THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

.

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other appropriate independent adviser.

If you have sold or transferred all your shares in Mandarin Entertainment (Holdings) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED

東方娛樂控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 0009)

VERY SUBSTANTIAL ACQUISITION: PROPOSED ACQUISITION OF PROPERTY INTEREST IN CHENGDU

Financial adviser to Mandarin Entertainment (Holdings) Limited

VINCO 域高

Grand Vinco Capital Limited

A notice convening the SGM of Mandarin Entertainment (Holdings) Limited to be held on Friday, 28 March 2008 at 2:30 p.m. at Rooms 1801-2, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong is set out on pages VI-1 to VI-2 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM if you so wish.

* *For identification purpose only*

12 March 2008

CONTENTS

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

"Acquisition"	the proposed acquisition of the Sale Shares and the Sale Loan by the Purchaser as contemplated under the Sale and Purchase Agreement as amended by the Supplemental Agreement dated 5 February 2008
"associates"	has the meaning ascribed to this term under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Civil Litigations"	The civil litigations between the PRC Subsidiary and Renmin Plaza (Group) Limited# (人民商場(集團)股份有限公司) and Chengdu Renmin Plaza Huanghe Commercial City Limited# (成都人民商場黃河商業城有限責任公司). Details of which are stipulated in (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；but excluding the Other Litigation
"Company"	Mandarin Entertainment (Holdings) Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
"Completion"	completion of the sale and purchase of the Sale Shares and the Sale Loan in accordance with the terms and conditions of the Sale and Purchase Agreement (as amended by the Supplemental Agreement)
"connected person(s)"	has the meaning ascribed to this term under the Listing Rules
"Consideration Shares"	175,000,000 new Shares to be allotted and issued by the Company as consideration for the Acquisition
"Conversion Period"	the period commencing from on 31st day after the final judgments of Civil Litigations, Other Litigation and (2007) 川民初字第55號 have been made by the relevant courts in the PRC or 30 days before the maturity date of the Convertible Bonds, whichever is earlier up to 4:00 p.m. (Hong Kong time) on the day immediately prior to and exclusive of the maturity date of the Convertible Bonds

"Conversion Price"	the price at which holder(s) of the Convertible Bonds may convert the principal amount outstanding under the Convertible Bonds into Shares, initially at HK$0.4 per Conversion Share (subject to adjustment) and on and subject to the terms and conditions described in this circular
"Conversion Shares"	175,000,000 new Shares which will fall to be issued upon full conversion of the initial principal amount of the Convertible Bond of HK$70,000,000 at the initial conversion price of HK$0.4 per Share (subject to adjustment)
"Convertible Bonds"	the convertible bonds in the principal amount of HK$70,000,000 to be issued by the Company in favour of the Vendors at Completion to satisfy in part of the Consideration
"Deposit"	the deposit of HK$30,000,000 in cashier order or by cheque to be paid by the Purchaser to the Vendors pursuant to the Sale and Purchase Agreement (as amended by the Supplemental Agreement)
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"Enlarged Group"	the Group as enlarged by the Acquisition
"Guangdong Huanghe"	Guangdong Huanghe Enterprise Group Limited#(廣東黃河實業集團有限公司), a company incorporated in PRC with limited liability, which is an Independent Third Party
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huanghe Commercial City"	Chengdu Renmin Plaza Huanghe Commercial City Limited# (成都人民商場黃河商業城有限責任公司), a company incorporated in PRC with limited liability, an allegedly joint venture established by Remin Plaza and Sichuan Huanghe, which is an Independent Third Party
"Independent Third Party(ies)"	any person or company and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, are third parties independent of the Company and its connected persons
"Issue Price"	the issue price of HK$0.4 per Consideration Share
"Last Trading Day"	25 January 2008, being the last trading day immediately prior to the entering into of the Sale and Purchase Agreement

