

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

Film production, distribution and licensing businesses

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

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

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

Film processing

For the year ended 31 December 2009, the Group's film processing business generated a turnover of HK$20,284,000, representing an increase of 11% from the year 2008. With the increasingly competitive market condition which inevitably affects our profit margin in this business, the Group has taken more proactive move in 2009 so as to maintain our leading role in the industry.

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

Property investment

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

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

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

Advertising and promotion business

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

Save as disclosed above, as at 31 December 2009, the Group did not have any other material investments.

Prospects

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

Film Production, Distribution and Licensing

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

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

Property investment

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

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

Other developments

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

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

Liquidity and financial resources

As at 31 December 2009, the Group's total equity amounted to HK$250,976,000 (2008: HK$180,949,000). The gearing ratio based on interest-bearing bank and other borrowings over total equity was 0.01 (2008: 0.29).

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

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

Hedging

As at 31 December 2009, no financial instruments are used for hedging.

Charges on group assets

As 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.

Material litigation

As at 31 December 2009, the Group had not involved in any material litigation or arbitration.

Capital and other commitment

As at 31 December 2009, the Group had committed HK$8,560,000 (2008: HK$3,597,000) for the production of films and HK$829,000 for the acquisition of plant and machinery.

The Group had contracted for capital commitments in respect of a sino foreign-owned joint venture enterprises in the PRC amounting to HK$3,000,000.

Contingent liabilities

As at 31 December 2009, the Group did not have any significant contingent liabilities.

Employees and remuneration policies

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

Exposure of foreign exchange

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

Capital structure

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

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

Capital expenditures

For the six months ended 31 December 2009, the Group's capital expenditure were approximately HK$1 million.

Change in the group's composition

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

Acquisition and disposal of subsidiaries and associated companies

The Group had disposed 2 subsidiaries, and one loss-making jointly controlled entity, during the year ended 31 December 2009.

For the year ended 31 December 2008

Financial review

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

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

Business review

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

Film production business

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

For the year ended 31 December 2008, the Group made an impairment provision amounting to HK$19,743,000 for certain films and television programmes.

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

Film processing

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

For the year ended 31 December 2008, film processing business contributed profit of HK$2,628,000 despite the business fell behind expectations in the first half of 2008 as the local film release was slowed down by the Beijing Olympic Game. However, revenue was picked up in the second half of 2008 offsetting the loss incurred in the first half of 2008.

Property investment

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

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

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

Advertising and Promotion business

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

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

Other Businesses

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

Save as disclosed above, as at 31 December 2008, the Group did not have any other material investments.

Prospects

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

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

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

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

Liquidity and financial resources

As at 31 December 2008, the Group's total equity amounted to HK$180,949,000 (2007: HK$162,649,000). The gearing ratio based on interest bank and other borrowings over total equity was 0.29 (2007: 0.13).

Net current assets was HK$13,793,000 (2007: HK$141,029,000), with current assets of HK$101,177,000 (2007: HK$196,306,000) and current liabilities of HK$87,384,000 (2007: HK$55,277,000), representing a current ratio of 1.2 (2007: 3.6).

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

Charges on group assets

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

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

(2) The net book value of motor vehicle of HK$722,000 (2007: HK$942,000) is held under a finance lease; and

(3) bank deposits of HK$536,000 (2007: HK$533,000).

Hedging

As at 31 December 2008, no financial instruments are used for hedging.

Material litigation

On 18 April 2008, the Group acquired Profit Source International Limited and its PRC subsidiary 成都中發黃河實業有限公司 (Chengdu Zhongfa Real Estate Development Co. Ltd.) (the "PRC Subsidiary") which is the legal and beneficial owner of the Shopping Arcade acquired by the Company in Chengdu. The PRC Subsidiary is a party to two civil proceedings, namely, Civil Litigations (as defined below) and Other Litigation (as defined below). In the Civil Litigations, Renmin Plaza (as defined below) has instituted seven (7) civil actions namely (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 (the "Civil Litigations") against the PRC Subsidiary and 成都人民商場黃河商業城有限責任公司 (Chengdu Renmin Plaza Huanghe Commercial City Limited ("Huanghe Commercial City"). Huanghe Commercial City is a company incorporated in the PRC with limited liability, and an allegedly joint venture established by Renmin Plaza and a former shareholder of the PRC Subsidiary, Sichuan Huanghe (as defined below). The Civil Litigations were resulted from that the PRC Subsidiary entered into a charge of the Shopping Arcade in favour of 人民商場(集團)股份有限公司 (Remin Plaza (Group) Limited) ("Remin Plaza") to counter-guarantee Renmin Plaza's guaranteed obligations towards two PRC banks in relation to indebtedness incurred by Huanghe Commercial City during 2003. Huanghe Commercial City defaulted on the said indebtedness at the end and thus the two PRC banks confiscated Renmin Plaza's bank deposit amounting to RMB116,010,000 (equivalent to approximately HK$124,022,207). Renmin Plaza then raised the Civil Litigations against the PRC Subsidiary and Huanghe Commercial City. Judgments of all the above proceedings have been entered into in favour of Renmin Plaza. The PRC Subsidiary was liable to pay the damages in the sum of approximately RMB116,010,000 (equivalent to approximately HK$124,022,207) plus interest accrued from the respective dates of the damages awarded, and the legal costs of approximately RMB650,092 (equivalent to approximately HK$694,991) to Renmin Plaza, failing which Renmin Plaza could enforce the judgment by order to sell the Shopping Arcade.

成都崇德投資有限公司 (Chengdu Songde Investment Limited) instituted a civil action, namely, (2007) 成民初字第941號 (the "Other Litigation") against the PRC Subsidiary and Huanghe Commercial City claiming for the sum of approximately RMB6.62 million plus interest accrued from the date of damages awarded. The Other Litigation was resulted from that the PRC Subsidiary entered into a charge of the Shopping Arcade in favour of Huanghe Commercial City to guarantee an indebtedness incurred by Huanghe Commercial City during 2006. Huanghe Commercial City defaulted on the said indebtedness at the end and thus the said PRC bank confiscated Huanghe Commercial City's bank deposit amounting to RMB1,380,000 (equivalent to approximately HK$1,475,309). The defaulted liability of Huanghe Commercial City was subsequently acquired by Chengdu Songde Investment Limited, and it then raised a claim against the PRC Subsidiary and Huanghe Commercial City. Judgment has been entered into against the PRC Subsidiary.

In 1997, 四川黃河商業有限責任公司 (Sichuan Huanghe Commercial Limited) ("Sichuan Huanghe"), the former shareholder of the PRC Subsidiary, entered into a joint venture agreement with Renmin Plaza. Pursuant to such joint-venture agreement, Sichuan Huanghe and Remin Plaza agreed to establish Huanghe Commercial City with the investment capital of RMB30,000,000, of which 49% was contributed by Sichuan Huanghe and 51% was contributed by Remin Plaza. As a form of capital investment, Sichuan Huanghe then granted a licence to Huanghe Commercial City to use part of the first floor, second to third floors of the Shopping Arcade for a term of 15 years. In view of the breach of such joint venture agreement by Renmin Plaza concerning its failure to obtain an annual revenue of RMB300 million in at least one of the initial three years immediately after the execution of the joint venture agreement, Sichuan Huanghe has instituted a civil litigation namely (2007) 川民初字第55號 ("Action 55") against Renmin Plaza and Huanghe Commercial City seeking a declaration that the joint-venture agreement between Sichuan Huanghe and Renmin Plaza should be void and null and Huanghe Commercial City has to deliver up vacant possession of part of the first floor, second to third floors of the Shopping Arcade to Sichuan Huanghe. In light of Action 55, the PRC court has ordered to stay the execution of judgment under the Civil Litigations pending for the judgment of Action 55.

With reference to the PRC legal opinion prepared by Sichuan Junhe Law Firm ("Junhe") dated 10 March 2008, the maximum legal exposure was estimated to be approximately RMB 122,630,000 (approximately HK$131,099,416) plus the interests accrued from the respective dates of the damages awarded, the execution fees, and the legal costs of approximately RMB 709,256 (equivalent to approximately HK$758,241).

Nevertheless, in light of the fact that judgments have been made in respect of the Civil Litigations and the Other Litigation, it was advised by Junhe that the total liabilities, including the damages payable of RMB122,630,000 (equivalent to approximately HK$131,099,416) plus the interests accrued from the respective dates of damages awarded, the execution fees and the relevant legal costs, incurred from the Civil Litigations and the Other Litigation should be borne by the PRC Subsidiary.

Set out below is a summary chart illustrating details of finalised legal damages regarding the Civil Litigations and Other Litigation (as set out in the circular of the Company dated 12 March 2008 is relation to the acquisition of the Shopping Arcade):

	Date of judgement made by the PRC courts	Finalised legal damages ordered by the PRC courts against the PRC Subsidiary	
		RMB	*HK$*
(2005) 成民初字第138號	2 Jun 2005	2,010,000	2,148,820
(2006) 成民初字第608號	5 Sep 2006	3,000,000	3,207,194
(2006) 成民初字第616號	5 Sep 2006	27,000,000	28,864,749
(2007) 成民初字第165號	14 May 2007	17,690,000	18,911,756
(2007) 成民初字第270號	23 May 2007	27,250,000	29,132,016
(2007) 成民初字第241號	24 May 2007	22,750,000	24,321,224
(2007) 成民初字第205號	30 May 2007	16,310,000	17,436,447
(2007) 成民初字第941號	16 November 2007	6,620,000	7,077,210
		122,630,000	131,099,416

The PRC Subsidiary has become a non wholly-owned subsidiary of the Company upon completion of the acquisition of the Shopping Arcade in 2008. By the end of year 2008, the Group had entered into settlement agreement with the relevant counterparties to the aforesaid proceedings against the PRC Subsidiary, pursuant to which the Group has paid an aggregate amount of RMB136,464,000 for the final settlement of the Civil Litigations, the Other Litigation and Action 55.

As at 31 December 2008, the Group was not involved in any other material litigation or arbitration.

Capital and other commitment

As at 31 December 2008, the Group had committed HK$3,592,000 for the production of films.

The Group had contracted for capital commitments in respect of a sino foreign-owned joint venture enterprises in the PRC amounting to HK$4,500,000.

Contingent liabilities

As at 31 December 2008, the Group did not have any significant contingent liabilities.

Employees and remuneration policies

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

The Group has adopted a share option scheme under which the Directors may, at their discretion, invite eligible person to take up options which entitle them to subscribe for shares representing up to a maximum of 10% of the issued share capital of the Company from time to time. For the year ended 31 December 2008, no options were granted. Details of share option scheme are set out in note 34 to the financial statement of the annual report for the year ended 31 December 2008 (page 82).

Exposure of foreign exchange

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

Capital structure

On 18 April 2008, the Company issued 3.5 years zero-coupon convertible bonds with a nominal value of HK$70,000,000. The bonds are convertible at the option of the bondholders into fully paid ordinary shares with a par value of HK$0.10 each of the Company on or after 18 April 2008 up to and including 18 October 2011 at an initial conversion price of HK$0.40 per share. The conversion price was subsequently adjusted to HK$0.274 per share on 3 September 2008. The Group has an option to settle the conversion requested by bondholders in cash. The bonds are redeemable at the option of the Company at 100% of their principal amount six months after issue date on 18 April 2008. Any convertible bonds not converted will be redeemed on 18 October 2011 at 100% of their principal amount. Details of the convertible bonds are set out in note 30 to the financial statement of the annual report for the year ended 31 December 2008 (page 77).

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

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

Capital expenditures

For the year ended 31 December 2008, the Group's capital expenditure were approximately HK$446 million.

Change in the group's composition

The Group acquired the Profit Source Group, which was engaged in property investment operation.

Acquisition and disposal of subsidiaries and associated companies

On 18 April 2008, the Group acquired the "Profit Source Group" which held 90% interest in a PRC subsidiary and a shareholder's loan of HK$31,766,000 at the consideration of HK$240,000,000.

For the year ended 31 December 2007

Financial review

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

The Group reported a loss of HK$40 million compared to a profit of HK$1.7 million last year. Loss per share is 8.86 HK cents calculated on the 576,000,000 shares in issue in 2007 compared with earnings of 0.44 HK cents per share of the prior year.

Business review

Following the film of "Seven Swords" and "Dragon Tiger Gate", our action film "Flash Point" scored encouraging results in 2007 and was awarded "Best Action Choreography". Action films have become the pillar of our film production and distribution business and our confidence of success. Also, the weird film called "Missing" directed by Tsui Hark and TV play "Big Theater" adapted from film "Phantom Lover" were released in 2008.

Save for the equity investments for trading in HK stock market, as at 31 December 2007, the Group did not have any other material investments.

Prospects

The film we had begun shooting in 2007 was also an action film, titled "Ip Man" (KungFu master of Bruce Lee) and themed on "Wing Chun Kuen". Directed by Wilson Yip, with Sammo Hung providing guides for martial arts and Donnie Yen acting as Ip Man, it was an another film you can't miss.

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

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

Liquidity and financial resources

As at 31 December 2007, the Group's total equity amounted to HK$162,649,000 (2006: 54,689,000). The gearing ratio based on interest-bearing bank and other borrowings over total equity was 0.13 (2006: 0.35).

Net current assets was HK$141,029,000 (2006: HK$39,016,000) with current assets of HK$196,306,000 (2006: HK$79,830,000) and current liabilities of HK$55,277,000 (2006: HK$40,814,000), representing a current ratio of 3.6 (2006: 2.0).

As at 31 December 2007. The Group had bank balances and cash of HK$10,891,000 (2006: HK$16,728,000).

Charges on group assets

As at 31 December 2007, the Group's banking facilities are secured by the following:

(1) the legal charge over the copyright of one film with a carrying value of HK$1,134,000, included in film production in progress at 31 December 2007;

(2) the assignment of income receivables to be derived from the licensing of the film "Wonder Woman" in all territories throughout the world;

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

(4) motor vehicles of HK$942,000 is hold under a finance lease; and

(5) bank deposits of HK$533,000.

Hedging

As at 31 December 2007, no financial instruments are used for hedging.

Material litigation

As at 31 December 2007, the Group had not involved in any material litigation or arbitration.

Capital commitment

As at 31 December 2007, the Group had no capital commitment.

Contingent liabilities

As at 31 December 2007, the Group did not have any contingent liabilities.

Employees and remuneration policies

Staff cost for the year ended 31 December 2007 was HK$20.5 million (2006: HK$16.1 million) representing an increase of 27.3%. The Group had a workforce of about 84 staff (2006: 76 staff) at the end of 2007. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis.

The Group has adopted a share option scheme under which the Directors may, at their discretion, invite executive Directors and full-time employees of the Group to take up options which entitle them to subscribe for shares representing up to a maximum of 10% of the issued share capital of the Company from time to time. During the year ended 31 December 2007, options were granted on 10th May. Details of the share options granted under the scheme are set out in note 33 to the consolidated financial statements of the annual report for the year ended 31 December 2007 (page 74).

Exposure of foreign exchange

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

Capital structure

The Company has made two placements of shares during the year, under which 30,000,000 and 36,000,000 shares were allotted and issued at HK$1.33 each and HK$0.57 each on 29 May 2007 and 17 September 2007 respectively. On 14 September 2007, the Company had completed the Open Offer by issuing 180,000,000 shares at HK$0.50 each. The gross proceeds raised were used for general working capital purposes and investment in securities and properties for the Group. There has been no change in capital structure of the Company for the rest of the year.

Capital expenditures

For the six months ended 31 December 2007, the Group's capital expenditure were approximately HK$2 million.

Change in the group's composition

There was no material charge in the group's composition for the year 2007.

Acquisition and disposal of subsidiaries and associated companies

There was no material acquisition and disposal of subsidiaries and associated companies during the year 2007.

The Target Company

The following is the management discussion and analysis of the performance of the Target Company for the two years ended 31 December 2008 and 2009 and the period from 1 January 2010 to 30 November 2010.

For the eleven months ended 30 November 2010

Business and financial review

The Target Company is principally engaged in property development, property management and hotel management. For the eleven months ended 30 November 2010, the Target Company generated no revenue.

Capital structure

(i) General

As at 30 November 2010, the total equity of the Target Company was approximately RMB91,480,000 and the Target Company aimed to maintain its total equity at a reasonable level.

(ii) Borrowing and banking facilities

As at 30 November 2010, the Target Company and from an unrelated third parties amounted RMB50,000,000 which is unsecured interest-bearing at 10% and is repayable in April 2012.

(iii) Net current assets

The net current assets of the Target Company was RMB21,916,000 as at 30 November 2010.

(iv) Capital commitments

As at 30 November 2010. The Target Company contacted but not provided for in respect of design and development contracts amounted RMB1,580,000.

(v) Employees and remuneration policies

As at 30 November 2010, the Target Company had a total workforce of 9. The Target Company remunerates its employees based on the job nature, individual performance, working experiences, professional qualification and market trends.

(vi) Gearing ratio

The gearing ratio (based on total liabilities/total assets) as at 30 November 2010 was 0.37.

(vii) Exposure of foreign exchange

The Target Company's income, expenditures, assets and liabilities are denominated in Renminbi which is not freely convertible into foreign currencies.

(viii) Contingent liabilities

As at 30 November 2010, the Target Company did not have any contingent liabilities.

(ix) Hedging

As at 30 November 2010, no financial instruments are used for hedging.

Investments

As at 30 November 2010, the Target Company did not have any investments.

Acquisition and disposal of subsidiaries and associated companies

There was no material acquisition and disposal of subsidiaries and associated companies during the period ended 30 November 2010.

Segmental information

No business or geographical segment analysis is presented as all operations, assets and liabilities of the Target Company during the period are related to property development in the PRC.

Charges on assets

As at 30 November 2010, the Target Company did not have any assets pledged nor guarantee for any credit facilities.

Future plans for material investments or capital assets

As at 30 November 2010, the Target Company had no future plans for material investment or capital assets.

For the year ended 31 December 2009

Business and financial review

The Target Company is principally engaged in property development, property management and hotel management. For the year 2009, the Target Company generated no revenue.

Capital structure

(i) General

As at 31 December 2009, the total equity of the Target Company was approximately RMB26,854,000 and the Target Company aimed to maintain its total equity at a reasonable level.

(ii) Borrowing and banking facilities

As at 31 December 2009, there was no banking facilities arranged.

(iii) Net current assets

The net current assets of the Target Company was approximately RMB26,477,000 as at 31 December 2009.

(iv) Capital commitments

As at 31 December 2009, the Target Company had no significant capital commitments.

(v) Employees and remuneration policies

As at 31 December 2009, the Target Company had a total workforce of 3. The Target Company remunerates its employees based on the job nature, individual performance, working experiences, professional qualification and market trends.

(vi) Gearing ratio

The gearing ratio (based on total liabilities/total assets) as at 31 December 2009 was 0.31.

(vii) Exposure of foreign exchange

The Target Company's income, expenditures, assets and liabilities are denominated in Renminbi which is not freely convertible into foreign currencies.

(viii) Contingent liabilities

As at 31 December 2009, the Target Company did not have any contingent liabilities.

(ix) Hedging

As at 31 December 2009, no financial instruments are used for hedging.

Investments

As at 31 December 2009, the Target Company did not have any investments.

Acquisition and disposal of subsidiaries and associated companies

There was no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2009.

Segmental information

No business or geographical segment analysis is presented as all operations, assets and liabilities of the Target Company during the year are related to property development in the PRC.

Charges on assets

As at 31 December 2009, the Target Company did not have any assets pledged nor guarantee for any credit facilities.

Future plans for material investments or capital assets

Save for the acquisition of the Land in 2010, as at 31 December 2009, the Target Company had no future plans for other material investment or capital assets.

For the year ended 31 December 2008

Business and financial review

The Target Company is principally engaged in property development, property management and hotel management. For the year 2008, the Target Company generated no revenue.

Capital structure

(i) General

As at 31 December 2008, the Target Company has negative equity of RMB127,000.

(ii) Borrowing and banking facilities

As at 31 December 2008, there was no banking facilities arranged.

(iii) Net current liabilities

The net current liabilities of the Target Company was RMB127,000 as at 31 December 2008.

(iv) Capital commitments

As at 31 December 2008, the Target Company had no significant capital commitments.

(v) Employees and remuneration policies

As at 31 December 2008, the Target Company had a total workforce of 2. The Target Company remunerates its employees based on the job nature, individual performance, working experiences, professional qualification and market trends.

(vi) Gearing ratio

The gearing ratio (based on total liabilities/total assets) as at 31 December 2008 was 1.01.

(vii) Exposure of foreign exchange

The Target Company's income, expenditures, assets and liabilities are denominated in Renminbi which is not freely convertible into foreign currencies.