"Latest Practicable Date"	10 March, 2008, being the latest practicable date prior to the printing of this circular for inclusion of certain information in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Other Litigation"	civil litigations of the PRC Subsidiary other than Civil Litigations, namely (2007) 成民初字第941號
"PRC"	the People's Republic of China
"PRC Subsidiary"	Chengdu Zhongfa Real Estate Development Co. Ltd. (成都中發黃河實業有限公司), a joint venture enterprise to which the Target owns 90% of the equity interest as at the Latest Practicable Date
"Property"	Minzu Plaza#(民族廣場), a five stories shopping arcade and is situate at No.19 Yong Ling Road, Jinniu District, Chendu City, Sichuan Province the PRC#(中國四川省成都市金牛區永陵路19號), which is legally and beneficially owned by the PRC Subsidiary
"Purchaser"	Sino Step INC. an indirect wholly owned subsidiary of the Company
"Renmin Plaza"	Renmin Plaza (Group) Limited# (人民商場(集團)股份有限公司), which is an Independent Third Party
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 25 January 2008 entered into between the Purchaser and the Vendors in relation to the sale and purchase of the Sale Shares and the Sale Loan and as amended by the Supplemental Agreement dated 5 February 2008
"Sale Shares"	two ordinary shares of HK$1.00 each in the issued share capital of the Target, representing the entire issued share capital of the Target
"Sale Loan"	all obligations, liabilities and debts owing or incurred by the Target to the Vendors on or at any time prior to Completion whether actual, contingent or deferred and irrespective of whether the same is due and payable on Completion excluding all damages from the Civil Litigations and Other Litigations
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong

"SGM"	the special general meeting of the Company to be convened and to be held on Friday, 28 March 2008, for the purpose of considering, and if thought fit, approving the Sale and Purchase Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares and Conversion Shares
"Share(s)"	ordinary share(s) of HK$0.1 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Sichuan Huanghe"	Sichuan Huanghe Commercial Limited[#](四川黃河商業有限責任公司), a company incorporated in PRC with limited liability, a former shareholder of the PRC Subsidiary. As at the date of the Agreement, Sichuan Huanghe is an Independent Third Party
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement dated 5 February 2008 entered into between the Purchaser and the Vendors to amend certain terms in the Sale and Purchase Agreement
"Target"	Profit Source International Limited, a company incorporated in Hong Kong and is wholly and beneficially owned by the Vendors
"Target Group"	the Target and the PRC Subsidiary or where the context so requires in respect of the period before the Target became the holding company of its present subsidiaries, the present subsidiaries of the Target
"Vendors"	Mr. Cheng Keung Fai and Ms. Lam Suet Chung, both are Independent Third Parties
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

For the purpose of this circular, unless otherwise specified, conversions of RMB into HK$ are based on the approximate exchange rate of RMB0.935397 to HK$1.00. No representation is made that any amounts in RMB or HK$ have been, could have been or could be converted at the above rate or at any other rates or at all.

the English translations of Chinese names or words in this circular, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.

MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED
東方娛樂控股有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 0009)

Executive Directors:
Mr. Wong Pak Ming *(Chairman)*
Ms. Wong Kit Fong
Ms. Wong Yee Kwan, Alvina
Ms. Law Kee, Alice

Independent Non-executive Directors:
Mr. Tang Kai Kui, Terence
Mr. Choy Sze Chung, Jojo
Mr. Tsui Pui Hung

Registered Office:
Clarendon House
2, Church Street
Hamilton HM11
Bermuda

Principal place of business in Hong Kong:
Suite 1511
No. 9 Queen's Road Central
Hong Kong

To the Shareholders

12 March 2008

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION: PROPOSED ACQUISITION OF PROPERTY INTEREST IN CHENGDU

INTRODUCTION

On 25 January 2008, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement subsequently amended by the Supplemental Agreement dated 5 February 2008 with the Vendors pursuant to which the Purchaser has agreed to acquire and the Vendors have agreed to sell the Sale Shares and the Sale Loan for a total consideration of HK$240,000,000. Pursuant to the Supplemental Agreement, (1) the Company undertakes not to issue further Conversion Shares to the Vendors if upon conversion, the Vendors will hold more than 25% of the entire share capital of the Company in effect; and (2) parties thereto agree that condition (d) under the Sale and Purchase Agreement is not waivable by the Purchaser.

* *For identification purpose only*

The aggregate consideration for the Sale Shares and the Sale Loan is HK$240,000,000 and shall be settled by the Purchaser in the following manner: (a) the Deposit of HK$30,000,000 shall be payable in cashier order or by cheque by the Purchaser to the Vendors within seven days after the date of the Sale and Purchase Agreement; (b) HK$40,000,000 shall be payable in cashier order or by cheque by the Purchaser to the Vendors on Completion; (c) HK$30,000,000 shall be payable in cashier order or by cheque by the Purchaser to the Vendors within 12 months after the Completion; (d) HK$70,000,000 shall be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares to the Vendors credited as fully paid at the Issue Price on Completion; and (e) HK$70,000,000 shall be satisfied by the Purchaser by procuring the Company to issue the Convertible Bonds to the Vendors on Completion.

The Acquisition constitutes a very substantial acquisition on the part of the Company under the Listing Rules and is subject to the approval of the Shareholders at the SGM.

The purpose of this circular is to provide Shareholders with (i) further details with respect to the Acquisition and transactions contemplated thereunder; (ii) a notice of the SGM; (iii) financial information on the Group; (iv) accountants' report on the Target Group; (v) pro forma financial information on the Enlarged Group; (vi) a valuation report on property assets held by the Target Group; and (vii) general information in relation to the Acquisition and transactions contemplated thereunder.

THE SALE AND PURCHASE AGREEMENT (AS AMENDED BY THE SUPPLEMENTAL AGREEMENT)

Date: 25 January 2008

Parties: (1) Purchaser : Sino Step INC., an indirect wholly owned subsidiary of the Company

(2) Vendors : Mr. Cheng Keung Fai and Ms. Lam Suet Chung, both being Independent Third Parties

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors are Independent Third Parties.

The Target was beneficially owned as to 50% by Mr. Cheng Keung Fai and as to 50% by Ms. Lam Suet Chung. Each of the Vendors has no shareholding in the Company as at the Latest Practicable Date. Each of the Vendors has no directorship in Hong Kong listed companies, no professional qualification or expertise. The Vendors are business partners and parties acting in concert. The Company acquainted with the Vendors through Mr. Checkley Sin, the managing director of Wise King Consultants Ltd., a consultant to Mr. Wong Pak Ming, the chairman of the Company and an executive Director.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement as amended by the Supplemental Agreement, the Purchaser has agreed to acquire and the Vendors has agreed to sell: (i) the Sale Shares, representing the entire issued share capital of the Target as at the Latest Practicable Date; and (ii) the Sale Loan, which amounted to approximately HK$31,754,296.3 as at 31 December 2007.

Consideration

The aggregate consideration for the Sale Shares and the Sale Loan is HK$240,000,000 and shall be settled by the Purchaser in the following manner:

(a) the Deposit of HK$30,000,000 shall be payable in cashier order or by cheque by the Purchaser to the Vendors within seven days after the date of the Sale and Purchase Agreement;

(b) HK$40,000,000 shall be payable in cashier order or by cheque by the Purchaser to the Vendors on Completion;

(c) HK$30,000,000 shall be payable in cashier order or by cheque by the Purchaser to the Vendors within 12 months after the Completion;

(d) HK$70,000,000 shall be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares to the Vendors credited as fully paid at the Issue Price on Completion; and

(e) HK$70,000,000 shall be satisfied by the Purchaser by procuring the Company to issue the Convertible Bonds to the Vendors on Completion.