(viii) Contingent liabilities

As at 31 December 2008, the Target Company did not have any contingent liabilities.

(ix) Hedging

As at 31 December 2008, no financial instruments are used for hedging.

Investments

As at 31 December 2008, the Target Company did not have any investments.

Acquisition and disposal of subsidiaries and associated companies

There was no material acquisition and disposal of subsidiaries and associated companies during the period ended 31 December 2008.

Segmental information

No business or geographical segment analysis is presented as all operations, assets and liabilities of the Target Company during the period are related to property development in the PRC.

Charges on assets

As at 31 December 2008, the Target Company did not have any assets pledged nor guarantee for any credit facilities.

Future plans for material investments or capital assets

As at 31 December 2008, the Target Company had no future plans for material investment or capital assets.

The following is the full text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Robert Chui & Co., Certified Public Accountants (Practising), Hong Kong:

Robert Chui & Co.

2109 China Resources Building
26 Harbour Road, Wanchai
Hong Kong

7 January 2011

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 set out below our report on the financial information of **湖南九華國際新城開發建設有限公司 Hunan Jiuhua International City Development Construction Company Limited*** (the "Target Company") including the statements of financial position of the Target Company as at 31 December 2008, 2009 and 30 November 2010, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the period from 8 September 2008 (date of establishment) to 31 December 2008, for the year ended 31 December 2009 and for the period from 1 January 2010 to 30 November 2010 (the "Relevant Periods") together with the notes thereto (hereinafter collectively referred to as the "Financial Information"), prepared for inclusion in the circular of China Mandarin Holdings Limited (the "Company") dated 7 January 2011 (the "Circular") in connection with the proposed acquisition of the entire interest in the registered and paid-up capital of the Target Company by Brilliant Field Corporation Limited, an indirect wholly-owned subsidiary of the Company (the "Acquisition").

The Target Company is a wholly foreign owned enterprise established in the People's Republic of China ("PRC") on 8 September 2008. The principal business activities of the Target Company are property development, property management and hotel management. The Target Company has adopted 31 December as its financial year end date. The statutory financial statements of the Target Company prepared in accordance with the generally accepted accounting principles of the PRC for the year ended 31 December 2009 were audited by Hunan Guoxin Certified Public Accountants Co., Ltd 湖南國信會計師事務所有限公司. We have not acted as auditors of the Target Company for the Relevant Periods referred to in this report.

For the purpose of this report, the directors of the Target Company have prepared the financial statements of the Target Company for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements of the Target Company for the Relevant Periods, in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

* *English translation of company name is for identification purpose only*

The Financial Information for the Relevant Periods as set out in this report has been prepared by the directors of the Target Company on the Underlying Financial Statements, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with HKFRSs issued by HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. For the purpose of this report, we have examined the Financial Information of the Target Company and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the Financial Information, the directors of the Target Company are responsible for the preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view in accordance with HKFRSs. The directors of the Company are responsible for the contents of the Circular in which this report is included. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

For the purpose of this report, we have reviewed the 30 November 2009 Corresponding Information, which are prepared in accordance with HKFRSs and for which the directors of the Target Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2400, "Engagements to Review Financial Statements" issued by the HKICPA. Our responsibility is to express a conclusion on the 30 November 2009 Corresponding Information based on our review. A review principally consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures to the 30 November 2009 Corresponding Information. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 November 2009 Corresponding Information.

OPINION AND REVIEW CONCLUSION

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Target Company as at 31 December 2008, 2009 and 30 November 2010 and of its results and cash flows for period from 8 September 2008 (date of establishment) to 31 December 2008, for the year ended 31 December 2009 and for the period from 1 January 2010 to 30 November 2010.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 30 November 2009 Corresponding Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

Statements of Comprehensive Income

	Note	8 September 2008 (date of establishment) to 31 December 2008	Year ended 31 December 2009	Eleven months ended 30 November 2010	2009
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Revenue	*7*	–	–	–	–
Other income	*8*	2	23	14	19
Administrative and other operating expenses		(129)	(3,461)	(2,500)	(3,400)
Operating loss		(127)	(3,438)	(2,486)	(3,381)
Finance costs	*9*	–	–	(2,625)	–
Loss before tax	*10*	(127)	(3,438)	(5,111)	(3,381)
Income tax	*11*	–	–	–	–
Loss for the year/period		(127)	(3,438)	(5,111)	(3,381)
Other comprehensive income		–	–	–	–
Total comprehensive loss for the year/period		(127)	(3,438)	(5,111)	(3,381)

Statements of Financial Position

	Note	At 31 December 2008 RMB'000	At 31 December 2009 RMB'000	At 30 November 2010 RMB'000
NON-CURRENT ASSETS				
Plant and equipment	*13*	–	377	1,134
Property under development	*14*	–	–	118,430
		–	377	119,564
CURRENT ASSETS				
Deposit, prepayment and other receivables	*15*	10,200	30,674	964
Amount due from holding company	*16*	–	220	21,276
Cash and bank balances	*17*	1,802	7,861	2,434
		12,002	38,755	24,674
CURRENT LIABILITIES				
Other payable and accruals	*18*	12,129	12,278	2,758
NET CURRENT (LIABILITIES) ASSETS		(127)	26,477	21,916
NON-CURRENT LIABILITY				
Loan payable	*19*	–	–	50,000
NET (LIABILITIES) ASSETS		(127)	26,854	91,480
EQUITY				
Paid-up capital	*20*	–	30,419	100,000
Capital surplus	*21*	–	–	156
Accumulated losses		(127)	(3,565)	(8,676)
(CAPITAL DEFICIENCIES) TOTAL EQUITY		(127)	26,854	91,480

Statements of Changes In Equity

	Paid-up capital	**Capital surplus**	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 8 September 2008 (date of establishment)	–	–	–	–
Total comprehensive loss for the period	–	–	(127)	(127)
At 31 December 2008 and 1 January 2009	–	–	(127)	(127)
Total comprehensive loss for the year	–	–	(3,438)	(3,438)
Transaction with owner:				
Capital contributions *(note 20)*	30,419	–	–	30,419
At 31 December 2009 and 1 January 2010	30,419	–	(3,565)	26,854
Total comprehensive loss for the period	–	–	(5,111)	(5,111)
Transaction with owner:				
Capital contributions *(note 20)*	69,581	156	–	69,737
At 30 November 2010	100,000	156	(8,676)	91,480

Statements of Cash Flows

	8 September 2008 (date of establishment) to 31 December	Year ended 31 December	Eleven months ended 30 November	
	2008	2009	2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax	(127)	(3,438)	(5,111)	(3,381)
Adjustment for:				
Depreciation	–	–	338	–
Operating loss before working capital changes	(127)	(3,438)	(4,773)	(3,381)
Increase in property under development	–	–	(118,430)	–
(Increase) decrease in deposit, prepayment and other receivables	(10,200)	(20,474)	29,710	(20,401)
Increase in amount due from holding company	–	(220)	(21,056)	(220)
Increase (decrease) in other payable and accruals	12,129	149	(9,520)	5,215
Increase in loan payable	–	–	50,000	–
Net cash generated from (used in) operating activities	1,802	(23,983)	(74,069)	(18,787)
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments to acquire plant and equipment	–	(377)	(1,095)	(7)
Net cash outflow from investing activities	–	(377)	(1,095)	(7)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital contributions	–	30,419	69,737	30,419
Net cash inflow from financing activities	–	30,419	69,737	30,419
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,802	6,059	(5,427)	11,625
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	–	1,802	7,861	1,802
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	1,802	7,861	2,434	13,427
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	1,802	7,861	2,434	13,427

II. NOTES TO THE FINANCIAL INFORMATION AND THE 30 NOVEMBER 2009 CORRESPONDING INFORMATION

1. CORPORATE INFORMATION

The Target Company was established in the PRC on 8 September 2008. The registered and paid-up capital of the Target Company is RMB100,000,000. Its registered office is located at 9/F, Integrated Services Building, Jiuhua Economic Zone, Xiangtan, Hunan, the PRC (中國湖南省湘潭市九華經濟區綜合服務大樓九樓). The principal business activities of the Target Company are property development, property management and hotel management.

2. ADOPTION OF NEW AND AMENDED HKFRSs

During the Relevant Periods, the Target Company has adopted all the new and amended HKFRSs issued by the HKICPA, which are relevant to the Target Company and effective for the reporting period.

At the date of authorisation of the Financial Information, certain new and amended HKFRSs have been published but are not yet effective, and have not been early adopted by the Target Company. The directors of the Target Company anticipate that all of the pronouncements will be adopted in the Target Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have an impact on the Target Company's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact on the Target Company's Financial Information and the 30 November 2009 Corresponding Information.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1st January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors of the Target Company are currently assessing the possible impact of the new standard on the Target Company's results and financial position in the first year of application.

Annual improvements 2010

The HKICPA has issued "Improvements to Hong Kong Financial Reporting Standards 2010". Most of the amendments become effective for annual periods beginning on or after 1 January 2011. The directors of the Target Company are currently assessing the possible impacts of the amendments on the Target Company's results and financial position in the first year of application. So far, the directors of the Target Company have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Target Company's results and financial positions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information and the 30 November 2009 Corresponding Information set out in this report have been prepared in accordance with all applicable HKFRSs, which collectively includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the HKICPA and have been consistently applied throughout the Relevant Periods. The Financial Information and the 30 November 2009 Corresponding Information also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The significant accounting policies that have been used in the preparation of the Financial Information and the 30 November 2009 Corresponding Information are summarised below. These policies have been consistently applied throughout the Relevant Periods unless otherwise stated.

The Financial Information and the 30 November 2009 Corresponding Information have been prepared on historical cost convention. The measurement bases are fully described in the accounting policies below.

The functional currency of the Target Company is Renminbi ("RMB"). The Financial Information and the 30 November 2009 Corresponding Information are presented in RMB. All values are rounded to nearest thousand unless otherwise stated.

It should be noted that accounting estimates and assumptions are used in preparation of the Financial Information and the 30 November 2009 Corresponding Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information and the 30 November 2009 Corresponding Information are described in note 4.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of 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 plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income 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 plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciation.

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

Furniture and fixtures	20%
Leasehold improvements	Over the lease terms
Motor vehicles	25%
Office equipment	$33^1/_3$%

Where parts of an item of plant and equipment have different useful lives, the cost 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 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 statement of comprehensive income in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Property under development

Property under development is stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises acquisition cost of land use right and professional fees incurred during the development period. On completion, the assets are transferred to properties held for sale or buildings within property, plant and equipment as appropriate.

No depreciation is provided for property under development. The carrying amount of an asset under development is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Impairment of non-financial assets

Plant and equipment and property under development are subject to impairment testing whenever there are indications that the asset's carrying amount may not be recoverable. Where an indication of impairment exists, or when annual impairment testing for an asset is required, 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. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. 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 statement of comprehensive income 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 statement of comprehensive income 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 Target Company if:

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

(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 Target Company;

(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 Target Company, or of any entity that is a related party of the Target Company.

Leases

Finance lease of land use right

Lease of land use right that transfer substantially all the rewards and risks of ownership of assets to the Target Company, other than legal title, are accounted for as finance lease and recognised as assets at acquisition cost in the statement of financial position.

Operating lease of land and building

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Financial assets

Initial recognition and measurement

The Target Company's financial assets are classified as loans and receivables. The Target Company 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 purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset.

The Target Company's financial assets include deposit, prepayment and other receivables, amount due from holding company and cash and cash equivalents.

Subsequent measurement

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 statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income as finance costs.

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 right to receive cash flows from the asset have expired;
- the Target Company has transferred its right 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 Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its right 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 Target Company's continuing involvement in the asset. In that case, the Target Company also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the right and obligations that the Target Company 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 Target Company could be required to repay.

Impairment of financial assets

The Target Company 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 Target Company 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 Target Company 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 statement of comprehensive income. 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 Target Company.

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 statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

The Target Company's financial liabilities are classified as loans and borrowings. The Target Company 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 Target Company's financial liabilities include loan payable, other payable and accruals.

Subsequent measurement

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 statement of comprehensive income 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 statement of comprehensive income.

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 statement of comprehensive income.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

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 statement of comprehensive income.

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 country in which the Target Company 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 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.

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.

Employee benefits

The employees of the Target Company are required to participate in central pension scheme operated by the local municipal government in PRC. The Target Company is required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

These financial statements are presented in Renminbi, which is the Target Company's functional and presentation currency. Foreign currency transactions recorded by the Target Company are initially recorded using their 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 statement of comprehensive income. 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.

Borrowing costs

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

Revenue recognition

Interest income is recognised on time-proportion basis using effective interest method.

Segment reporting

The Target Company identifies operating segments and prepares segment information based on the regular internal financial information reported to the directors for their decisions about resources allocation to the Target Company's business components and for their review of the performance of those components. The business components in the internal financial information reported to the directors are determined following the Target Company's major product lines.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Target Company'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 Target Company 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.

5. SEGMENTAL INFORMATION

No business or geographical segment analysis is presented as all operations, assets and liabilities of the Target Company during the Relevant Periods are related to property development in the PRC.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Target Company's financial instruments are interest rate 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 Target Company'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.

Credit risk

The credit risk of the Target Company's financial assets, which comprise cash and cash equivalents, deposit, prepayment and other receivables and amount due from holding company, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. Management has a credit policy and the exposures to credit risks are monitored on an ongoing basis.

In respect of other receivables and amount due from holding company, credit evaluations are performed on all debtors requiring credit over a certain amount. These evaluations focus on the debtor's past history of making payments when due and current ability to pay, and take into accounting formation specific to the debtor as well as pertaining to the economic environment in which the debtor operates.

Normally, the Target Company does not obtain collateral from debtors. Further quantitative disclosures in respect of the Target Company's exposure to credit risk arising from other receivables and amount due from holding company are set out in note 15 and 16.

The credit risk on cash and bank balances is limited because the Target Company's bank balances are deposited with commercial banks in the PRC.

Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. The Target Company'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 Target Company maintains sufficient cash to meet its liquidity requirement.

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

	Less than one year *RMB'000*	**Over than one year** *RMB'000*
30 November 2010		
Other payable and accruals	2,758	–
Loan payable	–	50,000
31 December 2009		
Other payable and accruals	12,278	–
31 December 2008		
Other payable and accruals	12,129	–

Fair value

The fair values of the Target Company's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturities.

Capital management

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

The paid-up capital of the Target Company is RMB100,000,000. The Target Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholder.

The Target Company manages capital by regularly monitoring its current and expected liquidity requirements.

The Target Company is not subject to either internally or externally imposed capital requirements.

7. REVENUE

The Target Company had no revenue during the Relevant Periods.

8. OTHER INCOME

Other income represents the following:

	8/9/2008 to 31/12/2008	Year ended 31/12/2009	Eleven month ended 30 November 2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Bank interest income	2	23	14	19

9. FINANCE COSTS

	8/9/2008 to 31/12/2008	Year ended 31/12/2009	Eleven month ended 30 November 2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Interest charge on loan borrowing not wholly repayable within one year	–	–	2,625	–

10. LOSS BEFORE TAX

	8/9/2008 to 31/12/2008	Year ended 31/12/2009	Eleven month ended 30 November 2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Loss before tax is stated after charging:				
Auditor's remuneration	–	10	–	–
Depreciation of plant and equipment	–	–	338	–
Staff costs, excluding directors' remuneration	42	62	142	57
Minimum lease payments under operating leases in respect of land and buildings	23	69	64	64

11. INCOME TAX

	8/9/2008 to 31/12/2008	Year ended 31/12/2009	Eleven month ended 30 November 2010	Eleven month ended 30 November 2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current tax	–	–	–	–
Deferred tax	–	–	–	–
	–	–	–	–

No provision for PRC enterprise income tax has been made in the financial statements as the Target Company had no estimated assessable profit during the Relevant Periods.

No deferred tax has been provided in respect of deferred tax assets arising from cumulative losses during the Relevant Periods because the future profit stream of the Target Company is uncertain.

Reconciliation between tax expense and accounting loss at applicable tax rate are as follows:

	8/9/2008 to 31/12/2008	Year ended 31/12/2009	Eleven month ended 30 November 2010	Eleven month ended 30 November 2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Loss before tax	(127)	(3,438)	(5,111)	(3,381)
Calculated at the PRC tax rate of 25%	(32)	(860)	(1,278)	(845)
Tax effect of items not subject to tax deduction and unused tax losses not recognised	32	860	1,278	845
Income tax expense	–	–	–	–

12. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

	8/9/2008 to 31/12/2008	Year ended 31/12/2009	Eleven month ended 30 November 2010	Eleven month ended 30 November 2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Fees	–	–	–	–
Other emoluments:				
Salaries, allowances and benefit in kind	–	–	82	–
Retirement benefit scheme contribution	–	–	4	–
	–	–	86	–

(b) Emoluments of highest paid individuals

Of the five individuals with the highest emoluments in the Target Company, one was director of the Target Company, whose emoluments are included in the disclosure set out in note (a) above. The emoluments of the remaining four (2008: two and 2009: three) highest paid individuals were as follows:

	8/9/2008 to 31/12/2008	**Year ended 31/12/2009**	**Eleven month ended 30 November 2010**	**Eleven month ended 30 November 2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Salaries, allowances and benefit in kind	42	62	91	57
Retirement benefit scheme contribution	–	–	2	–
	42	62	93	57

13. PLANT AND EQUIPMENT

	Furniture and fixtures	**Leasehold improvements**	**Motor vehicles**	**Office equipment**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
At 1 January 2010	7	370	–	–	377
Additions	79	–	953	63	1,095
At 30 November 2010	86	370	953	63	1,472
Accumulated depreciation:					
At 1 January 2010	–	–	–	–	–
Charge for the period	11	214	99	14	338
At 30 November 2010	11	214	99	14	338
Carrying value:					
At 30 November 2010	75	156	854	49	1,134

	Furniture and fixtures	**Leasehold improvements**	**Motor vehicles**	**Office equipment**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
At 1 January 2009	–	–	–	–	–
Additions	7	370	–	–	377
At 31 December 2009	7	370	–	–	377
Accumulated depreciation:					
At 1 January 2009	–	–	–	–	–
Charge for the period	–	–	–	–	–
At 31 December 2009	–	–	–	–	–
Carrying value:					
At 31 December 2009	7	370	–	–	377

14. PROPERTY UNDER DEVELOPMENT

	30/11/2010
	RMB'000
At cost:	
Acquisition of land use right	117,790
Design and consultancy fee capitalised	640
	118,430

The Land is located at 湖南省湘潭市九華示範區黃河路北，濱江路以西 (the northern side of Huanghe Road and the western side of Binjiang Road, Jiuhua Demonstrative Zone, Xiangtan, Hunan Province, the PRC). The Project is still in the planning stage and currently pending for future design and development.

The terms for the grant of the land use right of the Land are 70 years expiring on 10 June 2080 for residential use and 40 years expiring on 10 June 2050 for commercial use respectively.

15. DEPOSIT, PREPAYMENT AND OTHER RECEIVABLES

Deposit, prepayment and other receivables represents the following:

	31/12/2008	**31/12/2009**	**30/11/2010**
	RMB'000	*RMB'000*	*RMB'000*
Prepayment for acquisition of land use right	–	30,344	–
Deposit for acquisition of motor vehicle	–	330	950
Other receivables	10,200	–	14
	10,200	30,674	964

16. AMOUNT DUE FROM HOLDING COMPANY

The amount due from Ya Tai (China) Investment Limited is un-secured, interest free and has no fixed repayment term.

17. CASH AND BANK BALANCES

Cash at banks earned interest at floating rates based on daily bank deposit rates. All bank balances held at each of reporting dates were deposited in the banks in the PRC and denominated in RMB which is not freely convertible into foreign currencies.

18. OTHER PAYABLE AND ACCRUALS

Other payable and accruals represents the following:

	31/12/2008	**31/12/2009**	**30/11/2010**
	RMB'000	*RMB'000*	*RMB'000*
Other payable	12,000	12,000	–
Accruals	129	278	133
Loan interest payable	–	–	2,625
	12,129	12,278	2,758

19. LOAN PAYABLE

The loan is un-secured, interest-bearing at 10% per annum and is repayable in April 2012.

20. PAID-UP CAPITAL

	31/12/2008	**31/12/2009**	**30/11/2010**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year/period	–	–	30,419
Capital contributions from owner	–	30,419	69,581
At the end of the year/period	–	30,419	100,000

The Target Company was established in the PRC on 8 September 2008 with registered capital of RMB100,000,000.