The consideration for the Sale Shares and the Sale Loan was agreed between the Vendors and the Purchaser after arm's length negotiations as well as after considering the indicative valuation of the Property to be not less than RMB400,000,000 (equivalent to approximately HK$427,625,917) by RHL Appraisal Limited (being an independent valuer). Taking into account of the value of the Property and the potential liability to be incurred by the PRC Subsidiary thereunder the Civil Litigations and the Other Litigation, the Directors consider that it is fair and reasonable for paying a consideration at a discount to the valuation of the Property. As such, the Directors (including the independent non-executive Directors) consider that the conditions for the valuation of the Property to be not less than RMB400,000,000 (equivalent to approximately HK$427,625,917) to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Deposit and the remaining cash consideration payable by the Purchaser to the Vendors on Completion shall be paid by internal resources of the Group.

The Company shall issue two convertible bonds certificates to evidence the amount of HK$30,000,000 Convertible Bonds and HK$40,000,000 Convertible Bonds respectively on Completion. The Vendors may convert the whole or part (in integral multiples of HK$5,000,000) of the HK$30,000,000 Convertible Bonds into new Shares at the initial Conversion Price during the period commencing from the date of issue of the Convertible Bonds up to 4:00 p.m. on the day immediately prior to and exclusive of the maturity date of the Convertible Bonds. However, prior to the final judgment of the Other Litigation and (2007) 川民初字第55號 have been made by the relevant court in the PRC, the Vendors are not entitled to convert whole or any part of the HK$40,000,000 Convertible Bonds. The Vendors shall deposit the bond certificate for the HK$40,000,000 Convertible Bonds to the Purchaser until the occurrence of the following three events whichever is earliest.

(i) If the final judgment of the Other Litigation and (2007) 川民初字第55號 have been made by the relevant court in the PRC and the aggregate liabilities to be incurred by the PRC Subsidiary under the Civil Litigations and Other Litigation are less than RMB130,955,580 (equivalent to approximately HK$140,000,000), the Purchaser shall return the HK$40,000,000 convertible bonds certificate to the Vendors within 30 days from the date such final judgment of the Other Litigations would be made;

(ii) If the final judgment of the Other Litigation and (2007) 川民初字第55號 have been made by the relevant court in the PRC and the aggregate liabilities to be incurred by the PRC Subsidiary under the Civil Litigations and Other Litigation are more than RMB130,955,580 (equivalent to approximately HK$140,000,000), the Purchaser shall be entitled to deduct any sum of aggregate liabilities exceeding RMB130,955,580 (equivalent to approximately HK$140,000,000) from the HK$40,000,000 Convertible Bonds (the "New Amount") on dollar to dollar basis. The Purchaser shall, within 30 days from the date the final judgment of the Other Litigation be made, issue and deliver to the Vendors a new convertible bonds certificate evidencing the New Amount Convertible Bonds; and

(iii) If the final judgment of the Other Litigation and (2007) 川民初字第55號 have not been made by the relevant court in the PRC within 180 days after the third anniversary date of the Convertible Bonds, the Purchaser shall return the HK$40,000,000 convertible bonds certificate to the Vendors within 30 days before the maturity date of the Convertible Bonds.

Conditions precedent

Completion shall be conditional upon and subject to:

(a) all necessary consents and approvals required to be obtained on the part of the Vendors and the Purchaser in respect of the Sale and Purchase Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder having been obtained;

(b) the warranties provided by the Vendors under the Sale and Purchase Agreement (as amended by the Supplemental Agreement) remaining true and accurate in all respects;

(c) the passing by the Shareholders at the SGM to be convened and held of an ordinary resolution to approve the Sale and Purchase Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder, including but not limited to i) the allotment and issue of the Consideration Shares to the Vendors credited as fully paid; and ii) the issue of the Conversion Shares;

(d) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser, including but not limited to (1) whether the maximum potential exposure to be borne by the Company, which should be RMB122,630,000 (equivalent to approximately HK$131,099,416) plus the interests accrued from the respective dates of the damages awarded, and the legal costs of approximately RMB709,256 (equivalent to approximately HK$758,241) and (2) the PRC Subsidiary is the registered owner of the entire Property) in relation to the transactions contemplated under the Sale and Purchase Agreement as amended by the Supplemental Agreement;

(e) the Purchaser having received from a firm of professional surveyors and valuers appointed by the Purchaser, a property valuation report on the Property showing the value of the Property as at 31 December 2007 to be not less than RMB400,000,000 (equivalent to approximately HK$427,625,917);

(f) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares;

(g) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares;

(h) the Vendors procuring Guangdong Huanghe, being owned as to 89% by Mr. Cheng Keung Fai (one of the Vendors), to waive all the liabilities amounted to RMB67,688,917 (equivalent to approximately HK$72,363,838) (including all the interested accrued, if any) owed by the PRC Subsidiary to it;

(i) the Purchaser being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group; and

(j) all reasonable requests made by the Purchaser to the Vendors.

Conditions (a), (c), (d), (f), (g) and (h) are not waivable by the Purchaser under the Sale and Purchase Agreement (as amended by the Supplemental Agreement). The Purchaser has no current intention to waive any conditions.

The Sale and Purchase Agreement provides that should the satisfaction of all of the above conditions, if not waived by the Purchaser, not occur on or before 90 days from the date of the Sale and Purchase Agreement, that is 24 April 2008 or such later date as the Purchaser and the Vendors may agree in writing, the Sale and Purchase Agreement shall terminate and neither party shall have any liability to the other except for antecedent breaches of the Sale and Purchase Agreement and the obligation to return the Deposit by the Vendors to the Purchaser without interest.

In the event that Completion does not take place as a result of the sole default of the Purchaser, the Vendors shall be entitled to forfeit the Deposit. The Vendors shall accept the Deposit as liquidated damages (but not as penalty) and in full and final settlement of any liabilities of the Purchaser towards the Vendors and whereupon the Vendors shall not take any action to claim for damages or to enforce specific performance or any other rights and remedies.

In the event that Completion does not take place as a result of the sole default of the Vendors, the Vendors shall refund the Deposit to the Purchaser and compensate the Purchaser the sum equivalent to the Deposit. The Purchaser shall accept the Deposit and such compensation as liquidated damages (but not as penalty) and in full and final settlement of any liabilities of the Vendors towards the Purchaser and whereupon the Purchaser shall not take any action to claim for damages or to enforce specific performance or any other rights and remedies. The Purchaser will rely on the Sale and Purchase Agreement to claim onto the Vendors through legal action if the Vendors are in default of refunding the Deposit in such case and the Purchaser has not performed credit risk assessment on the Vendors in this regard.

As at the Latest Practicable Date, only conditions set out in items (d) and (e) above have been fulfilled.

Extract summary of major warranties provided by the Vendors

The Vendors have provided the following major warranties to the Purchaser and the Company:

1. The Vendors have undertaken to the Purchaser and the Company that the Vendors will not hold more than 25.0% in the share capital of the Company at any time;

2. The Vendors warrant that all statements, information, opinions, representations and facts given were true, accurate and complete at the time they were made, and continue to be true, accurate and complete as at the date of the Sale and Purchase Agreement;

3. The Vendors are the registered and beneficial owners of the Sale Shares which are free of encumbrances and represent 100% of the issued share capital of the Target;

4. Save as disclosed in this circular, the Target Group is not engaged in any material litigation or arbitration proceedings, as plaintiff or defendant; there are no proceedings pending or threatened, either by or against the Company and there are no circumstances which are likely to give rise to any litigation or arbitration.

5. Save as disclosed in this circular,

    (a) the PRC Subsidiary has a good, valid, subsisting and marketable title to all the Property which is free from all Encumbrances;

    (b) the PRC Subsidiary has fully complied with all the necessary legal and regulatory requirements and restrictions in relation to the Property so as to prevent any adverse impacts on it. The Vendors will procure the PRC Subsidiary to keep such compliance until the Completion;

    (c) the PRC Subsidiary has performed and complied in all material respects with all applicable obligations, requirements, statutes, rules, orders directives, regulations, bye-laws and other relevant legislation, with respect to the Property whether statutory or imposed by any competent government authority. All covenants, restrictions, stipulations, conditions and other terms affecting the Property have been observed and performed and there are no circumstances which would entitle or require any person to exercise restrict or terminate the continued possession or occupation of the Property;

(d) there are no covenants, restrictions, burdens, stipulations, conditions, terms or outgoings affecting the Property which are of an unusual or onerous nature or which affect the use or intended use of the Property;

(e) the Property is not affected by any order or notice of or proceedings involving any governmental or local authority or other body or any agreement with any of the same or by any notices served on any member of the Company by such authority or body; and

(f) there are no unresolved monetary claims or contingent claims affecting any of liabilities and obligations of the Property.