The capital of the Target Company was paid up on the following dates:

	RMB'000
15 April 2009	10,144
10 July 2009	20,275
14 January 2010	14,966
29 January 2010	54,615
	100,000

21. CAPITAL SURPLUS

Capital surplus represents excess of consideration received over nominal value of the paid-up capital of the Target Company.

22. CONTINGENT LIABILITIES

The Target Company had no significant contingent liabilities at each of the reporting dates.

23. OPERATING LEASE COMMITMENT

At each of the reporting dates, the Target Company's total future minimum lease payments under non-cancellable operating lease payable in respect of office premise are as follows:

	31/12/2008	**31/12/2009**	**30/11/2010**
	RMB'000	*RMB'000*	*RMB'000*
Future minimum lease payments fall due:			
Within one year	69	69	69
In second to fifth years	249	180	116
Over fifth years	–	–	–
	318	249	185

The Target Company leases a property under operating lease for an initial period of 5 years. The lease does not include contingent rental.

24. CAPITAL COMMITMENT

The Target Company had the following capital commitments not provided for as at each of the reporting dates:

	31/12/2008	**31/12/2009**	**30/11/2010**
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for in respect of design and development contracts	–	–	1,580

III. SUBSEQUENT EVENTS

No significant event has been noted for the Target Company in respect of any period subsequent to 30 November 2010.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Target Company in respect of any period subsequent to 30 November 2010.

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

1. INTRODUCTION

The following is the unaudited pro forma financial information of the Enlarged Group prepared to illustrate the effect of the Acquisition on the financial position of the Enlarged Group as at 30 June 2010 and the results and cash flows of the Enlarged Group for the year ended 31 December 2009. As it is prepared for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the financial position or results of the Enlarged Group following the completion of the Acquisition.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared, in accordance with the accounting policies of the Group under Hong Kong Financial Reporting Standards ("HKFRS"), based on the latest unaudited consolidated statement of financial position of the Group as at 30 June 2010 extracted from the published half-year report of the Company dated 27 August 2010 and the latest audited statement of financial position of the Target Company as at 30 November 2010 extracted from the accountants' reports on the Target Company as set out in Appendix II to this circular (translated into HK$ at exchange rate of RMB$1= HK$1.169) as if the Acquisition had been completed on 30 June 2010.

The unaudited pro forma consolidated statement of comprehensive income and statement of cash flow of the Enlarged Group are prepared, in accordance with the accounting policies of the Group under HKFRS, based on the latest audited consolidated statement of comprehensive income and statement of cash flows of the Group for the year ended 31 December 2009 extracted from the published annual report of the Company dated 16 April 2010 and the latest audited statement of comprehensive income and statement of cash flows of the Target Company for the year ended 31 December 2009 extracted from the accountants' report on the Target Company as set out in Appendix II to this circular (translated into HK$ at exchange rate of RMB$1 = HK$1.135) as if the Acquisition had been completed on 1 January 2009.

Notes to the pro forma financial information of the Enlarged Group

(1) In accordance with Hong Kong Financial Reporting Standard 3 Business Combinations ("HKFRS 3"), the Group will apply the purchase method to account for the acquisition of the Target Company. Under the purchase method, the identifiable assets, liabilities and contingent liabilities of the Target Company will be recorded on the consolidated statement of financial position of the Group at their fair values at the date of completion. Excess of the Group's purchase price over the interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the Target Company is recognised as goodwill in the unaudited pro forma consolidated statement of financial position as if the Acquisition had taken place on 30 June 2010.

The total consideration for the Acquisition is HK$700,000,000, which will be settled in the following manner:

(a) cash of HK$160,000,000 shall be payable by the Purchaser to the Vendor as initial deposit payable on the date of the Agreement;

(b) HK$24,872,000 to set off the amount due by the Vendor to the Target Company; and

(c) HK$515,128,000 Convertible Bond to be issued by the Company to the Vendor upon Completion.

(2) The pro forma adjustment of HK$160,000,000 represents the payment of cash deposit as described in note 1(a) above.

(3) The fair value adjustments are to reflect the effect of the Acquisition on the consolidated statement of financial position of the Enlarged Group as if the Acquisition had taken place on 30 June 2010.

The identifiable assets and liabilities from the Acquisition are as follows:

	Carrying value of the Target Company	**Carrying value of the Target Company**	**Fair value adjustments on identifiable assets and liabilities of the Target Company**	*Note*	**Fair value of net identifiable assets acquired**
	RMB'000	*HK$'000*	*HK$'000*		*HK$'000*
Plant and equipment	1,134	1,325	–		1,325
Property under development	118,430	138,445	574,303	*(c)*	712,748
Deposit, prepayment and other receivables	964	1,127	–		1,127
Amount due from holding company	21,276	24,872	–		24,872
Cash and bank balances	2,434	2,845	–		2,845
Other payable and accruals	(2,758)	(3,224)	–		(3,224)
Loan payable	(50,000)	(58,450)	–		(58,450)
Deferred tax liability	–	–	(143,576)	*(d)*	(143,576)
Fair value of net identifiable assets					537,667
Less: Fair value of cost of investment					700,000
Goodwill					162,333

Notes:

(a) The carrying value of the Target Company at 30 November 2010 were extracted from the accountants' report on the Target Company as set out in Appendix II to this circular.

(b) An impairment testing conducted in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36") issued by the Hong Kong Institute of Certified Public Accountants involves the determination of the recoverable amount of the cash generating unit to which the goodwill has been allocated, being the higher of the cash generating unit's fair value less costs to sell and its value in use. For the purpose of the preparation of the Pro Forma Financial Information, the Directors have estimated the value in use of the Target Company, and assessed that there was no indication of impairment of goodwill arising from the Acquisition and hence no impairment was required. The reporting accountants concurred with the Directors' assessment of impairment of goodwill in Pro Forma Financial Information. In addition, the Directors will adopt consistent accounting policies and principal assumptions in the preparation of the consolidated financial statements of the Group after Completion.

(c) The fair value adjustment on property under development of HK$574,303,000 is calculated as follows:

	HK$'000
Fair value of land in Xiangtan as per valuation report by RHL as at 30 November 2010	712,000
Carrying value of land in Xiangtan as at 30 November 2010 (RMB117,790,000 X 1.169)	137,697
Fair value adjustment	574,303

(d) The adjustment on deferred tax liability of approximately HK$143,576,000 is calculated at the PRC enterprise income tax rate of 25% on the fair value adjustment on property under development of HK$574,303,000 as referred to in (c) above.

(4) The Convertible Bond is to be issued as described in note 1(c) above. Under Hong Kong Accounting Standard 32 and 39, the liability and equity component of convertible bond are accounted for separately. The liability component is calculated at the discounted present value of the cash flows of future principal and interest payments at the market rate of interest applicable to similar liabilities that do not have a conversion option. The equity component is calculated as the excess of the issued proceeds over the liability component.

The present value of the liability component is approximately HK$403,616,000, with the balance of HK$111,512,000 accounted for as a component of equity.

(5) The pro forma adjustment of approximately HK$18,399,000 represented the deferred tax liabilities arising from Convertible Bond as follows:

	HK$'000
Face amount of Convertible Bond *(note 1 (c))*	515,128
Less: Carrying amount of Convertible Bond as at 30 June 2010 *(note 4)*	(403,616)
Temporary difference	111,512
Deferred tax liabilities at tax rate of 16.5%	18,399

(6) The pro forma adjustment represents the elimination of the share capital and the pre-acquisition reserves of the Target Company.

(7) The pro forma adjustment of approximately HK$20,181,000 represents annual finance cost of imputed interest expenses of Convertible Bond to be expensed in the consolidated statement of comprehensive income of the Enlarged Group with the imputed interest rate of 5% for the year ended 31 December 2009. These interest expenses shall have continuing effect on the consolidated financial statements of the Enlarged Group in subsequent years.

(8) The pro forma adjustment of approximately HK$2,113,000 represents the estimated legal and professional costs for the Acquisition.

(9) The pro forma adjustment represents deferred tax effect to the consolidated statement of comprehensive income of the Enlarged Group of approximately HK$3,329,000 arising from the issue of Convertible Bond. The deferred tax shall have continuing effect on the consolidated financial statements of the Enlarged Group in subsequent years.

The basis of the deferred tax effect is set out as follows:

	HK$'000
Deferred tax liabilities as at 1 January 2009, at tax rate of 16.5%	18,399
Less: Deferred tax liabilities as at 31 December 2009, at tax rate of 16.5%	(15,070)
Deferred tax effect	3,329

	HK$'000
Face amount of Convertible Bond	515,128
Less: Carrying amount of Convertible Bond as at 1 January 2009	(403,616)
Temporary difference as at 1 January 2009	111,512
Deferred tax liabilities as at 1 January 2009	18,399

	HK$'000
Face amount of Convertible Bond	515,128
Less: Carrying amount of Convertible Bond as at 31 December 2009	(423,797)
Temporary difference as at 31 December 2009	91,331
Deferred tax liabilities as at 31 December 2009	15,070

(10) The pro forma adjustment represents the cash deposits of HK$160,000,000 in acquiring the entire equity interest of the Target Company. This pro forma adjustment will not have continuing cash flow effect to the Enlarged Group.

(11) The adjustment represents reclassification of negative cash and bank balances into bank overdraft. The Directors would like to clarify that subsequent to the references to which the negative cash balance of HK$101 million was determined, the Company has completed the Open Offer in September 2010 with net proceeds of approximately HK$193 million.

(12) The adjustment represent reclassification of bank instalment loan (which contains a repayment on demand clause) of the Group from non-current liability to current liability pursuant to HK Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause issued by the Hong Kong Institution of Certified Public Accountants effective on 29 November 2010.

2. UNAUDITED PRO FORMA STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group As at 30 June 2010	The Target Company As at 30 November 2010	The Target Company As at 30 November 2010	Pro forma Adjustments	Note	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
	(unaudited)	(audited)		(unaudited)		(unaudited)
Non-current assets						
Property, plant and equipment	7,922	1,134	1,325			9,247
Investment property	285,095	–	–			285,095
Property under development	–	118,430	138,445	574,303	*(3)*	712,748
Goodwill	–	–	–	162,333	*(3)*	162,333
Interest in an associate	4	–	–			4
Deposit paid	1,666	–	–			1,666
Film rights	1	–	–			1
Total non-current assets	294,688	119,564	139,770			1,171,094
Current assets						
Film production in progress	61,590	–	–			61,590
Inventories	1,981	–	–			1,981
Trade receivables	7,310	–	–			7,310
Other receivables, prepayments and deposits paid	5,340	964	1,127			6,467
Amount due from holding company	–	21,276	24,872	(24,872)	*(1)*	–
Cash and bank balances	57,692	2,434	2,845	(160,000)	*(2)*	–
				(2,113)	*(8)*	
				101,576	*(11)*	
Total current assets	133,913	24,674	28,844			77,348
Current liabilities						
Bank overdraft	–	–	–	101,576	*(11)*	101,576
Trade payables	1,490	–	–			1,490
Other payables, accruals and deposits received	74,634	2,758	3,224			77,858
Amount due to an associate	4	–	–			4
Interest-bearing bank and other borrowings	173	–	–	1,701	*(12)*	1,874
Tax payable	994	–	–			994
Total current liabilities	77,295	2,758	3,224			183,796
Net current assets (liabilities)	56,618	21,916	25,620			(106,448)
Total assets less current liabilities	351,306	141,480	165,390			1,064,646
Non-current liabilities						
Interest-bearing bank and other borrowings	1,701	50,000	58,450	(1,701)	*(12)*	58,450
Convertible bond	–	–	–	403,616	*(4)*	403,616
Deposit received	913	–	–			913
Deferred tax liabilities	66,631	–	–	143,576	*(3)*	228,606
				18,399	*(5)*	
Total non-current liabilities	69,245	50,000	58,450			691,585
Net assets	282,061	91,480	106,940			373,061
Equity						
Equity attributable to owners of the Company						
Share capital	261,348	100,000	116,900	(116,900)	*(6)*	261,348
Reserves	(3,223)	(8,520)	(9,960)	9,960	*(6)*	87,777
				111,512	*(4)*	
				(18,399)	*(5)*	
				(2,113)	*(8)*	
	258,125	91,480	106,940			349,125
Non-controlling interests	23,936	–	–			23,936
Total equity	282,061	91,480	106,940			373,061

3. UNAUDITED PRO FORMA STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

	The Group Year ended 31 December 2009	The Target Company Year ended 31 December 2009	The Target Company Year ended 31 December 2009	Pro forma Adjustments	Note	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
	(audited)	(audited)		(unaudited)		(unaudited)
CONTINUING OPERATIONS						
Revenue	119,488	–	–			119,488
Cost of sales	(89,716)	–	–			(89,716)
Gross profit	29,772	–	–			29,772
Other income and gains	3,132	23	26			3,158
Gain on disposal of subsidiaries	17,622	–	–			17,622
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	1	–	–			1
Gain on disposal of items of property, plant and equipment	39	–	–			39
Administrative expenses	(24,553)	(3,461)	(3,928)	(2,113)	*(8)*	(30,594)
Finance costs	(6,207)	–	–	(20,181)	*(7)*	(26,388)
Share of results of jointly-controlled entities	(4,038)	–	–			(4,038)
Profit (Loss) before tax from continuing operations	8,727	(3,438)	(3,902)			(17,469)
Income tax	(1,236)	–	–	3,329	*(9)*	2,093
Profit (Loss) for the year from continuing operations	7,491	(3,438)	(3,902)			(15,376)
DISCONTINUED OPERATION						
Loss for the year from discontinuing operations	(211)	–	–			(211)
Profit (Loss) for the year	7,280	(3,438)	(3,902)			(15,587)
Other comprehensive income:						
Exchange difference arising on translation of foreign operations	130	–	–			130
Total comprehensive income (loss) for the year	7,410	(3,438)	(3,902)			(15,457)

4. UNAUDITED PRO FORMA STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

	The Group Year ended 31 December 2009 HK$'000 (audited)	The Target Company Year ended 31 December 2009 RMB'000 (audited)	The Target Company Year ended 31 December 2009 HK$'000	Pro forma Adjustments HK$'000 (unaudited)	Note	Pro forma Enlarged Group HK$'000 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit (Loss) before tax						
From continuing operations	8,727	(3,438)	(3,902)	(20,181)	*(7)*	(17,469)
				(2,113)	*(8)*	
From discontinued operation	(211)	–	–			(211)
Adjustments for:						
Interest income	(57)	–	–			(57)
Gain on disposal of subsidiaries	(17,622)	–	–			(17,622)
Interests on bank and other borrowings, loans from former shareholders and finance lease	1,048	–	–			1,048
Interest on convertible bonds	5,160	–	–	20,181	*(7)*	25,341
Loss on redemption of convertible bonds	7,050	–	–			7,050
Depreciation	1,410	–	–			1,410
Amortisation of prepaid land lease payments	75	–	–			75
Impairment of trade receivables	989	–	–			989
Gain on disposal of items of property, plant and equipment	(39)	–	–			(39)
Fair value gain on investments held for trading, net	(1)	–	–			(1)
Fair value gain on derivative component on convertible bonds	(9)	–	–			(9)
Write-back of impairment of trade receivables	(1,411)	–	–			(1,411)
Share of results of jointly-controlled entities	4,038	–	–			4,038
Operating profit (loss) before working capital changes	9,147	(3,438)	(3,902)			3,132
Decrease in film rights and film production in progress	6,933	–	–			6,933
Increase in inventories	(230)	–	–			(230)
Proceeds from disposal of investments held for trading	2	–	–			2
Increase in trade receivables	(1,655)	–	–			(1,655)
Increase in other receivables, prepayments and deposits paid	(2,183)	(20,474)	(23,934)			(26,117)
Increase in amount due from holding company	–	(220)	(257)			(257)
Decrease in trade payables	(2,942)	–	–			(2,942)
Increase in other payables, accruals and deposits received	21,257	149	174			21,431
Decrease in amounts due to former directors	(93)	–	–			(93)
Decrease in an amount due to a shareholder	(6,991)	–	–			(6,991)
Cash generated from (used in) operations	23,245	(23,983)	(27,919)			(6,787)
Hong Kong profits tax paid	–	–	–			–
Net cash flow from (used in) operating activities	23,245	(23,983)	(27,919)			(6,787)

	The Group Year ended 31 December 2009 *HK$'000* (audited)	The Target Company Year ended 31 December 2009 *RMB'000* (audited)	The Target Company Year ended 31 December 2009 *HK$'000*	Pro forma Adjustments *HK$'000* (unaudited)	*Note*	Pro forma Enlarged Group *HK$'000* (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment	(997)	(377)	(428)			(1,425)
Decrease in an amount due from a minority shareholder	12,372	–	–			12,372
Proceeds from disposal of items of property, plant and equipment	84	–	–			84
Return of capital from a jointly-controlled entity	3,184	–	–			3,184
Proceeds from disposal of subsidiaries	24,384	–	–			24,384
Redemption of convertible bonds	(63,739)	–	–			(63,739)
Interest received	57	–	–			57
Decrease in pledged bank deposits with original maturity of less than three months	536	–	–			536
Net cash flow from (used in) investing activities	(24,119)	(377)	(428)			(24,547)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issue of shares	63,159	30,419	–			97,685
Expenses on issue of shares	(876)	–	–			(876)
Capital contribution from a minority shareholder	334	–	–			334
New bank loans and other borrowings	2,000	–	–			2,000
Repayment of bank loans and other borrowings	(6,048)	–	–			(6,048)
Repayment of loans from former shareholders	(33,036)	–	–			(33,036)
Interest paid	(1,048)	–	–			(1,048)
Capital element of finance lease payments	(92)	–	–			(92)
Net cash inflow from financing activities	24,393	30,419	34,526			58,919
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,519	6,059	6,179			27,585
Cash and cash equivalents at beginning of year	9,356	1,802	964	(160,000)	*(2)*	(148,597)
Exchange difference	17	–	2,047			(981)
CASH AND CASH EQUIVALENTS AT END OF YEAR	32,892	7,861	9,190			(120,031)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents	32,892	7,861	9,190	(2,113)	*(8)*	39,969
Bank overdraft	–	–	–	(160,000)	*(10)*	(160,000)
	32,892	7,861	9,190			(120,031)

The following is the text of an accountants' report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Robert Chui & Co., Certified Public Accountant, Hong Kong, in respect of the Unaudited Pro Forma Information of the Enlarged Group:

Robert Chui & Co.

2109 China Resources Building
26 Harbour Road, Wanchai
Hong Kong

7 January 2011

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 (the "Unaudited Pro Forma Financial Information") of China Mandarin Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and **湖南九華國際新城開發建設有限公司 Hunan Jiuhua International City Development Construction Company Limited*** (the "Target Company") (together with the Group hereinafter referred to as the "Enlarged Group") which has been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the proposed acquisition of the entire interests in the Target Company by the Company ("the Acquisition") might have affected the financial information of the Group, for inclusion as Appendix III to the circular of the Company dated 7 January 2011 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 101 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 rule 4.29 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 (the " HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29 (7) 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.

* *English translation of company name is for identification purpose only*

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information. We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 30 June 2010 or any future date; or
- the financial results and cash flows of the Enlarged Group for year ended 31 December 2009 or any future period.

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 purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

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

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from RHL Appraisal Limited., an independent valuer, in connection with its valuation as at 30 November 2010 of the property interests held and leased by China Mandarin Holdings Ltd., Hunan Jiuhua International City Development Construction Company Limited and their subsidiaries.

RHL International 永利行

永利行評値顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory

T +852 2730 6212
F +852 2736 9284

Room 1010, 10/F, Star House,
Tsimshatsui, Hong Kong

7 January 2011

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

Dear Sirs / Madam,

INSTRUCTIONS

We refer to your instruction for us to value the property interests held and leased by China Mandarin Holdings Limited (the "Company"), Hunan Jiuhua International City Development Construction Company Limited and their subsidiaries (the "Enlarged Group") located in Hong Kong and the People's Republic of China (the "PRC"). We confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 30 November 2010 (the "Valuation Date").

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

BASIS OF VALUATION

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

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

VALUATION METHODOLOGY

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

In respect of the property interest in Group II, which is held by the Enlarged Group for future development in the PRC, we have valued such property interest on the basis that it will be developed and completed in accordance with the Enlarged Group's latest development proposal provided to us. We have assumed that all consents, approvals and licenses from relevant government authorities for this proposal have been obtained without onerous conditions or delays. In arriving at our opinion of gross development values, we have adopted the Direct Comparison Approach by making reference to the comparable sales transactions as available in the relevant market and have also taken into account the construction costs that will be expended to complete the development to reflect the quality of the completed development.