Completion

Completion shall take place at 4:00 p.m. on the date falling the third Business Days after the fulfilment (or waiver) of the conditions or such later date as may be agreed between the Vendors and the Purchaser. The Purchaser has the rights to take any appropriate actions in response to any breach of representations and warranties made by the Vendors before and after the Completion.

Upon Completion, the Target will become an indirect wholly-owned subsidiary of the Company.

The Vendors have no current intention to appoint any representatives to the Board upon Completion.

CONSIDERATION SHARES

The 175,000,000 Consideration Shares will be issued at the Issue Price of HK$0.4 per Consideration Share, credited as fully paid. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares then in issue on the date of allotment and issue of the Consideration Shares.

The Issue Price represents:

(i) a discount of approximately 35.48% to the closing price of HK$0.62 per Share as at the Latest Practicable Date;

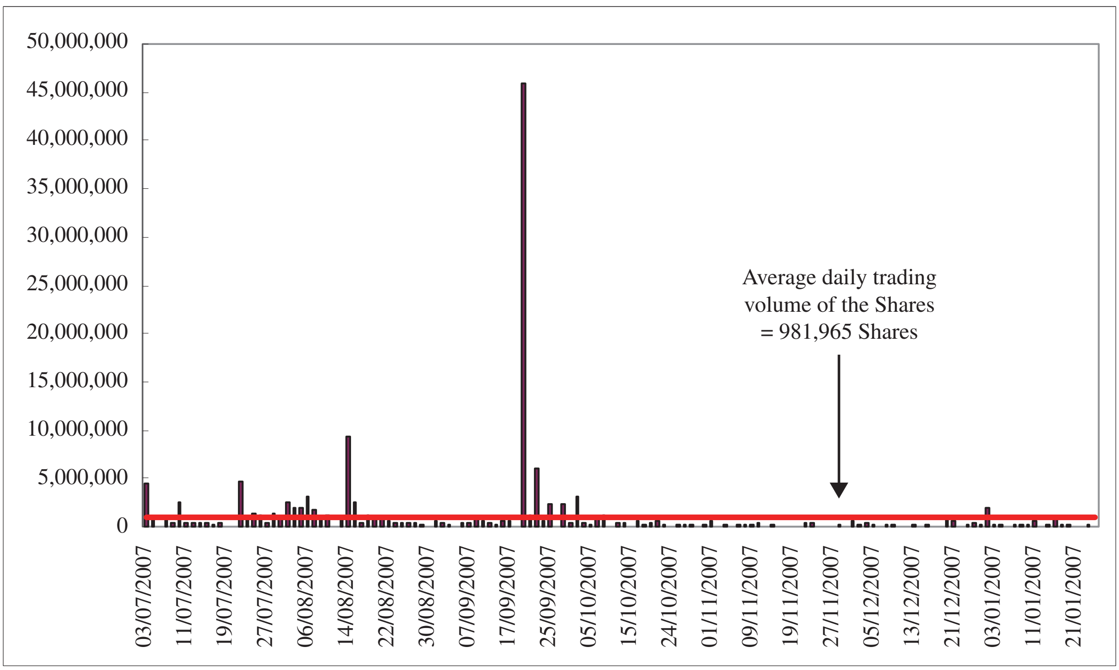
(ii) a discount of approximately 27.27% to the closing price of HK$0.55 per Share as at the Last Trading Day;

(iii) a discount of approximately 24.81% to the average of the closing prices of approximately HK$0.532 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 27.40% to the average of the closing prices of HK$0.551 per Share for the ten consecutive trading days up to and including the Last Trading Day; and

(v) a premium of approximately 156.25% over the unaudited net asset value per Share of approximately HK$0.1561 based on the unaudited net asset value of approximately HK$89,891,000 as at 30 June 2007 and the outstanding 576,000,000 issued Shares as at the Latest Practicable Date.

Set out below the historical daily trading volume of the Share during the 6-month period up to and the Last Trading Day ("Review Period"):



The Directors noted that the daily trading volume of the Shares was in the range of 0 Share to 45,983,000 Shares during the Review Period. When compared to the Shares issued as at the Latest Practicable Date, the daily trading volume was approximately 0% to 7.98% of the entire issued capital of the Company. The average daily trading volume of the Shares was approximately 981,965 Shares, representing approximately 0.17% of the existing share capital of the Company.

Although the Issue Price represents a discount of approximately 27.27% to the closing price of the Share as at the Last Trading Day, the Directors have considered the following facts including, (i) the Issue Price represents a premium over the unaudited net asset value per Share as at 30 June 2007; and (ii) the Shares were traded in very thin trading volume during the Review Period. Based on the foregoing, the Directors (including the independent non-executive Directors) are of the view that the Issue Price is fair and reasonable to the Company and the Shareholders as a whole.

The Consideration Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM and will be allotted and issued on the date of Completion.

The Consideration Shares represent approximately 30.38% of the existing issued share capital of the Company and approximately 23.30% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. There are no restrictions on the subsequent disposal of the Consideration Shares.

CONVERTIBLE BONDS

Issuer

The Company

Principal amount

HK$70,000,000

Interest

The Convertible Bonds will bear no interest.

Maturity

The 180th day after third anniversary from the date of issue of the Convertible Bonds. Unless previously redeemed, converted or cancelled as provided in the instrument pursuant to which the Convertible Bonds are to be issued, the outstanding principal amount of the Convertible Bonds on the maturity date shall be repaid.

Conversion

The Vendors may convert the whole or part (in integral multiples of HK$5,000,000) of the HK$30,000,000 Convertible Bonds into Conversion Shares at the Conversion Price during the period commencing from the date of issue of the Convertible Bonds up to 4:00 p.m. on the day immediately prior to and exclusive of the maturity date. The Vendors have undertaken to the Purchaser and the Company that the Vendors will not hold more than 25.0% in the share capital of the Company at any time.

The Vendors shall only have the right at any time during the Conversion Period to convert the whole or part of the outstanding amount of the HK$40,000,000 Convertible Bonds registered in its name into Shares, subject to the final judgments of the Other Litigation and (2007) 川民初字第55號 have been made by the relevant court in the PRC above mentioned, provided further that any conversion shall be made in amounts of not less than a whole multiple of HK$5,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Convertible Bonds is less than HK$5,000,000, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted. Pursuant to the Sale and Purchase Agreement (as amended by the Supplemental Agreement), the Vendors have undertaken to the Purchaser and the Company that the Vendors will not hold more than 25.0% in the share capital of the Company at any time. The Company has also undertaken not to issue further Conversion Shares to the Vendors if upon conversion, the Vendors will hold more than 25% of the entire share capital of the Company in effect.

Conversion Price

The initial Conversion Price of HK$0.4 per Conversion Share is subject to adjustment based on prescribed formulas as set out in the instrument creating the Convertible Bonds 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 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 Bonds) 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 Bonds) 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$0.4 per Conversion Share, which is equivalent to the issue price of the Consideration Shares, represents:

(i) a discount of approximately 35.48% to the closing price of HK$0.62 per Share as at the Latest Practicable Date;

(ii) a discount of approximately 27.27% to the closing price of HK$0.55 per Share as at the Last Trading Day;

(iii) a discount of approximately 24.81% to the average of the closing prices of approximately HK$0.532 per Share for the five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 27.40% to the average of the closing prices of HK$0.551 per Share for the ten consecutive trading days up to and including the Last Trading Day; and

(v) a premium of approximately 156.25% over the unaudited net asset value per Share of approximately HK$0.1561 based on the unaudited net asset value of approximately HK$89,891,000 as at 30 June 2007 and the outstanding 576,000,000 issued Shares as at the Latest Practicable Date.