In valuing the property interest in Group IV, which is leased by the Enlarged Group in the PRC, we have attributed no commercial value to such property interest due either to the short-term nature of the lease or the prohibition against assignments or sub-lettings or otherwise due to the lack of substantial profit rent.

VALUATION CONSIDERATIONS

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

VALUATION ASSUMPTIONS

In undertaking our valuation, we have assumed that, unless otherwise stated, transferable land use rights in respect of the property interests for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that the owners of the properties have enforceable titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

TITLE INVESTIGATION

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

LIMITING CONDITIONS

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

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

We have relied to a considerable extent on information provided by the Enlarged Group and accepted advices given to us on such matters, in particular, but not limited to tenure, planning approvals, statutory notices, easements, particulars of occupancy, size and floor areas and all other relevant matters in the identification of the properties.

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

CURRENCY

We have valued the property interests in Hong Kong Dollar (HK$). The conversion of Renminbi (RMB) into HK$ is based on the exchange rate of RMB1 to HK$1.1670 by reference to the prevailing exchange rate on the Valuation Date.

Our summary of values and valuation certificates are herewith attached.

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

Serena S. W. Lau	**Thomas H.M. Lam**
FHKIS, AAPI, MRICS, RPS(GP), MBA(HKU)	*MHKIS, MRICS, RPS(GP), MHKSI, MSc, BSc(Hons)*
Managing Director	*Director*

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

Mr. Thomas H.M. Lam is a Registered Professional Surveyor (GP) with 10 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Mr. Lam is a Professional Member of The Royal Institution of Chartered Surveyors and a Member of The Hong Kong Institute of Surveyors.

SUMMARY OF VALUES

Group I – Property interests held by the Enlarged Group for owner-occupation in Hong Kong

		Market Value in existing state as at 30 November 2010
		HK$
1.	3rd Floor, the Roof and Fresh Water Tank on the Roof, Cheung Fai Industrial Building, No.133 Wai Yip Street, Kowloon, Hong Kong 4/28th shares of and in Kwun Tong Inland Lot No. 417	15,600,000
2.	Workshop 4 on 2nd floor, Shiu Fat Industrial Building, Nos.139 & 141 Wai Yip Street, Kowloon, Hong Kong 111/4800th shares of and in Kwun Tong Inland Lot Nos. 420 & 421	5,500,000
	Sub-total:	**21,100,000**

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

		Market Value in existing state as at 30 November 2010
		HK$
3.	A parcel of land located at the Northern side of Huanghe Road and the Western side of Binjiang Road, Jiuhua Demonstrative Zone, Xiangtan, Hunan Province, the PRC	712,000,000
	Sub-total:	**712,000,000**

Group III – Property interest held by the Enlarged Group for owner-occupation and investment in the PRC

		Market Value in existing state as at 30 November 2010
		HK$
4.	Mingzu Plaza, No.19 Yongling Road, Jinnu District, Chengdu, Sichun Province, the PRC	305,000,000
	Sub-total:	**305,000,000**

Group IV – Property interest leased by the Enlarged Group in the PRC

		Market Value in existing state as at 30 November 2010
		HK$
5.	Level 9, Jiuhua Service Tower, No.1 Baoma East Road, Jiuhua Demonstrative Zone, Xiangtan, Hunan Province, the PRC	No commercial value
	Sub-total:	**Nil**
	Total:	**1,038,100,000**

VALUATION CERTIFICATE

Group I – Property interests held by the Enlarged Group for owner-occupation in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2010 *HK$*
1.	3rd Floor, the Roof and Fresh Water Tank on the Roof, Cheung Fai Industrial Building, No.133 Wai Yip Street, Kowloon, Hong Kong 4/28th shares of and in Kwun Tong Inland Lot No.417	The property comprises the whole of 3rd floor, the roof and the fresh water tank on the roof of a 12-storey industrial building completed in 1969. 3rd floor of the property mainly consists of various workshops and office units with a total saleable area of approximately 1,160.16 sq. m (12,488 sq.ft.). The roof and the fresh water tank have areas of approximately 806.48 sq. m (8,681 sq.ft.) and 49.52 sq. m (533 sq.ft.) respectively. The property is held under conditions of sale No. 7954 for a term of 21 years renewable for 14 years commencing on 1 July 1962. We have assumed in our valuation that such leases are extended without premium until 30 June 2047 and that a rent of three percent of the ratable value of the property is charged from the date of extension.	The property is currently occupied by the Enlarged Group for office use.	15,600,000

Notes:

1. The registered owner of the property is Mandarin Laboratory (International) Limited vide memorial no. UB4246131 dated 11 October 1989.

2. Deed of Mutual Covenant vide memorial no. UB695099 dated 24 July 1969.

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

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

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2010 *HK$*
2.	Workshop 4 on 2nd floor, Shiu Fat Industrial Building, Nos.139 & 141 Wai Yip Street, Kowloon, Hong Kong 111/4800th shares of and in Kwun Tong Inland Lot Nos.420 & 421	The property comprises a workshop unit on 2nd floor of a 14-storey industrial building completed in 1988. The property has a gross floor area of approximately 292.46 sq. m (3,148 sq.ft.) and a saleable area of 232.59 sq. m (2,579 sq.ft.). The property is held under conditions of sale No. 7941 and government lease for terms of 21 years renewable for 14 years commencing on 1 July 1962. We have assumed in our valuation that such leases are extended without premium until 30 June 2047 and that a rent of three percent of the ratable value of the property is charged from the date of extension.	The property is currently occupied by the Enlarged Group for office use.	5,500,000

Notes:

1. The registered owner of the property is Walsbo Limited vide memorial no. UB8263770 dated 30 November 2000.

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

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

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

VALUATION CERTIFICATE

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

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2010 *HK$*
3.	A parcel of land located at the Northern side of Huanghe Road and the Western side of Binjiang Road, Jiuhua Demonstrative Zone, Xiangtan, Hunan Province, the PRC	The property comprises a parcel of land with a site area of approximately 290,338.00 sq. m (3,125,198 sq.ft.) and has a total permitted gross floor area of approximately 435,507.00 sq. m (4,687,797 sq.ft.). As planned, the property will be developed into a composite development mainly consists of low density residential buildings and a 5-star hotel. The construction works of the property are scheduled to be commenced in the third quarter of 2011 and are expected to be fully completed in 2014. The land use rights of the property were granted for terms expiring on 10 June 2050 and 10 June 2080 for commercial and residential uses respectively.	The property is currently vacant and pending for future development.	712,000,000

Notes:

1. Pursuant to a State-owned Construction Land Use Rights Grant Contract entered into between Xiangtan State-owned Land Resource Bureau (the "Grantor") and Hunan Jiuhua International City Development Construction Company Limited ("Jiuhua International") dated 20 February 2010, the land use rights of the property with a site area of approximately 290,338.00 sq. m have been granted to Jiuhua International at a land grant premium of RMB112,466,210 for terms expiring on 10 June 2050 and 10 June 2080 for commercial and residential uses respectively.

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

3. Pursuant to a Construction Land Planning Permit – Di Zi Di Tan Jiu Gui No.2010015223 (地字第潭九規2010015223號), planned construction works of the property with a site area of approximately 325,989.00 sq. m are permitted to apply to the captioned site.

4. For reference purpose, the market value of the property as at 30 September 2010 was HK$703,000,000. The conversion of RMB in HK$ is based on the exchange rate of RMB1 to HK$1.1596.

5. We have been provided with a legal opinion on the legality regarding to the property interest issued by the Enlarged Group's PRC legal adviser, which contains, *inter alia*, the following:

   (i) the land use rights of the property is legally held by the Enlarged Group;

   (ii) the Enlarged Group is entitled to freely transfer, lease, mortgage or dispose of the property; and

   (iii) the property is free from any mortgage and third parties' encumbrance.

VALUATION CERTIFICATE

Group III – Property interest held by the Enlarged Group for owner-occupation and investment in the PRC

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2010 *HK$*
4.	Mingzu Plaza, No.19 Yongling Road, Jinnu District, Chengdu, Sichun Province, the PRC	The property comprises a 5-storey commercial development (with a basement carpark level) erected over a parcel of land with a site area of approximately 9,426.70 sq. m (101,469 sq.ft.) completed in about 1999. The property has a gross floor area of approximately 30,741.82 sq. m (330,905 sq.ft.). The land use rights of the property were granted for a term expiring on 28 September 2027 for commercial use.	Portions of the property with a total gross floor area of approximately 26,857.14 sq. m (2,495 sq.ft.) are subject to various tenancy agreements for terms with the latest one expiring on 30 June 2020 at a total monthly rental of RMB962,613.33 whilst the remaining portion of the property are vacant/ occupied by the Enlarged Group.	305,000,000

Notes:

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

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

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

   (i) the building ownership of the property is legally held by the Enlarged Group;

   (ii) the Enlarged Group is entitled to freely transfer, lease, mortgage or dispose of the property; and

   (iii) the property is free from any mortgage and third parties' encumbrance.

VALUATION CERTIFICATE

Group IV – Property interest leased by the Enlarged Group in the PRC

	Property	Description and tenancy details	Particulars of occupancy	Market Value in existing state as at 30 November 2010 *HK$*
5.	Level 9, Jiuhua Service Tower, No.1 Baoma East Road, Jiuhua Demonstrative Zone, Xiangtan, Hunan Province, the PRC	The property comprises the whole of level 9 of a 16-storey office building completed in about 2008. The property has a total gross floor area of approximately 482.00 sq. m (5,188 sq.ft.). The property is leased to the Enlarged Group from an independent third party for a term of 5 years commencing on 4 August 2008 and expiring on 3 August 2013 at a monthly rental of RMB5,784.	The property is currently occupied by the Enlarged Group for office use.	No commercial value

Notes:

1. Pursuant to a tenancy agreement entered into between Xiangtan Jiuhua Economic Construction Investment Company Limited (湘潭九華經濟建設投資有限公司) (the "Lessor"), an independent third party, and Jiuhua International, the property is leased to Jiuhua International for a term of 5 years commencing on 4 August 2008 and expiring on 3 August 2013 at a monthly rental of RMB5,784.

2. We have been provided with a legal opinion on the legality regarding to the tenancy agreement issued by the Enlarged Group's PRC legal adviser, which contains, *inter alia*, the following:

   (i) the building ownership of the property is legally held by the Lessor;

   (ii) the tenancy agreement has not been registered;

   (iii) the Lessor is entitled to use, lease, mortgage or dispose of the property; and

   (iv) the property is free from any third parties' encumbrance.

LEGAL AND REGULATORY REQUIREMENTS ON THE PRC PROPERTY SECTOR

A. Qualification of a property developer

(i) Classifications of qualification of a property developer

Under the 城市房地產開發經營管理條例 (Regulations on Administration of Development of Urban Property) (the "Development Regulations") promulgated and implemented by the State Council on 20 July 1998, a property developer must file a record of its establishment with the governing property development authorities in the location of the registration authority within 30 days after receiving its business license. The property development authorities shall examine applications for classification of a property developer's qualification by considering its assets, professional personnel and industrial achievements. A property enterprise shall only engage in property development projects in compliance with its approved qualification.

Under the 房地產開發企業資質管理規定 (Provisions on Administration of Qualifications of Property Developers) (the "Provisions on Administration of Qualifications") promulgated by the Ministry of Construction of PRC (the "MOC") and implemented on 29 March 2000, a property developer shall apply for registration of its qualifications. An enterprise may not engage in the development and sale of property without a Certificate of Property Developer's Qualification Classification.

In accordance with the Provisions on Administration of Qualifications, qualifications of a property developer are classified into four grades. Different grades of qualifications shall be examined and approved by corresponding authorities. The Grade I qualification shall be subject to preliminary examination by the construction authority under the people's government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of Grade II or lower grades shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality directly under the central government. A developer who passes the qualification examination will be issued a qualification certificate of the relevant grade by the qualification examination authority. For a newly established property developer, after reporting its establishment to the property development authority, the latter shall issue a Certificate of Property Developer's Provisional Qualification to the eligible developer within 30 days. The Certificate of Property Developer's Provisional Qualification shall be effective for one year from its issuance while the property development authority may extend the validity to a period of no longer than 2 years considering the actual business situation of the enterprise. The property developer shall apply for qualification classification by the property development authority within one month before expiry of the Provisional Qualification Certificate.

(ii) The business scope of a property developer

Under the Provisions on Administration of Qualifications, a developer of any qualification classification may only engage in the development and sale of the property within its approved scope of business and may not engage in business which falls outside the approved scope of its qualification classification. A class 1 property developer may undertake a property development project throughout the country without any limit on the scale of the project. A property developer of class 2 or lower may undertake a project with a gross GFA of less than 250,000 sq. m and the specific scopes of business shall be as formulated by the construction authority under the people's government of the relevant province, autonomous region or directly administered municipality. Only a temporary qualification will be given for newly established developer. In practice, a developer may apply for upgrade of qualification during the course of development.

(iii) The annual inspection of a property developer's qualification

Pursuant to the Provisions on Administration of Qualifications, the qualification of a property developer shall be inspected annually. The construction authority under the State Council or its authorised institution is responsible for the annual inspection of a class 1 property developer's qualification. Procedures for annual qualification inspection with developers of class 2 or lower qualifications shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or directly administered municipality.

(iv) Developer with foreign investment

On 11 July 2006, the MOC, the MOFCOM, the NDRC, the PBOC, the SAIC jointly issued with immediate effect 關於規範房地產市場外資准入和管理的意見 (Opinions on the Supervision of Access to and Administration of Foreign Investment in the Real Property Market). These opinions impose certain restrictions on property development project with foreign investment. A foreign investor must invest in property investment in the PRC through a duly approved and registered foreign-invested enterprise. The total investment for foreign-invested property development enterprise shall not be less than USD 10 million, while its registered capital shall not be less than 50% of the total investment. A foreign-invested property development enterprise shall not raise foreign loan unless its registered capital has been fully paid up, State-owned Land Use Rights Certificate has been obtained and capital for the development injected has reached 35% of the total investment for the project.

B. Development of a property project

(i) Land for property development

Under the 中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例 (Provisional Regulations of the People's Republic of China on Grant and Transfer of the Land Use Rights of State-owned Urban Land) (the "Provisional Regulations on Grant and Transfer") promulgated by the State

Council on 19 May 1990, a system of assignment and transfer of the right to use State-owned land is adopted. A land user shall pay a 土地出讓金 (Land Grant Premium) to the State as consideration for the grant of the right to use a land site within a certain term, and the land user may transfer, lease out, mortgage or otherwise commercially exploit the land use rights within the term of use. Under the Provisional Regulations on Grant and Transfer and 中華人民共和國城市房地產管理法 (Law of the People's Republic of China on Administration of Urban Property) Urban Property Law, the land administration authority under the local government of the relevant city or county shall enter into a grant contract with the land user to provide for the grant of land use rights. The land user shall pay the Land Grant Premium as provided by the Contract for Grant of State-owned Land Use Rights. After full payment of the Land Grant Premium, the land user shall register with the land administration authority and obtain a Certificate of State-owned Land Use which evidences the acquisition of land use rights. The Development Regulations provide that the land use rights for a land parcel intended for property development shall be obtained through grant except or land use rights which may be obtained through appropriation pursuant to PRC laws or the stipulations of the State Council.

Under the 招標拍賣掛牌出讓國有土地使用權規定 (Rules regarding the Grant of State-owned Land Use Rights by way of Tender, Auction and Listing-for-sale) promulgated by the MLR on 9 May 2002 and implemented on 1 July 2002, which was subsequently amended and renamed as 招標拍賣掛牌出讓國有建設用地使用權規定 (Rules regarding the Grant of State-owned Construction Land Use Rights by way of Tender, Auction and Listing-for-sale), which amendment was promulgated on 28 September 2007 and implemented on 1 November 2007, land for commercial use, tourism, entertainment and commodity housing development shall be granted by means of competitive bidding, public auction or listing-for-sale. Competitive bidding of land use rights means the relevant land administration authority (the "grantor") issues a bidding announcement inviting individuals, legal persons or other organisations (whether specified or otherwise) to participate in a tender for the land use rights of a particular parcel of land. The land user will be determined according to the results of the biddings. Auction for land use rights is where the grantor issues an auction announcement and the bidders can, at specified time and location, openly bid for a parcel of land. Listing-for-sale is where the grantor issues a listing-for-sale announcement, and in accordance with the announcement, the land grant conditions will be listed in a specified land grant exchange within a specified period, bidders' payment applications will be listed and the land user will be granted according to the bidder's payment applications at the end of such listing period.

On 11 June 2003, the MLR promulgated the 協議出讓國有土地使用權規定 (Regulations on the Grant of State-owned Land Use Rights by Agreement). According to this regulation, if there is only one entity interested in using the land, the land use rights (excluding commercial, tourism, entertainment and commodity residential properties) may be assigned by way of agreement. If two or more entities are interested in obtaining the land use rights, such land use rights shall be granted by means of tender, auction or listing-for-sale.

According to 關於加強城市建設用地審查報批工作有關問題的通知 (Notice of the MLR on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction) promulgated by the MLR on 4 September 2003, from the day of issuance of this notice, the grant of land use rights for luxurious commodity shall be stringently controlled, and applications of land use rights for villas are to be stopped.

On 30 May 2006, the MLR issued 關於當前進一步從嚴土地管理的緊急通知 (Urgent Notice on Ulteriorly Strengthening the Administration of Land) (the "Urgent Notice"). The Urgent Notice stated that land for property development must be granted by competitive bidding, public auction or listing-for-sale; the rules prohibiting development projects for villas should be strictly enforced; and land supply and relevant procedures of land use for villas ceased to have effect from the date of the Urgent Notice.

Under the Urgent Notice, the land authority shall rigidly execute 國有土地使用權出讓合同示範文本 (Model Text of the State-owned Land-Use Rights Grant Contract) and 國有土地使用權出讓合同補充協議示範文本(試行)) (Model Text of the State-owned Land-Use Rights Grant Supplementary Agreement (for Trial Implementation)) jointly promulgated by the MLR and the State Administration for Industry and Commerce ("SAIC"). The documents of the land grant shall ascertain the requirements of planning, construction and land use such as the restriction of the dwelling size, plot ratio, and the time limit for the commencement and completion of construction. All these shall be set forth in the Contract for Grant of State-owned Land Use Rights.

On 12 December 2006, the MLR and the National Development and Reform Commission (NDRC) issued 限制用地項目目錄 (2006年本) (2006 Catalogue of Restricted Uses of Land) and 禁止用地項目目錄 (2006年本) (2006 Catalogue of Prohibited Uses of Land). According to these catalogues, land use applications for projects involving theme parks, low density housing complexes and oversized houses may only be processed by the relevant level of the MLR and the NDRC where such projects conform to certain restrictive requirements; while land use applications for projects involving villa-style developments, golf courses and horse racing tracks must not be processed.

土地儲備管理辦法 (Measures on the Administration of Reserved Land), promulgated by the MOF, the PBOC and the MLR on 19 November 2007, defines "reserved land" and stipulates the administrative, regulatory and implementing procedures involved with the management, planning, allocation, use, development, capital expenditure and supply of reserved land. Moreover, these measures make it clear that land must be reserved in accordance with corresponding land programmes or plans, and that in determining land reserves priority must be given to the land included in state inventories which is unused, unoccupied or under utilised.

On 18 November 2009, MOF, MLR, PBOC and Ministry of Supervision jointly issued 關於進一步加強土地出讓收支管理的通知 (A Notice on Further Strengthening the Land Transfer Revenue and Expenditure Management), which stipulates:

(a) The municipal or county land resource department must specify Land Grant Premium, rent and allocated land price, payment time and payment mode in the Contract for Grant of State-owned Land Use Rights, 國有土地租賃合同 (Contract for State-owned Land Transfer (Lease)) and 劃撥決定書 (Letter of Decision on Allocation), respectively. Payment time and payment mode must also be included. For the approved change of land use or conditions according to law, the municipal or county land resource management department must specify the additional land price paid in the land grant or lease contracts and the payer shall pay the sum of money as stipulated by the contract. If a unit or individual fails to pay the land price as required, the municipal or county land resource management department must neither issue the Certificate of State-owned Land Use nor issue certificate in a segmented way by the proportion of the land price paid.

(b) The term for paying the Land Grant Premium by installments agreed between the municipal or county land resource management department and land transferee pursuant to law shall not exceed one year in principle. Upon collective approval by the local land transfer coordinated decision agency, the installment period for a special project may be agreed up to two years. The proportion of first payment shall not be less than 50% of total Land Grant Premium. The current land price (rent) payable agreed in the Contract for State-owned Land Transfer (Lease) shall be paid up in a lump sum and shall not be paid by installments.

(c) The municipal or county land resource management department shall strengthen the execution management on the Contract for State-owned Land Transfer (Lease) and Letter of Decision on Allocation, urge land transferee to fulfill the Contract for State-owned Land Transfer (Lease), Letter of Decision on Allocation pursuant to law and hand in the income from land transfer strictly by the provisions agreed in the Contract for State-owned Land Transfer (Lease) and Letter of Decision on Allocation. For a unit or individual that fails to pay the land price on time, the municipal or county land resource management department shall take effective measures to demand payment within a definite time limit. Other than the cases caused by force majeure, late payment penalty must be charged strictly by stipulation. For a unit or individual that fails to pay the land price on time or fails to begin construction as agreed in the contract, they must not participate in any new deals of land transfer while the income from land transfer is in arrears; relevant in-arrear and breach of contract information must enter into its good faith record and its participation can be restricted by raising the bid guarantee deposit or penalty, etc.

(d) When the land transfer (lease) transaction is concluded, the municipal or county land resource management shall publish the news timely in the appointed places as www.chinaland.com and tangible land market, etc. by rule. The right to use the Contract for State-owned Land Transfer (Lease) and the Letter of Decision on Allocation shall be filled in and submitted in the land market dynamic monitoring and supervision system according to relevant regulations.

On 8 March 2010, the MLR issued 關於加強房地產用地供應和監管有關問題的通知 (Notice of the Problems on Strengthening of the Supply and Supervision of the Land Used for Real Estate Development Guo Tu Fa 2010 No.34), which stipulates:

The primary objectives of this notice are to (i) quicken the compilation of the plan for the supply of land used for housing construction, (ii) accelerate the effective supply of land used for housing construction, (iii) strengthen the real estate land use supervision practically and (iv) establish and improve the information disclosure system.

Pursuant to this notice, local governments are asked to, amongst other things, compile, coordinate and push ahead a plan of the supply of land used for housing and particularly security housing construction, ensure the supply of land used for indemnificatory housing, strictly regulate the commercial housing use of land transfer behaviour, implement the housing land development declaration system, strengthen the land development utilisation dynamic monitoring, strengthen the after-supply supervision on the 保障性住房用地 (Indemnificatory Housing Land), strictly dispose the idle land used for real estate development, strengthen good faith management to the land used for real estate development and make (i) the housing land supply plan, (ii) the land transfer bulletin, (iii) the land transfer and appropriation results, (iv) the land development and utilisation information and (v) the results of investigating and treating the use of land in violation of the laws and rules known to the public.

(ii) Resettlement

Pursuant to the 城市房屋拆遷管理條例 (Administration Rules of Demolition and Removal of Housing in Urban Areas) promulgated by the State Council on 13 June 2001, the party responsible for resettlement (the "Resettling Party") shall apply for a resettlement permit and provide monetary compensation or alternative residence for the residents to be resettled. The real estate administration authority will issue a resettlement notice after granting the resettlement permit, detailing the parties concerned, the properties affected and the period of the resettlement. The Resettling Party will then enter into written agreements with the relevant residents detailing, among other things, the compensation to be provided to the residents, which will be determined on the basis of, among other things, the property's location, permitted use and GFA. If the Resettling Party and the residents fail to reach agreement, either party may apply to the relevant authority for a ruling. A ruling will be given within 30 days of the application, following which either party may initiate proceedings in the People's court within three months of the ruling if they contest the ruling.

In order to prevent illegal demolition and removal, and overheating investment in some areas, 國務院辦公廳 (General Office of the State Council) issued 關於控制城鎮房屋拆遷規模嚴格拆遷管理的通知 (Notice on Controlling the Scale of Demolition and Removal and Strengthening Administration of Demolition and Removal) on 6 June, 2004. The notice addresses issues including, but not limited to, the following: (i) strictly controlling the area of demolition and removal to ensure that the total area of demolition and removal is less than that of the previous year; (ii) strictly administering the procedures of demolition and removal so that the process is carried out in an open, fair and just manner; (iii) strengthening the supervision and administration of the compensation costs incurred for the demolition and removal, and ensuring the completion of the relocation; and (iv) strictly punishing certain illegal actions in relation to demolition and removal.

(iii) Development of a property project

(a) Commencement of development with respect to a property project and idle land

For the commencement of development, the following licenses, permits, certificates and approvals are required to be obtained by the developer:

- Certificate of State-owned Land Use
- Certificate of Property Developer's Qualification Classification
- NDRC's approval for the development
- Planning Permit for Use of Construction Land
- Planning Permit for Construction Works
- Commencement Permit for Construction Works
- Approval of the appraisal of the environmental impact of the construction project

The relevant rules and regulations relating to the above licenses, permits, certificates and approvals are explained in details in the relevant sections in this appendix.

Under the Urban Property Law, those who have obtained the land use rights by grant must develop the land in accordance with the use and period of commencement as prescribed by the Contract for Grant of State-owned Land Use Rights. According to the "Measures on Disposing Idle Land" promulgated by the MLR on 28 April 1999, a parcel of land can be defined as idle land under any of the following circumstances:

- after obtaining the land use rights, the development and construction of the land has not begun within the time limit for commencement of the development as stipulated in the Contract for Grant of State-owned Land Use Rights without the consent of the people's government that originally approved the use of the land;
- 國有土地有償使用合同 (Contract for Lease of State-owned Land Use Rights) does not stipulate or 建設用地批准書 (Approval Letter on Land Used for Construction) does not prescribe the starting date of the development and construction. The development and construction of the land has not begun within one year from the day when the Contract for Lease of State-owned Land Use Rights became effective or when the administrative department of land issued the "Approval Letter on Land Used for Construction";

- the development and construction of the land has begun, but the area of the development and construction is less than one third of the total area to be developed and constructed, or the invested amount is less than 25% of the total amount of investment, and the development and construction has been continuously suspended for one year or more without approval; or

- other circumstances prescribed by laws and administrative regulations.

The municipality or county-level municipality administrative authority shall, with regard to an identified piece of idle land, give notice to the land user and draft a proposal on disposing the idle land, including but not limited to, extending the time period for development and construction (provided that it shall be no longer than one year), changing the use of the land, arranging for temporary use and ascertaining the new land user by means of competitive bidding, public auction or listing-for-sale. The administrative department of land under the people's government of municipality or county level shall, after the people's government that originally approved the use of the land approves the proposal on disposal, arrange for the implementation of the proposal.

On 30 September 2007, the MLR issued 關於認真貫徹〈國務院關於解決城市低收入家庭住房困難的若干意見〉進一步加強土地供應調控的通知 (Notice On Implementation of the <Several Opinions of the State Council of the PRC on Solving Housings Shortage with respect to Urban Low-Income Household> and Further Strengthening Control on Land Supply) for strictly strengthening disposal of idle land. In cases where such land remains undeveloped one year after the construction commencement date as stated in the relevant Contract for Grant of State-owned Land Use Rights, penalty for idle land on the real estate developer may be levied by the land regulatory authority, and the real estate developer would be required by the land regulatory authority to rectify the situation within prescribed time.

The land regulatory authority may impose Idle Land Penalty of up to 20% of the Land Grant Premium. In cases where such land remains undeveloped for two years, the land regulatory authority may reclaim the land. If the development of such land has commenced, development has been suspended without approval for one year, and the portion of the land that has been developed is less than 1/3 of the total area to be developed, or the amount of capital directly invested in the construction of the building is less than 1/4 of the total investment, such land shall be handled as an idle land.

On 3 January 2008, the State Council promulgated 關於促進節約集約用地的通知 (Circular on Conservation of Intensive Land Use) (Guo Fa (2008) No. 3), as summarised below,

1. Examine and adjust all ranges of site planning and land use standards in line with the principle of economic and intensive land use. Project designs, construction and approval of construction shall all be subject to stringent land use standards.

2. Urge all localities to enforce disposal policy of idle land. Where a piece of land has been idle for two full years and may be retrieved unconditionally as statutorily required, such land shall be retrieved and arranged for re-use; where a piece of land has been idle for one year but less than two years, penalty for idle land shall be levied at 20% of the Land Grant Premium.

3. Vigorously guide the use of unused and abandoned land and encourage the development and utilisation of above ground and underground space.

4. Strictly implement the tender, auction and listing-for-sale regime for land intended for industrial and business purposes. Where the total Land Grant Premium is not paid in full in compliance with contractual agreement, the Certificate of State-owned Land Use shall not be issued, nor shall it be issued in proportion to the ratio between the paid-up Land Grant Premium and the total of Land Grant Premium. Make reasonable arrangements on residential land and persist on banning land supply for real estate development projects for villas. Strictly prohibit unauthorised conversion of agricultural land into construction land.

5. Strengthen supervision and inspection; thoroughly implement intensive land use conservation accountabilities. Regarding enterprises whose real estate project commences at a date exceeding one year as compared with the project commencement date under the land grant contract, or whose land development area takes up less than 1/3 or whose investment is less than 1/4, financial institutions shall be prudent in terms of loans granting and financing approval and shall not grant loans or offer listing financing to projects involving illegal land use.

(b) Planning of a property project

According to 城市國有土地使用權出讓轉讓規劃管理辦法 (Measures for Control and Administration of Grant and Transfer of the Right to Use Urban State-owned Land) promulgated by the MOC on 4 December 1992 and implemented on 1 January 1993 and 建設部關於加強國有土地使用權出讓規劃管理工作的通知 (Notice of the MOC on Strengthening the Planning Administration of Grant and Transfer of the Right to Use State-owned Land) promulgated by the MOC on 26 December 2002, after signing the Contract for Grant of State-owned Land Use Rights, a property developer shall apply for a 項目調查意見書 (Project Survey Opinion Letter) and a 建設用地規劃許可證 (Planning Permit for Use of Construction Land) from the city planning authority. After obtaining a Planning Permit for Use of Construction Land, a property developer shall organise the necessary planning and design work in accordance with planning and design requirements and apply for a 建設工程規劃許可證 (Planning Permit for Construction Works) from the city planning authority.

城鄉規劃法 (Urban and Rural Planning Law), promulgated by the Standing Committee of the National People's Congress in October 2007 which became effective in January 2008, provides regulations with respect to the formulation, implementation, modification, control, supervision and related legal liability of measures aimed at curbing problems that may arise as a result of conflicts between city and rural construction developments. The scope of the measures includes the planning, layout and construction of cities, towns with administrative status, market towns and villages. In order to effectively contain construction that is in breach of rules and regulations, the Urban and Rural Planning Law stipulates that where any construction project is commenced without obtaining Planning Permit for Use of Construction Land or where Planning Permit for Use of Construction Land has been obtained but construction has proceeded not in accordance with that permit, the Urban and Rural Planning Department at the county level or above may issue an order to cease construction. In the case that the construction can be remedied to conform to the relevant planning rules, an order can be made to rectify the construction in a prescribed period of time and a fine totalling between 5% to 10% of the total construction cost may be imposed. Where the construction cannot conform to relevant planning rules, an order for its demolition or, where demolition is not possible, the confiscation of the property and/or illegal income derived from the property will be issued and a fine totalling 10% or less of the construction cost will be imposed.

(c) Construction of a property project

After obtaining the Planning Permit for Construction Works, a property developer shall apply for a 建設工程施工許可證 (Commencement Permit for Construction Works) from the construction authority under the local people's government at the county level or above according to the 建築工程施工許可管理辦法) (Measures for the Administration of Construction Permits for Construction Projects) promulgated by the MOC on 15 October 1999 and as amended and implemented on 4 July 2001. 關於加強和規範新開工項目管理的通知 (Notice about Strengthening and Regulating the Management of New Projects), promulgated by the General Office of the State Council on 17 November 2007, strictly regulates the conditions of commencing investment projects, establishes the linkage mechanism of government departments regarding new projects, and strengthens the statistics and information management while intensifying the supervision and inspection of new projects.

(d) Completion of a property project

According to the Development Regulations, the Regulation on the Quality Management of Construction Projects promulgated by the State Council on 30 January 2000, 房屋建築工程和市政基礎設施工程竣工驗收備案管理暫行辦法 (Interim Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure) promulgated by the MOC in April 2000 and 房屋建築工程和市政基礎設施工程竣工驗收暫行規定 (Interim Provisions on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure) promulgated by the MOC on 30 June 2000, after completion of construction of a project, the property must undergo inspection and receive relevant approvals from local authorities including planning bureaus, fire safety authorities and environmental protection authorities. Thereafter, the property developer shall apply for the acceptance examination upon completion to the property development authority under the people's government at the county level or above and report details of the acceptance examination, upon which a 建設項目竣工驗收合格證 (Certificate for Pass of Construction Works Planning Examination) upon project completion will be issued.

According to 關於進一步加強建築工程質量監督管理的通知 (Notice on Further Strengthening the Quality Supervision and Management of Construction Projects) promulgated by the MOC on 14 April 2009, the legal regulatory framework and the supervision system concerning quality supervision and completion acceptance examination shall be further improved.

C. Transfer and Sale of Property

(i) Transfer of property

According to the Urban Property Law and 城市房地產轉讓管理規定 (Provisions on Administration of Transfer of Urban Property) promulgated by the MOC on 7 August 1995 and as amended on 15 August 2001, a property owner may sell, bequeath or otherwise legally transfer property to another person or legal entity. When transferring a building, the ownership of the building and the land use rights to the site on which the building is situated are transferred simultaneously. The parties to a transfer shall enter into a property transfer contract in writing and register the transfer with the property administration authority having jurisdiction over the location of the property within 90 days of the execution of the transfer contract.

Where the land use rights were originally obtained by grant, the real property may only be transferred on the condition that (a) the Land Grant Premium has been paid in full for the grant of the land use rights as provided by the Contract for Grant of State-owned Land Use Rights and a Certificate of State-owned Land Use has been obtained; (b) development has been carried out according to the Contract for Grant of State-owned Land Use Rights and, in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed.

If the land use rights were originally obtained by grant, the term of the land use rights after transfer of the property shall be the remaining portion of the original term provided by the Contract for Grant of State-owned Land Use Rights after deducting the time that has been used by the former land users. In the event that the transferee intends to change the use of the land provided in the original grant contract, consent shall first be obtained from the original grantor and the planning administration authority under the local government of the relevant city or county. Besides, a supplementary agreement to amend the original Contract for Grant of State-owned Land Use Rights or a new Contract for Grant of State-owned Land Use Rights shall be signed in order to, inter alia, adjust the Land Grant Premium accordingly.

If the land use rights were originally obtained by allocation, transfer of the real property shall be subject to the approval of the government vested with the necessary approval power as required by the State Council. Upon such approval, the transferee shall complete the formalities for transfer of the land use rights, unless the relevant statutes require no transfer formalities, and pay the Land Grant Premium according to the relevant statutes.

(ii) Sale of commodity properties

Under 商品房銷售管理辦法 (Regulatory Measures on the Sale of Commodity properties) promulgated by the MOC on 4 April 2001 and implemented on 1 June 2001, sale of commodity properties can include both pre-completion sales (pre-sale) and post-completion sales.

(a) Pre-sale Permit for Commodity Property

According to 城市商品房預售管理辦法 (Development Regulations and the Measures for Administration of pre-sale of Commodity properties) (the "pre-sale Measures") promulgated by the MOC on 15 November 2004 and as amended on 15 August 2001 and 20 July 2004 respectively, the pre-sale of commodity properties shall be subject to a licensing system. A property developer, who is intended to sell a commodity property before its completion, shall make the necessary pre-sale registration with the property development authority of the relevant city or county in order to obtain a 商品房預售許可證 (Pre-sale Permit for Commodity Property). A commodity property may be sold before completion only if (a) the Land Grant Premium has been paid in full for the grant of the land use rights involved and a Certificate of State-owned Land Use has been obtained; (b) 建設工程規劃許可證 (Planning Permit for Construction Works) and Commencement Permit for Construction Works have been obtained; (c) the funds invested in development construction represent 25% or more of the total investment in the project and the progress of works and the completion and delivery dates have been ascertained; and (d) the pre-sale has been registered and a Pre-sale Permit for Commodity Property has been obtained.

(b) Supervision of pre-sale income of commodity properties

According to the pre-sale Measures, the income of a property developer from the pre-sale of commodity properties must be used for the construction of the relevant projects. The specific measures for the supervision of the income from the pre-sale of commodity properties shall be formulated by the property administrative authorities.

(c) Conditions of the sale of post-completion commodity properties

Under the Regulatory Measures on the Sale of Commodity properties, commodity properties may be put to post-completion sale only when the following preconditions have been satisfied, (a) the property development enterprise shall have a business license and a Certificate of Property Developer's Qualification Classification; (b) the enterprise shall obtain a Certificate of State-owned Land Use or other approval documents for land use; (c) the enterprise shall have the Planning Permit for Construction Works and

Commencement Permit for Construction Works; (d) the building shall have been completed, inspected and accepted as qualified; (e) the relocation of the original residents shall have been well completed; (f) the supplementary essential facilities for supplying water, electricity, heating, gas, communication, etc. shall have been made ready for use, and other supplementary essential facilities and public facilities shall have been made ready for use, or the schedule of construction and delivery date shall have been specified; and (g) the property management plan shall have been completed.

Before the post-completion sale of a commodity property, a property developer shall submit the Property Development Project Manual and other documents evidencing the satisfaction of preconditions for post-completion sale to the property development authority.

(d) Regulations on transactions of commodity properties

According to the Development Regulations and the pre-sale Measures, for the pre-sale of commodity properties, the developer shall sign a contract on the pre-sale of a commodity property with the purchaser. The developer shall, within 30 days after signing the contract, apply for registration and filing of the pre-sale commodity property to the relevant property administration authorities.

Pursuant to 建設部等部門關於做好穩定住房價格工作意見的通知 (Opinions of the MOC and other Departments on Stabilising House Prices) forwarded by the General Office of the State Council on 9 May 2005:

- A buyer of a pre-sold commodity property is prohibited from conducting any further transfer before completion of construction and obtaining the Certificate of Real Estate Ownership. If there is discrepancy in the name of the applicant for property ownership and the name of the advance buyer in the pre-sale contract, the registration organ of the property administration authorities shall not register the application of property ownership.

- A real name system is applied for each property purchase transaction and an immediate archival filing network system is in place for pre-sale contracts of commodity properties.

On 13 July 2006, the MOC, the NDRC and SAIC jointly promulgated 關於進一步整頓規範房地產交易秩序的通知 (Notice on Reorganising and Regulating Real Estate Transaction Procedures), the details of which are as follows:

- A developer may start to sell the commodity properties within 10 days after receiving the Pre-sale Permit for Commodity Property. Without this permit, the pre-sale of commodity properties is prohibited, as well as subscription (including reservation, registration and number-selecting) and acceptance of any kind of pre-sale payments.

- The property administration authority shall establish a network system for pre-sale contracts of commodity properties and the system shall include basic information of the commodity property, such as, its location, the schedule of the sale and the current status. The buyer of a pre-sold commodity property is prohibited from conducting any further transfer of his commodity property, which is still under construction.

- Without the Pre-sale Permit for Commodity Property, no advertisement of the pre-sale of commodity properties may be issued.

- The property developers with a record of serious irregularity or developers who do not satisfy the requirements of the pre-sale of commodity properties are not allowed to take part in such sale activities.

- The property administration authorities shall strictly carry out the regulations of the pre-sale registration and apply the real name system for house purchases.

(iii) Mortgages of property

Under the Urban Property Law, and 中華人民共和國擔保法 (Guarantee Security Law of the People's Republic of China) promulgated by the Standing Committee of the National People's Congress on 30 June 1995 and implemented on 1 October 1995, and 城市房地產抵押管理辦法 (Measures on the Administration of Mortgages of Property in Urban Areas) promulgated by the MOC in May 1997 and as amended on 15 August 2001, when a mortgage is created on a building, such mortgage shall be simultaneously created on the land use rights of the land on which the building is situated. When the land use rights of State-owned land acquired through means of grant are being mortgaged, the buildings on the land shall also be mortgaged at the same time. The land use rights of town and village enterprises cannot be separately mortgaged. When buildings owned by town and village enterprises are mortgaged, the land use rights occupied by the buildings shall also be mortgaged at the same time. The mortgager and the mortgagee shall sign a mortgage contract in writing.

Within 30 days after a property mortgage contract is signed, the parties to the mortgage shall register the mortgage with the property administration authorities at the location where the property is situated. A property mortgage contract shall become effective on the date of registration of the mortgage. If a mortgage is created on the property in respect of which a Certificate of Real Estate Ownership has been obtained, the registration authority shall make an entry under the "third party rights" item on the original Certificate of Real Estate Ownership and then issue a 房屋他項權證 (Certificate of Third Party Rights) to the mortgagee. If a mortgage is created on the commodity property that is pre-sold when it is under construction, the registration authority shall record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved shall re-register the mortgage of the real property after issuance of the certificates evidencing the ownership of the property.

中華人民共和國物權法 (Property Rights Law of the People's Republic of China) (the "New Property Law") has been adopted at the fifth session of the Tenth National People's Congress on 16 March 2007 and came into effect as at 1 October 2007, provides that 建設用地使用權 (Construction Land Use Rights), buildings (and other objects) that are fixed to land, and buildings currently under construction can be mortgaged. Their mortgage shall be registered and their mortgage rights will be established as at the date of registration. If a Construction Land Use Right is mortgaged, the newly constructed buildings, which are constructed on the land after the date of registration, are separated from and do not belong to the mortgage properties. Such newly constructed buildings can be disposed in order to realise the mortgage right; however, the mortgagee has no right to seek preferred payments from the money generated from these newly constructed buildings.

The MLR, on 30 December 2007, issued 土地登記辦法 (Administrative Measures on Land Registration). The measures took effect on 1 February 2008.

According to the measures, land registration refers to the recording of land-use rights on land registered for public review. The measures stipulate that the administrative department of land and resources must conclude land registrations within 20 days after receiving an application. If the case is complex, a 10-day extension can be approved by the principal of land and resources' administrative department.

On 9 April 2008, the MLR released 關於貫徹實施〈土地登記辦法〉進一步加強土地登記工作的通知 (Circular on Implementing the Land Registration Measures and Further Strengthening Land Registration Work), which calls for stringent land registration according to laws, cessation of illegal registration, and prohibition of legalising illegal land through land registration. This circular points out that the registrations will not be granted to cases involving unresolved land disputes, as well as cases where the full contract price has not been paid or where the use of land has been changed illegally. In addition, this circular stipulates that personnel without a 土地登記上崗資格證 (Land Registration Qualification Certificate) must not be engaged in land ownership investigation and examination. Any person responsible for incorrect registration or incomplete registrations must bear the consequences.

On 15 February, 2008, the MOC released 房屋登記辦法 (Procedures for Property Registration), which took effect on 1 July 2008. These Procedures stipulate that in property registrations, the owners of the housing property rights shall correspond with the owners of the land use rights. Based on Property Rights Law, the Procedures specifically regulate the pre-registration, registration of mortgage rights for construction work in process, registration for maximum mortgage amount, registration of rectification, registration for objection and registration for easement, which make property registrations more operable.

(iv) New Property Law

On 16 March 2007, the 5th Session of the "10th National People's Congress of China adopted the New Property Law, which took effect as at 1 October 2007. The New Property Law applies to both realty and chattels and regulates the civil relationships generated from the attribution and utilisation of the realty and chattels. There are five parts and 247 clauses in the New Property Law, which makes a series of detailed rules regarding the following kinds of important property rights:

(a) the right of ownership, which refers to the right to possess, use, seek profits from, and dispose of the realty or chattel owned by the owner according to the laws;

(b) the right of user benefit, which refers to the right to possess, use, and seek proceeds from the realty or chattel owned by someone else to the extent prescribed by the laws; and

(c) security rights, which refers to the right of priority to be repaid with respect to the secured property in accordance with laws when the debtor fails to perform its outstanding debt or under the circumstances of realisation of security rights as agreed by parties concerned.

A summary of the important principles laid down in the New Property Law is set forth below:

(a) The New Property Law makes the principle that the rights of the state, companies, social organisations, individual, or any other property right holders shall be equal under the protection of law. In particular, the New Property Law emphasises that the legal properties of private individuals shall be protected by laws and any entity or individual shall be prohibited from encroachment, cheating, dividing privately, intercepting or destroying such properties.

(b) Article 149 of the New Property Law clearly states that "the term of the residential construction land use rights shall be renewed automatically upon its expiration." The "automatic renewal" requirement in the New Property Law embodies the principle that the state will protect the citizen's legal private property. However, it shall be noted that it is still not very clear from the New Property Law regarding the renewal of the non-residential construction land use rights. The New Property Law only regulates that "the renewal upon the expiration of the term for non-residential construction land use rights shall be handled in accordance with laws."

(c) There are various clauses in the New Property Law to strengthen the protection on the rights of the house owners: i) Article 89 of the New Property Law requests that "the construction of a building shall not violate the relevant provisions of the State on project construction, nor obstruct the air circulation, sunlight or daylight of any neighboring building." This clause protects house owners' right to enjoy sunlight and prevents house developers from illegal constructions; ii) Article 81 of the New Property Law grants house owners the right to manage by themselves the building and its ancillary facilities and replace the property management company or any other manager engaged by the house developer. This clause reinforces the independent rights of house owners to manage their own community.

(d) The New Property Law enlarges the scope of the allowable mortgaged properties and pledged rights. All properties which are not forbidden to be mortgaged as prescribed by the laws and administrative regulations are allowed to be mortgaged. In particular, the properties which are permitted to be mortgaged include but are not limited to the following:

1. Any building and other land appurtenances.

2. Any Construction Land Use Rights.

3. The right to contracted management of barren land and other lands as obtained by means of bid invitation, auction, public consultation, etc.

4. Any manufacturing equipment, raw materials, semi-finished products and products.

5. Any building, vessel or aircraft under construction.

6. Any tools of transportations.

(v) Site areas state in the certificates and permits issued by relevant regulatory authorities

The site area of a particular parcel of land is stated in the relevant Planning Permit for Use of Land and the Certificate of State-owned Land Use. In some cases, there may be a difference between the respective site areas stated in these two documents for the same land as the Planning Permit for Use of Land indicate roughly the site area of such land, and the site area stated therein is subject to the official land survey before the issue of the Certificate of State-owned Land Use. Hence, the site area stated in the Certificate of State-owned Land Use should be considered as the final and official figure.

The gross floor area ("GFA") of a proposal development will be stated in the relevant Planning Permit for Construction Works, the Pre-sale Permit of Commodity Property and the Certificate for Pass of Construction Works Planning Examination.

The Planning Permit for Construction Works states the proposed scale of development and the GFA stated therein include the Plot Ratio GFA and the GFA for those areas that is to be excluded in the calculation of the Plot Ratio. The areas that are to be excluded in the calculation of the Plot Ratio may include the basement car park, the landscaped areas, the areas for the accommodation of the building services and utility facilities, and etc.

The GFA stated in the Pre-sale Permit of Commodity Property indicates the GFA that can be sold. It normally includes only the Plot Ratio GFA.

The GFA stated in the Certificate for Pass of Construction Works Planning Examination is generally similar to that stated in the Planning Permit for Construction Works but it indicates the GFA that is actually built. Hence, it will not be unusual for the GFA stated in this certificate to be slightly greater than that stated in the Planning Permit for Construction Works.

The finalised and official GFA for a development/property shall be determined by the GFA stated in the Certificate of Real Estate Ownership. Yet, in order to obtain the Certificate of Real Estate Ownership, certain rectification procedures, such as payment of addition premium, have to be made to rectify those GFA that is in excess of what has been permitted under the Planning Permit for Construction Works.

D. Loans for property

According to 中國人民銀行關於規範住房金融業務的通知 (Notice of the People's Bank of China on Regulating House Financing Businesses) promulgated by the PBOC on 19 June 2001, all banks must comply with the following requirements before granting residential development loans, individual house mortgage loans and individual commercial flat loans:

(a) Housing development loans from banks shall only be granted to property development enterprises with approved development qualifications and high credit ratings. Such loans shall be offered to residential projects with good market potential. While the borrowing enterprise must have self-owned capital of no less than 30% of the total investment required of a project, the project itself must have been issued with a Certificate of State-owned Land Use, Planning Permit for Use of Construction Land, Planning Permit for Construction Works and Commencement Permit for Construction Works.

(b) In respect of the grant of individual house mortgage loans, the ratio between the loan amount and actual value of the security (the "Mortgage Ratio") shall never exceed 80%. Where an individual applies for a house purchase loan to buy a pre-sale property, the property must have achieved the stage of "topping-out of the main structure completed" for multi-storey buildings or "two-thirds of the total investment completed" for high-rise buildings.

(c) In respect of the grant of individual commercial flat loans, the Mortgage Ratio under the application for commercial flat loans shall not exceed 60% with a maximum loan period of 10 years and the subject commercial flat must have already been completed.

The PBOC issued 關於進一步加強房地產信貸業務管理的通知 (Circular on Further Strengthening the Management of Property Loans) on 5 June 2003 to specify the requirements for banks to provide loans for the purposes of residential development, individual house mortgage and individual commodity properties as follows:

(a) Commercial banks can only grant loans to property developers for the purpose of property development, but not for the purpose of fulfilling the working capital requirement or any other purposes. Loans of any kind must not be granted for projects which do not obtain a Certificate of State-owned Land Use, Planning Permit for Use of Construction Land, and Planning Permit for Construction Works and Commencement Permit for Construction Works;

(b) Commercial banks shall not grant loans to property developers to pay off Land Grant Premiums;

(c) Commercial banks may only provide housing loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for an individual house loan for their first residential unit, the first instalment remains to be 20%. In respect of a loan application for any additional purchase of a residential unit(s), the percentage of the first instalment shall be increased.

Pursuant to 商業銀行房地產貸款風險管理指引 (Guidance on Risk Management of Property Loans of Commercial Banks) issued by the China Banking Regulatory Commission on 2 September 2004, any property developer applying for property development loans shall have at least 35% of capital required for the development.

According to 中國人民銀行關於調整商業銀行住房信貸政策和超額準備金存款利率的通知 (Notice of the People's Bank of China on the Adjustment of Commercial Bank Housing Credit Policies and the Interest Rate of Excess Reserve Deposits) promulgated by the PBOC on 16 March 2005, from 17 March 2005, in the cities and areas where there is a rapid increase in house price, the first instalment of individual house loans increases from 20% to 30%. The commercial banks can independently determine the specific cities or areas under such adjustment according to special situations in different cities or areas.

On 24 May 2006, the State Council issued 關於調整住房供應結構穩定住房價格的意見 (Opinions of the Ministry of Construction and other Departments on Adjusting the Housing Supply Structure and Stabilising Housing Prices). The regulations relating to property credit are as follows:

(a) Strictly impose credit conditions on property development. In order to suppress property development enterprises from storing up land and housing resources by use of bank loans, commercial banks shall not provide loans to those property enterprises that fail to meet loan conditions, for instance, having a project capital less than 35%. For property development enterprises that have idle land and vacant commodity properties, the commercial banks shall, in light of the principle of prudential operations, be stricter in controlling the renewal of loans or any form of revolving credit. The commercial banks shall not accept any commodity property that has been idle for three or more years as collateral for loans.

(b) From 1 June 2006, the proportion of initial payment of individual housing mortgage loans shall not be lower than 30%. However, considering the demands for housing by the medium and low-income population, the purchase of self-used housing with a gross GFA of not more than 90 sq. m is still subject to the provision of the initial payment of 20%.

On 27 September 2007, the PBOC and the CBRC issued 關於加強商業性房地產信貸管理的通知 (Notice on Strengthening the Management of Commercial Real Estate Credit and Loans). This Notice puts forward requirements for the purposes of strengthening loan management in association with (i) real estate development, (ii) land reserves, (iii) housing consumption and (iv) purchase of commercial buildings, together with credit checks in real estate credit reference management, monitoring of real estate loans, risk prevention and so forth.

Pursuant to this Notice, commercial banks shall not grant loans in any form, to (i) projects where the capital funds (owner's equity) constitutes less than 35%, or, projects without a Certificate of State-owned Land Use, Planning Permit for Use of Construction Land, Planning Permit for Construction Works and Commencement Permit for Construction Works; and (ii) real estate development enterprises that have been hoarding land and housing resources, which is detected and verified by land resources departments and construction authorities. Furthermore, commercial banks are not allowed to either accept commodity property with a vacancy exceeding three years as collateral or grant to real estate development enterprise any sums of loans to serve as Land Grant Premium.

In respect of loans for individual housing consumption, commercial banks are only permitted to grant housing loans to individuals who purchase commodity properties that its construction has reached the stage of "topping out of the main building structure". Where an individual purchases his or her first commodity apartment for self residence purpose, (i) of a construction area below 90 sq. m, the initial payment ratio (the "Initial Ratio") shall be fixed at no less than 20% (including RMB and foreign currency loans, idem. hereinafter); (ii) of a construction area above 90 sq. m, the Initial Ratio shall be fixed at no less than 30%. Where an individual has purchased a commodity apartment by means of such loan and proceeds to purchase a second set (inclusive) or more, the Initial

Ratio shall not be less than 40% and the interest rate shall not be under 110% of the benchmark interest rate as announced by the PBOC during same period and in same bracket. Further, the Initial Ratio and the interest rate shall both multiply substantially with the increase with the sets of purchase and the increase percentage shall be determined by commercial banks, at their own discretion, according to principles of loan risk management. However, the repayment expense for housing loan per month shall not exceed 50% of the individual borrower's monthly income.

In respect of commercial building loans, commercial buildings purchased by loan shall be buildings that have completed and checked before acceptance. For such purchase, the Initial Ratio shall not be less than 50%, the loan term shall not exceed ten years and the interest rate shall not be under 110% of the benchmark interest rate as announced by the PBOC during same period and in same bracket, while the Initial Ratio, the loan term and the interest rate shall be determined by commercial banks, at their own discretion, according to principles of loan risk management. Where a loan application is made in the name of a "commercial and residential building", the Initial Ratio shall not be less than 45% and the loan term and the interest rate shall be arranged according to relevant regulations on loan management of commercial building.

關於加強商業性房地產信貸管理的補充通知 (Supplemental Notice on Strengthening the Management of Commercial Real Estate Credit and Loans) jointly issued by the PBOC and the CBRC and dated 5 December 2007, sets forth supplemental requirements in respect of strengthening housing consumption loan management, mainly including the following:

(a) Assess number(s) of housing loan with the borrower's family as the basic calculation unit.

(b) Stipulate conditions under which housing loan policy for first home buyers shall serve as the referential basis for bank loans.

(c) For those families that have already purchased commodity apartment by using 住房公積金貸款 (Housing Provident Fund), they still have to comply with above Notice when making a housing-loan application to commercial banks.

As stipulated in the Supplemental Notice, in the event an applicant is found to have presented false information and certifications, all commercial banks shall deem the loan application unacceptable.

The State has implemented a series of policies intended to strengthen and improve the sound development of the real estate market since the second quarter of 2008.

On 26 May 2008, the CBRC issued 關於進一步加強房地產行業授信風險管理的通知 (Notice on Further Strengthening Risk Management in the Provision of Credit to the Real Estate Market) (Yin Jian Fa No.42[2008]). To combat property developers who (i) "falsify mortgages" by using forged property sale contracts; (ii) proceed "falsified down payments" from borrowers by accepting initial repayments in the pre-sale stage, paying for buyers in advance or by other means; or (iii) mislead banks about decisions over the provision of loans by forging their sale performances or house prices as well as other problems arising in the real estate market, the Notice requires each commercial bank to:

(c) strictly follow the policies and conditions related to the provision of loans to individuals;

(d) improve the monitoring of the qualifications of borrowers;

(e) rigorously examine the enterprise credit ratings of property developers; and

(f) upon discovering that a property developer has falsified mortgages, falsified down payments, forged house prices or other such behaviour, terminate the individual housing loans or development loans extended to such developer. Property developers, who are suspected of committing such crimes, shall be referred to the judicial organs for further investigation.

On 22 October 2008, the PBOC issued 中國人民銀行關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知 (Circular on the Expansion of the Downward Adjustment Range for Interest Rates of Commercial Individual Mortgage Loans and Related Issues) which decreased the minimum amount of down payment for commercial individual residential property purchasers to 20% and reduced the minimum mortgage loan rates for such purchases to 70% of the benchmark interest rate starting from 27 October 2008.

On 20 December 2008, the General Office of the State Council promulgated 關於促進房地產市場健康發展的若干意見 (Several Opinions on Promoting the Sound Development of the Real Estate Market), which provides the following requirements regarding loans for property businesses:

(a) The consumption of regular commodity houses is to be encouraged.

In addition to extending favourable interest rates and loan policies to first time buyers of apartments for self-residential purposes, individuals with an existing home, in which the per-person GFA is smaller than the local average, may buy a second apartment for self residential purposes under similar favourable loan terms, to those that apply to first-time buyers. If individuals purchase a second apartment (or more) for any other purpose, the interest rate shall be determined according to potential risks by commercial banks based on the benchmark interest rate.

(b) The reasonable financing requirements of real estate developers shall be supported.

Commercial banks shall increase credit financing services available to ordinary commercial housing construction projects, provide financial support and other related services to real estate developers engaged in merger and restructuring activities, and support the approval of bond issuances by real estate developers.

The State Council issued 關於調整固定資產投資項目資本金比例的通知 (Notice on Adjusting the Minimum Capital Requirement for Capital Funding for Fixed Assets Investment) on 25 May 2009, reducing the minimum capital requirement for Social Welfare residential houses and regular commodity housing projects from 35% to 20%, and reducing the minimum capital requirement for other property projects to 30%. When providing credit finance support and services, financial institutions shall determine, at their own discretion, whether to grant a loan and the amount of the loan having regard to the minimum capital requirement as regulated by the state.

On 19 June 2009, the CBRC issued 關於進一步加強按揭貸款風險管理的通知 (Notice on Further Strengthening the Risk Management of Mortgage Loans) (Yin Jian Fa No.59[2009]). With regard to current problems in the real estate market, particularly in the area of mortgage loans such as falsified mortgages, falsified down payments, forged house prices and loosened criterion of loans for a second house, the Notice reiterates the following requirements:

(a) banking institutions shall strictly carry out the pre-loan examinations and tighten the criterion for granting a loan in order to prevent occurrence of such behaviour as falsified mortgages, falsified down payments, forged house prices and the like;

(b) banking institutions shall proceed to focus on supporting the purchase by individuals of their first house for self-residence purposes, and shall not circumvent relevant restrictions imposed by the policy regarding loans for second house purchases by reasons that the credit reference system network is not available and that it is difficult to investigate cross-regional purchases of houses; and

(c) banking institutions are not entitled to interpretate on their own the criterion of loans for second house purchases or to lower the Initial Ratio in a different form by any means.

E. Insurance of a property project

There are no mandatory provisions in PRC laws, regulations and government rules which require a property developer to take out insurance policies for its property projects. However, PRC commercial banks may require the real estate developer to purchase insurance if the commercial bank intends to grant a development loan to the real estate developer.

F. Environmental Protection

Under the requirements of the relevant laws and regulations such as 中華人民共和國環境影響評價法 (Appraisal Measures for the Impact on the Environment of the PRC) implemented by the Standing Committee of the National People's Congress in September 2003, and 建設項目環境保護管理條例 (Regulations Governing Environmental Protection of Construction Projects) implemented by the State Council in November 1998, enterprises engaging in property development and construction, must carry out an appraisal of the impact of the construction project on the environment. The relevant project shall not commence until approval is obtained from the supervisory body for environmental protection. While the project is in progress, the developer shall also enforce the appraisal documents relating to the impact on the environment and implement the environmental protection measures suggested in the opinion of the supervisory body for environmental protection. Such measures must be incorporated into the design, construction and operation of the general construction. Upon completion of the project, the developer shall apply to the supervisory body for inspection and acceptance of the completed environmental protection facilities. Only those projects that have been inspected and accepted may go into operation or be available for use.

G. Construction Safety

Under relevant laws and regulations such as 中華人民共和國安全生產法 (Laws for Safe Production in the PRC) promulgated by the Standing Committee of the National People's Congress in November 2002, the developer shall apply for the work safety registration from the supervisory organ before construction commencement. Constructions without such registration will not be granted a Commencement Permit for Construction Works by the supervisory body. Contractors for the construction shall establish the objectives and measures for work safety and improve the working environment and conditions of workers in a planned and systematic way. A work safety protection scheme shall also be set up to carry out the work safety job responsibility system. At the same time, contractors shall adopt corresponding site work safety protective measures according to the work protection requirements in different construction stages and such measures shall comply with the labour safety and hygiene standards in the PRC.

H. Major taxes applicable to property developers

(i) Income tax

According to the PRC EIT Law of the People's Republic of China (中華人民共和國企業所得稅法) enacted by the National People's Congress on March 16, 2007 and relevant implementation rules enacted by the State Council on December 6, 2007, both in effect from January 1, 2008 onwards, a uniform income tax rate of 25% will be applied towards PRC enterprises, foreign investment enterprises and foreign enterprises which have set up production and operation facilities in the PRC. The PRC EIT Law also permits enterprises to continue to enjoy their existing tax incentives, adjusted by certain transitional phase-out rules, under which enterprises that were subject to an EIT rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new EIT rate within five years after the effective date of the PRC EIT Law, that is 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and the new statutory EIT rate of 25% from 2012 onwards. In addition, under the phase-out rules, enterprises established before the promulgation date of the PRC EIT Law and which were granted tax holidays under the then effective tax laws or regulations may continue to enjoy their tax holidays until their expiration.

Under the PRC EIT Law, in effect from January 1, 2008, a withholding tax of 10% will be applicable to dividends paid by foreign-invested enterprises to foreign investors, unless otherwise stipulated in tax treaties concluded between Chinese government and other jurisdictions. However, due to a tax treaty between the PRC and Hong Kong on August 21, 2006, a company incorporated in Hong Kong will be subject to a withholding tax at a rate of 5% on dividends it receives from a company incorporated in the PRC if it holds a 25% interest or more in the PRC company. In addition, the PRC State Administration of Taxation promulgated a tax notice on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance, and a beneficial ownership analysis will be used based on a "substance-over-the-form" principle to determine whether or not to grant tax treaty benefits.

According to the Implementation Rule of the PRC EIT Law, if an enterprise incorporated outside the PRC has its "de facto management body" located within the PRC, such an enterprise may be recognized as a PRC tax resident enterprise and subject to EIT at the rate of 25%. According to the PRC EIT Law, dividends received by a qualified PRC tax resident from another qualified PRC tax resident are exempted from EIT.

(ii) Business Tax

Under the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例) and the Provisional Implementation Rules of the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例實施細則) which took effect on January 1, 2009, business tax is levied on all enterprises that sell immovable properties in the PRC. The rates range from 3% to 20% depending on the type of services provided. The sale of buildings and other attachments to the land and leasing of property incur a tax rate of 5% of gross revenue generated from the relevant transactions of the enterprise. Enterprises are required to pay the business tax for sale of properties to relevant tax authorities in the regions where the sale property is located derived their taxable income.

On May 27, 2005, the State Administration of Taxation (國家稅務總局), MOFCOM and Ministry of Construction (建設部) jointly issued a Notice on Strengthening the Administration of Taxes in Connection with Real Estate (關於加強房地產稅收管理的通知). According to the notice, from June 1, 2005, business tax shall be imposed on the full amount of the sales income of a real estate company, upon the transfer of the ownership of a residential house by an individual within two years from the purchase date. However, transfer of an ordinary residential property may be exempted from business tax upon tax authorities' approval of application for such exempt. According to the Circular on Forwarding Opinions of the Ministry of Construction and other

Departments on Stabilizing Housing Prices issued by the General Office of the State Council (國務院辦公廳轉發建設部等部門關於做好穩定房價格工作意見的通知) on May 9, 2005, in the case of a house other than an ordinary residential house, business tax shall be imposed on the difference between the sales income and the purchase price, provided that the transfer occurs after two years from the purchase date. Ordinary residential house refers to a residential unit, of which (i) the plot ratio is more than 1.0; (ii) the GFA is less than 120 sq. m; and (iii) the price is lower than 1.2 times of the average selling price of residential properties on the land of the same category. The provincial-level government may set its own GFA and price requirements with a deviation no more than 20% of the above-mentioned standards.

On May 30, 2006, the State Administration of Taxation issued a Notice on Strengthening the Administration of Business Tax Collection in Connection with Housing (關於加強住房營業稅徵收管理有關問題的通知). According to the notice, from June 1, 2006, business tax shall be imposed on the full amount of the sales income, upon the transfer of a residential house by an individual within five years from the purchase date. In the case of a house other than an ordinary residential house, business tax shall be imposed on the difference between the sale income and the purchase price, provided that the transfer occurs after five years from the purchase date. However, transfer of an ordinary residential property may be exempted from business tax upon tax authorities' approval of application for such exempt.

(iii) Land Appreciation Tax ("LAT")

According to the requirements of 中華人民共和國土地增值稅暫行條例 (Provisional Regulations of The People's Republic of China on Land Appreciation Tax) (the "Land Appreciation Tax Provisional Regulations") which were promulgated on 13 December 1993 and effective from 1 January 1994, and 中華人民共和國土地增值稅暫行條例實施細則 (Detailed Implementation Rules on the Provisional Regulations of the People's Republic of China on Land Appreciation Tax) (the "Land Appreciation Tax Detailed Implementation Rules") which were promulgated and came into effect on 27 January 1995, any capital-gain from a transfer of property shall be subject to LAT. LAT shall be charged at four levels of progressive rates: 30% for the appreciation amount not exceeding 50% of the sum of deductible items; 40% for the appreciation amount exceeding 50% but not exceeding 100% of the sum of deductible items; 50% for the appreciation amount exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% for the appreciation amount exceeding 200% of the sum of deductible items. The aforesaid deductible items include the following:

- amount paid for obtaining the land use rights;
- costs and expenses for the development of the land;
- costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;
- related tax payable for the transfer of property; and

- other deductible items as specified by the MOF.

According to the requirements of the Land Appreciation Tax Provisional Regulations, the Land Appreciation Tax Detailed Implementation Rules and 關於對一九九四年一月一日前簽訂開發及轉讓合同的房地產徵免土地增值稅的通知 (Notice on the Levy and Exemption of Land Appreciation Tax for Development and Transfer Contracts signed before 1 January 1994) issued by the MOF and the State Administration of Taxation ("SAT") on 27 January 1995, LAT shall be exempted under any of the following circumstances:

- taxpayers construct ordinary standard residences for sale (i.e. the residences built in accordance with the local standards for residential properties. Deluxe apartments, villas, resorts etc. are not under the category of ordinary standard residences) and the appreciation amount does not exceed 20% of the sum of deductible items;

- property is taken back and repossessed according to laws due to the construction requirements in the PRC;

- due to redeployment of work or improvement of living standard, individuals transfer self used residential property, in which they have been living for 5 years or more, subject to tax authorities' approval;

- transfers of real properties under property transfer contracts signed before 1 January 1994, regardless of when the properties are transferred;

- if the property development contracts were signed before 1 January 1994 or the project proposal has been approved and that capital was injected for development in accordance with the conditions agreed, the LAT shall be exempted if the properties are transferred for the first time within 5 years after 1 January 1994. The date of signing the contract shall be the date of signing the Sale and Purchase Agreement. The tax-free period may be prolonged subject to the approval of the MOF and the SAT for particular property projects, which are approved by the government for the development of the whole lot of land and long-term development and in which the properties are transferred for the first time after the 5-year tax-free period.

On 24 December 1999, the MOF and the SAT issued 關於土地增值稅優惠政策延期的通知 (Notice in respect of the extension of the period for the Land Appreciation Tax Exemption Policy) which extended the period for the LAT exemption policy as mentioned above to the end of 2000.

After the issuance of the "Land Appreciation Tax Provisional Regulations" and the "Land Appreciation Tax Detailed Implementation Rules", owing to the longer period for property development and transfer, many districts, while they have implemented the regulations and rules, did not force the property development enterprises to declare and pay the LAT. Therefore, the MOF, the SAT, the MOC and the MLR separately and jointly issued several notices to restate the following: after the Contract for Grant of State-owned Land Use Rights is signed, the taxpayers shall declare the tax to the local tax authorities where the property is located, and pay LAT in accordance with the amount as calculated by the tax authority and the time as required. For those who fail to acquire proof of payment or exemption from LAT from the tax authorities, the property administration authority shall not process the relevant title change procedures, and shall not issue any property title certificate.

The SAT also issued 關於認真做好土地增值稅徵收管理工作 (Notice on Serious Handling of Administration of the Collection of Land Appreciation Tax) on 10 July 2002 to request local tax authorities to modify the management system of LAT collection and operation details, to build up a sound taxpaying declaration system for LAT, and to modify the methods of levying taxes in advance for the pre-sale of properties. This notice also points out that for property development contracts which were signed before 1 January 1994 or where the project proposal has been approved and capital was injected for development, the privilege policy of exempting LAT for those properties that are transferred first time has expired; such tax shall be levied again. This requirement is restated in 關於加強土地增值稅管理工作的通知 (Notice on Strengthening of Administration of the Collection of Land Appreciation Tax) and 關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知 (Notice of State on Further Strengthening of Administration Work in relation to the Collection of LAT and Land Use Tax in Cities and Towns) issued separately on 2 August 2004 and 5 August 2004 by SAT. These two notices also require that the system of tax declaration and tax sources registration in relation to the LAT to be further established and perfected.

On 2 March 2006, the MOF and the SAT issued 關於土地增值稅若干問題的通知 (Notice on Several Points on Land Appreciation Tax) to clarify relevant issues regarding LAT as follows:

(a) As to the tax collection and exemption in the sale of ordinary standard residential housing as built by taxpayers as well as in the transfer of ordinary residential houses by individual residents-

The notice sets out the standards for ordinary standard residential houses. Where any developer builds ordinary residential houses as well as other commercial houses, the appreciation amount of land shall be verified respectively. Before the day when this notice is publicised, if a property developer has already filed for tax exemption, and it is confirmed by a standard examination, determined by the people's government of a province, autonomous region or municipality directly under the Central Government, no adjustment shall be retroactively made.

(b) As to the advance collection and settlement of LAT:

- All regions shall decide the advance collection rate in a scientific and reasonable manner, and adjust it at a proper time according to the value of the property as well as the market development level within the region and on the basis of the specific housing categories, namely, ordinary standard residential houses, non-ordinary standard residential houses and commercial houses. After a project is completed, the relevant settlement shall be handled in a timely manner, with any overpayment refunded or any underpayment being made up.

- As to any tax that fails to be collected in advance within the advance collection term, overdue fines shall be collected as at the day following the expiration of the prescribed advance collection term according to the relevant provisions of the Tax Collection and Administration Law as well as its detailed rules for implementation.

- As to any property project that has been completed and has gone through the acceptance procedure, where the GFA of the transferred property makes up 85% or more of the saleable GFA, the tax authority may require the relevant taxpayer to conduct the settlement of LAT on the transferred property according to the matching principles regarding the proportion between the income as generated from the transfer of property and the amount under the item of deduction. The specific method of settlement shall be prescribed by the local tax authority of a province, autonomous region or municipality directly under the Central Government, or a city under separate state planning.

- As to any investment or association by using land as payment for the purchase of shares, where an enterprise involved in the investment or association engages in property development or where any other property development enterprise makes investment or conducts association with the commercial houses it builds, it shall not be governed by the regulation of the interim exemption of LAT when the property (land) is transferred to the enterprise by means of investment or association.

On 28 December 2006, the SAT issued 國家稅務總局關於房地產開發企業土地增值稅清算管理有關問題的通知 (Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises) which came into effect on 1 February 2007.

Pursuant to this notice, a property developer shall settle and clear the LAT payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable LAT rates. The LAT shall be settled for projects approved by the competent authorities; and for projects developed in different stages, the LAT shall be settled in stages.

LAT must be settled if (1) the property development project has been completed and fully sold; (2) the property developer transfers the whole uncompleted development project; or (3) the land use rights with respect to the project are transferred. In addition, the relevant tax authorities may require the developer to settle the LAT if either of the following criteria is met: (1) for completed property development projects, the transferred GFA represents more than 85% of total saleable GFA, or the proportion represented is less than 85%, but the remaining saleable GFA has been leased out or used by the developer; (2) the project has not been sold out for more than three years after obtaining the 商品房銷售許可證 (Sale Permit for Commodity Property) or Pre-sale Permit for Commodity Property; (3) the developer applies for cancellation of the tax registration without having settled the relevant LAT; or (4) other conditions stipulated by the tax authorities.

The notice also indicates that if a property developer satisfies any of the following circumstances, the tax authorities shall levy and collect LAT as per a levying rate no lower than the pre-payment rate to the prevailing rate of LAT of local enterprises with a similar development scale and income level: (i) failure to maintain account books required by law or administrative regulation; (ii) destroying account books without authorisation or refusing to provide taxation information; (iii) the accounts are in a state of mess or cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine transferred income or the amount of deductible items; (iv) failure to go through LAT settlement within the prescribed period, and such failure is not cured within the period required by the relevant tax authorities; (v) the basis for tax calculation as submitted is obviously low without justifiable cause. Local provincial tax authorities can formulate their own implementation rules according to the notice and the local situation.

On 22 October 2008, the MOF and the SAT issued 關於調整房地產交易環節稅收政策的通知 (Circular on Taxation Policy Adjustment Concerning Real Estate Trading) and temporarily exempted the LAT for individuals selling houses starting from 1 November 2008.

On 12 May 2009, the SAT issued 土地增值稅清算管理規程 (Administrative Rules for the Settlement of Land Appreciation Tax) (the "Settlement Rules"), which became effective on 1 June 2009. This Settlement Rules reiterate the circumstances under which the LAT must be settled, the criteria that are to be met for relevant tax authorities to require the settlement of LAT and the circumstances under which the tax authorities shall levy and collect LAT as prescribed by the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises. The Settlement Rules further stipulate detailed procedures for the examination and verification of settlement of LAT to be carried out by relevant tax authorities.

國家稅務總局關於土地增值稅清算有關問題的通知【國稅函[2010]220號】(The Notice of the State Administration of Taxation on the Relevant Issues Concerning the Settlement of Land Appreciation Tax Guo Shui Han [2010] No. 220) has been issued on 19 May 2010 for the clarification of property sales and deductible items.

(iv) Deed tax

Under the Provisional Regulations of the PRC on the Deed Tax (中華人民共和國契稅暫行條例) which took effect on October 1, 1997, deed tax applies to entities and individuals that accept the transfer of land use rights and the ownership of houses within the territory of the PRC.

The transfer of land use rights and the ownership of houses refer to the following acts:

- Assignment of the right to use state-owned land;
- Transfer of land use rights, including the transfer by means of sale, gift and exchange, excluding the transfer of the right contract for the management of rural collective land;
- Purchase and sale of houses;
- Gift of houses; and
- Exchange of houses.

The transfer of land use rights and the ownership of houses by the means of the following methods are also deemed to be governed by the above regulation, as stipulated by the Implementation Rule of Provisional Regulation on Deed Tax (中華人民共和國契稅暫行條例細則):

- Using land use rights and ownership of a house as investment;
- Setting off debt with land use rights and the ownership of house;
- Obtaining land use rights and the ownership of a house as a prize; and
- Obtaining land use rights and the ownership of a house by the way of purchasing in advance.

The rate of deed tax will, within the range of 3-5%, be determined by the PRC Government agencies of provincial, autonomous region and municipal level in light of the actual conditions of the underlying properties respective areas and shall be reported to the Ministry of Finance and the State Administration of Taxation of China.

The deed tax will be reduced or exempted under the following circumstances:

- For the acceptance of land and houses by state agencies, institutions, social organizations and military units for office, teaching, medical service, scientific research and military facilities, the deed tax will be exempted;

- For the initial purchase of state-owned residential houses by urban and township workers and staff members according to the provisions of relevant laws and regulations, the deed tax will be exempted;
- For the purchase of residential houses in replacement of houses damaged or destroyed due to force majeure, the tax will, upon approval, be reduced or exempted according to the circumstances; and
- Any other types of reduction or exemption provided by the Ministry of Finance.

Reduction or exemption of deed tax will not be applicable if the relevant land or house and the change of use is no longer within the above mentioned scope, and an amount of tax equivalent to the tax reduction or exemption should be repaid.

On 29 September 2010, the Ministry of Finance, the State Administration of Taxation and the Ministry of Housing and Urban-Rural Development jointly issued 財政部、國家稅務總局、住房和城鄉建設部關於調整房地產交易環節契稅個人所得稅優惠政策的通知 (Notice regarding the Adjustment of Preferential Policy in respect of Deed Tax and Individual Income Tax for Real Estate Transaction) which came into effect on 1 October 2010. According to this Notice, the deed tax rate for individuals who purchase the ordinary residence which is the only residential property of the his/her family (family members include the purchaser, his/her spouse and minor children) shall be reduced by 50%. The deed tax for individuals who purchase the ordinary residence with less than 90 sq. m floor areas which is the only residential property of the his/her family shall be levied at the reduced rate of 1%.

(v) Urban land use tax

Pursuant to 中華人民共和國城鎮土地使用稅暫行條例 (Provisional Regulations of the People's Republic of China Governing Land Use Tax in Urban Areas) promulgated by the State Council on 27 September 1988, implemented on 1 November 1988 and amended on 31 December 2006, land use tax in respect of urban land is levied according to the area of relevant land. The annual tax on every sq. m of urban land shall be between RMB0.2 and RMB10 as determined by the local tax authority.

(vi) Real Estate tax

Before January 1, 2009, there are two parallel tax systems in China for enterprises engaged in real estate development and investment in China. Such tax applicable for domestic enterprises, organizations and individuals is real estate tax which is calculated on the remaining original book value of the real estate after 10% to 30% deduction of the original book value depending on where the real estate is located, at a rate of 1.2%, or on the rental income derived by the real estate at a rate of 12% according to the PRC Provisional Rules on Real Estate Tax (中華人民共和國房產稅暫行條例) promulgated by the State Council on September 15, 1986.

While foreign invested enterprises, foreign enterprises and foreign individuals are required to pay urban real estate tax on land and buildings owned by them in the urban areas of China. According to the PRC Provisional Rules on Urban Real Estate Tax (中華人民共和國城市房地產稅暫行條例) promulgated by the State Council on August 8, 1951, the urban real estate tax is charged at a rate of 1.8% annually based on standard prices for property or 18% annually based on rental income.

By issuance of PRC State Council Order 546 (中華人民共和國國務院令2008第546號) on December 31, 2008, the State Council unifies the two parallel real estate tax systems by abolishing the urban real estate tax. Starting from January 1, 2009, all enterprises, organizations and individuals that own or use real estate in China shall subject to real estate tax by using the calculation method as mentioned in the PRC Provisional Rules on Real Estate Tax (中華人民共和國房產稅暫行條例) promulgated by the State Council on September 15, 1986.

(vii) Stamp duty

Under 中華人民共和國印花稅暫行條例 (Interim Regulations of the People's Republic of China on Stamp Duty) promulgated by the State Council on 6 August 1988 and implemented on 1 October 1988, for property transfer instruments, including those in respect of property ownership transfer, the stamp duty rate shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including Certificate of Real Estate Ownership and Certificate of State-owned Land Use, stamp duty shall be levied on an item basis of RMB5 per item.

On 22 October 2008, the MOF and the SAT issued Circular on Taxation Policy Adjustment Concerning Real Estate Trading and temporarily exempted the stamp duty for individuals selling or buying houses starting from 1 November 2008.

(viii) Municipal maintenance tax

Under 中華人民共和國城市維護建設稅暫行條例 (Interim Regulations of the People's Republic of China on Municipal Maintenance Tax) promulgated by the State Council on 8 February 1985, any taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

(ix) Education surcharge

Under 徵收教育費附加的暫行規定 (Interim Provisions on the Imposition of the Education Surcharge) promulgated by the State Council on 28 April 1986 and as amended on 7 June 1990 and 20 August 2005, a product tax payer, value-added tax payer or business tax payer shall pay an education surcharge unless such obliged taxpayer is instead required to pay a rural area education surcharge as provided by 國務院關於籌措農村學校辦學經費的通知 (Notice in the PRC Council on Raising Funds for Schools in Rural Areas).

(x) Agricultural Land Occupation Tax

The State Council issued the Tentative Rules on Tax of Occupation of Agricultural Land of the People's Republic of China (中華人民共和國耕地佔用稅暫行條例) on December 1, 2007. The rules took effect on January 1, 2008 and as a result, the former tentative rules with the same regulation issued by the State Council on April 1, 1987 will be abolished simultaneously. The Rules mainly regulates the taxation procedures and tax amount based on the tax objects and the use of agricultural land.

I. Measures on Adjusting the Structure of Housing Supply and Stabilising Housing Price

The General Office in the PRC Council promulgated 關於切實穩定住房價的通知 (Circular on Duly Stabilising the Prices of Residential Properties) on 26 March 2005, requiring measures to be taken to restrain housing prices from increasing too fast and to promote the healthy development of the property market. On 9 May 2005, the General Office in the PRC Council forwarded Opinions of the MOC and other Departments on Stabilising House Prices, which provides that:

(i) Intensifying planning and control and improving the housing supply structure

Where housing prices are in excessive growth and the supply of regular commodity houses at medium or low prices and economical houses is insufficient; housing construction shall mainly involve projects of regular commodity houses with medium or low prices and economical houses. The construction of low-density, high-quality houses shall be strictly controlled. With respect to construction projects of medium-or-low-price regular commodity houses, before the supply of land, the municipal planning authority shall set forth conditions for planning and designing such as height of buildings, plot ratio and green space. The property authority shall, in collaboration with other relevant authorities, set forth such requirements as sale price, type and area. Such conditions and requirements will be set up as preconditions of land assignment to ensure an effective supply of small or medium-sized houses at moderate and low prices. The local government must intensify the supervision of planning permit for property development projects. Housing projects that have not been commenced within two years must be re-examined, and for those that turn out to be noncompliant with the planning permits will be revoked.

(ii) Intensifying control over the supply of land and rigorously enforcing the administration of land

Where the price of land for residential use grows too fast, the proportion of land for residential use to the total land supply shall be raised, and the land supply for the construction of regular commodity housing at medium or low prices and economical housing shall be increased. Land supply for villa construction shall be continuously suspended, and land supply for high-end housing property construction shall be restricted.

(iii) Adjusting the policies of business tax on house transfers and strictly regulating the collection and administration of tax

From 1 June 2005, business tax upon transferring a residential house by an individual within two years from purchasing will be levied on the full amount of the sale proceeds. For an individual having transferred an ordinary residence after two years from date of purchase, business tax will be exempted. For an individual having transferred a property other than ordinary residential house for two years or more from date of purchase, the business tax will be levied on the basis of the balance between the income from selling the residence and the purchase price.

(iv) Rectifying and regulating the market order and seriously investigating and punishing any irregular and rule-breaking sales

The buyer of a pre-sale commodity property is prohibited from conducting any transfer of such building if it is still under construction. A real name system for house purchases shall be applied, and an immediate archival filing network system for pre-sale contracts of commodity properties shall be carried out.

On 24 May 2006, the General Office in the PRC Council issued Opinion of the Ministry of Construction and other Departments on Adjusting Housing Supply Structure and Stabilisation of Housing Prices. As to the adjustment of housing supply and stabilisation of housing prices, the opinion provides that:

(a) Adjustment to the housing supply structure

- Constructions shall be focused on developing medium and small-sized regular commodity houses at medium or low prices to satisfy the demands of local residents.
- From 1 June 2006, for each and every commodity property newly examined and approved for the commencement of construction, the proportion of the housing area (including economically affordable housing) with a GFA less than 90 sq. m must reach 70% of the total development and construction area. In case of adjusting the above-mentioned proportion, if required in special cases, the municipalities, which is directly under the central government, separately planned cities and provincial capital cities must submit the special request for adjusting proportion to the MOC for approval. The projects that have been examined and approved but have not received a Commencement Permit for Construction Works shall, where necessary, adjust the set style of housing in accordance with above-mentioned requirements.

(b) Adjustment to tax, credit and land policies

- Starting from 1 June 2006, business tax applicable to the transfer of a residential property by an individual within five years from the date of purchase will be levied on the basis of the full amount of the sale proceeds. For an individual transferring an ordinary residential property five years or more from the date of purchase, business tax will be exempted. For an individual transferring a house other than an ordinary residential house for five years or more from purchasing, the business tax will be levied on the basis of the balance between the income from selling the house and the purchase price;

- In order to restrain property developers from purchasing land and buildings with bank credits, any developer applying for loans shall have at least 35% of capital required for the project development. For the developers with a large amount of idle land and vacant commodity properties, commercial banks shall restrict the grant or extension of revolving credit facilities in any form pursuant to the prudence principle. Commodity properties which are vacant for more than 3 years shall not be accepted as a guarantee by the commercial banks;

- From 1 June 2006, the first instalment of individual house loans shall not be less than 30%. When a borrower applies for individual house loans for self-residential purposes and the GFA of the unit is less than 90 sq. m, the first instalment remains at 20%;

- At least 70% of the land supply for residential property developments must be used for low-to-medium-cost and small-to-medium-size units of residential properties and low-cost rental properties. On the basis of the restriction of price and housing style, the land supply shall adopt the method of competitive bidding of land price and housing price. Land supply for villa construction shall continue to be suspended, and land supply for low-density and large-area housing property construction shall be strictly prohibited; When construction has not yet started one year after the construction commencement date agreed in the Contract for Grant of State-owned Land Use Rights, charges for idle land shall be collected at a higher level.

(c) Further rectifying and regulating the property market

- Any project with a Planning Permit for Use of Construction Land which has not started construction shall be re-evaluated. If the project is not in accordance with the requirements of the plan, especially the requirements of the set style structure, the Planning Permit for Construction Works, the Commencement Permit for Construction Works and the Pre-sale Permit for Commodity Property shall not be issued. Projects which have been altered or the construction of which have exceeded the provisions shall be disposed of or confiscated according to law.

- The property administration authority and the Administration of Industry and Commerce shall investigate any illegal conduct such as contract fraud. Illegal conducts involving commodity property pre-completion sales without the necessary conditions shall be ordered to stop and punished. With respect to the property enterprises that store up housing source from sale and maliciously manipulate and raise housing prices, the competent authorities shall seek prosecution, such as monetary punishment according to laws and regulations, and suspension of business licenses. The responsible persons concerned shall be investigated and prosecuted.

To implement the "Opinions on Adjusting the Housing Supply Structure and Stabilising Housing Prices", the MOC promulgated 關於落實新建住房結構比例要求若干意見 (Certain Opinions Regarding the Implementation of the Ratio Requirement for the Structure of Newly Constructed Residential Units) on 13 July 2006 and made supplemental requirements on the proportion of newly built housing structure as follows:

(a) From 1 June 2006, in any city (including counties), the GFA of the housing which is less than 90 sq. m shall reach 70% of the total GFA of commercial commodity properties newly approved or constructed.

(b) According to the above requirements, the governments shall guarantee the conditions of planning and design of newly built commodity properties to be reached and confirm the requirements of structure proportion. Any digression from the above-mentioned requirements without authorisation is forbidden. Planning Permit for Construction Works shall not be issued by municipal planning and authorities. If there is any noncompliance with the Planning Permit for Construction Works; Commencement Permit for Construction Works shall not issued by the construction authority and Pre-sale Permit for Commodity Property shall not be issued by property development authority.

(c) For projects which are approved before 1 June 2006 but have not obtained the Commencement Permit for Construction Works, the governments of cities shall ascertain the specific project's set structure needed to be adjusted, in accordance with the proportion requirement of the newly-built commodity properties in that year.

According to 國務院辦公廳關於當前金融促進經濟發展的若干意見 (Several Opinions of the General Office in the PRC Council on Providing Financial Support for Economic Development) (No.126[2008]), issued by General Office in the PRC Council on 8 December 2008, the State Council (1) implemented and promulgated relevant credit policies and measures to support people's purchase of their first ordinary home or improved ordinary home; (2) provided more credit support for the construction of low rent houses and economically affordable houses and the reconstruction of shed areas for low-income urban residents; and (3) initiated the pilot operation of real estate trust investment funds and diversify the financing channels of real estate enterprises.

On 20 December 2008, the General Office in the PRC Council issued Several Opinions on Promoting the Sound Development of the Real Estate Market, which:

(a) Promotes the construction of affordable residential housing; and

(b) Encourages the purchase of regular commodity houses for residential purposes.

Individuals who purchased their house for self-residential purposes prior to 31 December 2009 may, two or more years after the purchase, resell their house without paying business tax. This two-year threshold was reduced from five years as applicable under previous provisions. Individuals who have owned their self-residential house for less than two years shall pay business tax on the net profit (the difference between the original price and the sales price). Individuals who have purchased their house for any purpose other than self-residential shall, if they have owned it for two years or more, pay business tax on the net profit or, if they have owned it for less than two years, on the full sale price. This two-year threshold was also reduced from five years as prescribed in previous provision.

(c) Supports real estate developers in dealing with the changing market

Increased credit financing services to "low-to-medium-level price" or "small-to-medium sized" regular commodity housing projects shall be provided, particularly those under construction; financial support and other related services to real estate developers engaged in merger and restructuring; approvals for bond issues by real estate developers with good credit ratings and sound financial credentials shall be supported and the building tax is unified, thereafter domestic and foreign-funded enterprises and individuals will all be subject to the Interim Regulations of the People's Republic of China on Building Tax.

On 7 January 2010, the General Office in the PRC Council issued "Notice on Accelerating a Stable and Healthy Development in the Real Estate Market" (Guan Ban Fa 2010 No.4, which stipulates:

(a) Increase the effective supply of security housing and common commercial housing:

- Quicken the medium and low-cost, medium and small flat type common commercial housing construction. For the approved but un-built, built but unsold common commercial housing projects, the government must take measures to urge real estate development enterprises to quicken project construction and sale. The government will duly intensify their efforts in the affordable housing construction and expand the affordable housing supply range. Cities with over high commercial housing price or over quick hikes shall increase the supply of limit-price commercial housing, affordable housing and public rental housing practically.

- Increase the effective supply of land used for housing construction and raise land supply and development utilisation efficiency. Various regions shall, according to real estate market current condition, have a good grasp of the gross amount, structure and time sequence of land supply and lay stress on ascertaining the building size of medium and low-cost, medium and small flat type common commercial housing, limit-price commercial housing, public rental housing, and affordable housing. Cities with over high housing price, over quick hikes, and insufficient effective supply of housing shall expand the supply and proportion of land used for the construction of the above five categories of housing practically.

(b) Reasonably steer housing consumption and suppress speculative house purchasing demand:

- Increase the differential credit policy implementation force. Financial institutions shall manage the loan for purchasing the second set of houses strictly, reasonably steer housing consumption and suppress the speculative house purchasing demand while the government will continue to support residents to buy common self-use house by loan for the first time. For a family that has purchased house by loan and applies to purchase the second set (or more) of house, the proportion of down payment for loan shall not be less than 40%, the loan interest rate shall be fixed strictly by risk.

(c) Continue to implement differential housing tax policy. Strictly carry out relevant state policies for individual's purchasing common house and non-common house, purchasing house for the first time and not the first time. For those that fall short of stated conditions, tax preference must not be given without exception. Besides, the government will quicken studying how to improve housing tax policy and steer residents to build up a concept of reasonable and economical housing consumption.

(d) Strengthen risk prevention and market supervision:

- Strengthen real estate credit risk management. Financial institutions shall further improve the real estate credit risk management system, insist on fair, orderly competition and implement credit standards strictly. Implement the capital requirements for real estate projects strictly. Granting loan to the real estate development enterprises that fall short of policy stipulation is strictly inhibited while the government will prevent the overseas "hot money" from impacting the market.

- Continue to rectify real estate market order. Housing and urban-rural development department shall, jointly with the department concerned, increase the force of investigating and prosecuting the law-breaking and rule-violating behaviour in the real estate industry, strengthen the housing, especially the security housing project quality safety supervision. The land resource department shall collect Land Grant Premium strictly, deepen the supervision on contract implementation and strengthen ideal land survey and treatment, severely investigate and prosecute the law-breaking, rule-violating land use, land reserves and land speculation. The responsible department shall strengthen the commercial housing price supervision, investigate and prosecute the behaviour as price swindling, housing price bid-up and violation of selling at marked price, etc. in real estate development, sale and intermediary services. The tax department shall further intensify the force of investigating and prosecuting the tax evasion behaviour of the real estate development enterprise. The State-owned assets supervision department shall further regulate the investment in real estate behaviour of the large State-owned enterprises.

- Further intensify land supply management and commercial housing sale management. Various regions shall take the factors as land price, payment, the development time limit agreed in the contract, the vacant land of enterprise, etc. into consideration, reasonably determine land supply mode and content and explore the comprehensive bid evaluation method for land transfer. For a unit or individual that is in arrears with land price or in violation of the contractual stipulations, its participation in land transfer activities shall be restricted. Single land transfer of the commercial housing project shall be strictly controlled. The minimum size of the commercial housing project in the pre-sale license shall be reasonably determined, in accordance with the actual local conditions. The pre-sale license cannot be separated by floors and flats. A real estate development enterprise that has obtained a presale license must make all its house resources public in a specified time in a lump and sell to the outside strictly at the declared value. Further establish and improve the new commercial housing, in-stock housing transaction contract on-line register system and intensify the transaction fund supervision force.

- Strengthen market monitoring. The local people government shall continue to strengthen the real estate market statistics, analysis and monitoring and submit measures and aiming at new situation and new problems, submit measures and solutions timely. Relevant department shall publish market regulation and its statistical information timely and stabilise market expectations.

(e) Quicken the construction of security housing:

- Quicken the construction of limit-price commercial housing and public rental housing and solve the housing difficulty for the middle and below the average income families. Start the urban and State-owned squatter settlement transformation work across the board and continue to push the squatter settlement transformation in the forest and reclamation areas. Meanwhile, increase the effort in rural dilapidated house transformation and increase the experimental households duly.

- The central government will duly raise the subsidy standard for the low-rent housing in the central and western regions and mobilise the initiative of local authorities to ensure the effect of fund usage.

On 17 April 2010, the State Council issued 關於堅決遏制部份城市房價過快上漲的通知 (Notice on Restraining Resolutely Over-rise of Housing Prices in Some Cities), which requires that:

(a) Each district and each department practically implement their duty to stabilise property prices and residential housing guarantees.

(b) Unreasonable housing demands shall be strictly restricted and stricter differentiating credit policies shall the implemented.

Families that purchase the first suit for own use with over 90 sq. m shall pay down payment of no less than 30%; families who purchase the second suit shall pay down payment of no less than 50% while the base lending rate ("BLR") shall be no less than 1.1 times the prime rate; for those who purchase the third suit or more, the ration of the down payment and the BLR will be significantly increased, practically determined by commercial banks pursuant to the risk management principles. Different kinds of speculative purchase of housing are strictly limited. For the places where the commodity housing price is too high, the rise is too rapid and with tight supply, commercial banks shall suspend loans to those purchasing three or more housings according to the risk conditions. Housing loans to the non-local residents who cannot provide over a year of certificates of tax payment or social insurance payment certificate shall be suspended. Local people's government can adopt temporary measures and limit the number of suits purchased in a specific period of time according to the practical situations.

(c) The effective supply for residential housing and residential land shall be increased, and the housing supply structure shall be adjusted.

(d) Accelerate protective safety housing construction and ensure to achieve the mission of constructing 3 million protective housings and 2.8 million restructured housings in different shack areas by 2010.

(e) Strengthen market supervision, strengthen the supervision for real estate development enterprises' land purchasing and financing, and strengthen the supervision for the order of trading.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company was as follows:

		HK$
Authorised share capital:		
10,000,000,000	Shares of HK$0.10 each	HK$1,000,000,000
Issued and fully paid:		
2,090,784,000	Shares of HK$0.10 each	HK$209,078,400
To be issued upon full conversion of the Convertible Bond *(for illustration purpose only due to restrictions on conversion of the Convertible Bond):*		
1,493,124,637	Shares of HK$0.10 each	HK$149,312,463.70
Total:		
3,583,908,637	Shares of HK$0.10 each	HK$358,390,863.70

3. DISCLOSURE OF INTERESTS

(a) Interests of the Directors and the chief executive of the Company

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) Interests of the 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 person 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 was, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group:

Name of Shareholder	Nature of Interest	Number of Shares interested or deemed to be inserted (long position)	Approximate percentage of the issued share capital of the Company
Cheng Keung Fai	Beneficial owner	1,105,390,690	52.87

All the interests disclosed above represent long positions in the Shares.

Save as disclosed above, as at the Latest Practicable Date, the Company was not notified of any persons having any interest or short position in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company.

4. COMPETING BUSINESS

None of the Directors and their respective associates has any interests in a business, which competes or is likely to compete with the business of the Group.

5. MATERIAL CONTRACT

Save as disclosed below, there is no contract, not being contract entered into in the ordinary course of business of the Enlarged Group, entered into by the Enlarged Group within the two years immediately preceding the Latest Practicable Date and is or may be material.

(i) the underwriting agreement dated 23 June 2010 entered into between the Company and Mr. Cheng Keung Fai (who was a substantial Shareholder) in relation to the Open Offer of not less than 14,741,860,000 offer shares at HK$0.0109 per offer share on the basis of seven offer shares for every Original Share held on the relevant record date;

(ii) the joint venture agreement dated 21 June 2010 entered into between Grimston Limited ("Grimston"), a wholly-owned subsidiary of the Company, and Filmko International Limited ("Filmko") in relation to the formation of Talent Films Limited for the development, production and promotion of the film "大鬧天宮 (working title)", pursuant to which, Grimston and Filmko will hold 35% and 65% of the equity interests of Talent respectively and HK$72,100,000 out of the total investment amount would be contributed by Grimston;

(iii) the sale and purchase agreement dated 17 December 2009 and entered into between Pegasus Motion Pictures Limited as purchaser and Grimston 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;

(iv) 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;

(v) 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;

(vi) 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 was 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;

(vii) the master agreement dated 6 May 2009 and entered into between Grimston, and Mr. Wong Pak Ming ("Mr. Wong") pursuant to which Grimston 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;

(viii) 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; and

(ix) the Agreement.

6. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, no member of the Enlarged Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

8. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

No contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date in which any Director was materially interested and which was significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors had, or has had any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 December 2009, the date to which the latest published audited consolidated financial statements of the Company were made up.

9. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinion, which are contained or referred to in this circular:

Name	Qualification
Robert Chui & Co.	Certified Public Accountants, Practising
RHL Appraisal Limited	Independent property valuer

1. As at the Latest Practicable Date, neither Robert Chui & Co. and RHL Appraisals Limited ("RHL") had any direct or indirect shareholding 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 Robert Chui & Co. and RHL 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 Robert Chui & Co. and RHL 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.

10. MISCELLANEOUS

(a) The company secretary of the Company is Mr. Chan Chun Fat, who is qualified as a solicitor in Hong Kong.

(b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company in Hong Kong is at Room 4101, 41/F, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

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

(d) The English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 4101, 41/F, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong during normal office hours on any weekday, except Saturdays, Sundays and public holidays, 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 material contracts referred to in the section headed "Material contract" in this Appendix;

(c) the annual reports of the Company for each of the two years ended 31 December 2008 and 2009;

(d) the interim report of the Company for the six months ended 30 June 2010;

(e) the financial information of the Target Company as set out in Appendix II to this circular;

(f) the review report issued by Robert Chui & Co. on the financial information of the Target Company, the text of which is set out in Appendix II to this circular;

(g) the accountants' report on the Target Company, the text of which is set out in Appendix II to this circular;

(h) the letter from Robert Chui & Co. on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(i) the valuation report on the fair value of intangible assets of the Target Company as at 30 November 2010 prepared by RHL Appraisals Limited;

(j) the written consents referred to in the section headed "Experts and consents" in this Appendix;

(k) a copy of the Company's circular dated 12 January 2010 in relation to a major disposal and connected transaction;

(l) a copy of the Company's circular dated 27 April 2010 in relation to grant of general mandate to issue and repurchase Shares, re-election of the Directors and amendments to the bye-laws of the Company;

(m) a copy of the Company's circular dated 11 August 2010 in relation to the capital reorganisation and change in board lot size, the Open Offer and application for a whitewash waiver;

(n) a copy of the Company's circular dated 8 December 2010 in relation to the Share Consolidation; and

(o) 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)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting 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 on Monday, 24 January 2011 at 11:00 a.m. for the following purposes:–

ORDINARY RESOLUTION

"**THAT**:

(a) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting its approval to the listing of, and permission to deal in the Conversion Shares (as defined below) and not having withdrawn or revoked such listing and permission, the sale and purchase agreement dated 16 November 2010 (the "**Agreement**") (a copy of which, signed by the Chairman of the meeting for the purposes of identification, has been produced to the meeting marked "A") entered into between Brilliant Field Corporation Limited ("**Purchaser**"), an indirectly wholly-owned subsidiary of the Company, as purchaser and Ya Tai (China) Investment Limited ("**Vendor**") as vendor, the terms and conditions thereof and the transactions contemplated thereunder, including:

(i) the issue of the convertible bond with aggregate principal value of HK$515,128,000 (the "**Convertible Bond**") by the Company to the Vendor;

(ii) the allotment and issue of new shares of the Company (the "**Share(s)**") upon the exercise of the conversion rights attaching to the Convertible Bond (the "**Conversion Shares**") at the initial conversion price of HK$0.345 per Share (subject to adjustments); and

(iii) all other transactions contemplated under the Agreement

and the execution of the Agreement be and are hereby approved, confirmed and ratified; and

* *For identification purpose only*

(b) the board of directors of the Company (the "**Board**") be and is hereby authorised to do all such acts and things and sign all such documents and to take such steps as it considers necessary or expedient or desirable in connection with or to give effect to and to implement the Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond, the Conversion Shares and to agree to such variation, amendment or waiver as are, in the opinion of the Board, in the interest of the Company."

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

Hong Kong, 7 January 2011

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

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.