The initial Conversion Price was determined by the Purchaser and the Vendors on an arm's length basis with reference to (i) the issue price per Consideration Share; (ii) the current market prices of the Shares; and (iii) the duration of the Convertible Bonds.

Conversion Shares

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Bonds in the aggregate principal amount of HK$70,000,000 at the initial Conversion Price of HK$0.4 per Conversion Share, the Company will issue an aggregate of 175,000,000 Conversion Shares, representing approximately:

(i) 30.38% of the existing issued share capital of the Company;

(ii) 23.30% of the total issued share capital of the Company as enlarged by the allotment and issue of the Consideration Share;

(iii) 18.90% of the total issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares.

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with the Shares then in issue.

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

Early redemption

The Company may, at its option, redeem the Convertible Bonds in whole or in part of the amount to be redeemed by giving a prior ten (10) Business Days' written notice to the holder(s) of the Convertible Bonds, at any time commencing from six (6) months after the date of issue of the Convertible Bonds and up to the date immediately prior to the maturity date of the Convertible Bonds.

Status of the Convertible Bonds

The Convertible Bonds constitute direct, general, unconditional and unsecured obligations of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

Transferability

The Convertible Bonds may be transferred or assigned in whole or in part in integral multiples of HK$5,000,000 and in whole only if the outstanding amount of the Convertible Bonds is less than or equal to HK$5,000,000 by the holders(s) of the Convertible Bonds to any party other than a connected person of the Company.

Voting rights

The Convertible Bonds do not confer any voting rights at any meetings of the Company.

Application for listing

No application will be made by the Company for the listing of the Convertible Bonds.

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

The Board will seek approval from the Shareholders at the SGM for the grant of a specific mandate for the issue and allotment of the Conversion Shares.

Supplemental Agreement

The Company, the Purchaser and the Vendors entered into the Supplemental Agreement on 5 February 2008. Pursuant to which (1) the Company undertakes not to issue further Conversion Shares to the Vendors if upon conversion, the Vendors will hold more than 25% of the entire share capital of the Company in effect; and (2) parties thereto agree that condition (d) under the Sale and Purchase Agreement is not waivable by the Purchaser.

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (1) as at the Latest Practicable Date; (2) immediately after issue of the Consideration Shares but before the issue of the Conversion Shares; (3) immediately after issue of the Consideration Shares and partial conversion of the Convertible Bonds with a cap of 25% on the maximum shareholding of the Vendors; (4) immediately after issue of the Consideration Shares and partial conversion of the Convertible Bonds assuming HK$40 million of Convertible Bonds will not be exercised pursuant to the Sale and Purchase Agreement (as amended by the Supplemental Agreement); and (5) immediately after issue of the Consideration Shares and the Conversion Shares (assuming full conversion of the Convertible Notes) at the initial Conversion Price:

	As at the Latest Practicable Date		**Immediately after issue of the Consideration Shares but before full conversion of the Convertible Bonds**		**Immediately after issue of the Consideration Shares and partial conversion of the Convertible Bonds with a cap of 25% on the maximum shareholding of the Vendors**		**Immediately after issue of the Consideration Shares and partial conversion of the Convertible Bonds assuming HK$40 million of Convertible Bonds will not be exercised pursuant to the Sale and Purchase Agreement (as amended by the Supplemental Agreement) (FOR ILLUSTRATION PURPOSE ONLY)**		**Immediately after issue of the Consideration Shares and after full conversion of the Convertible Bonds (FOR ILLUSTRATION PURPOSE ONLY)**	
	No. of Shares held	*Approx. shareholding %*	*No. of Shares held*	*Approx. shareholding %*	*No. of Shares held*	*Approx. shareholding %*	*No. of Shares held*	*Approx. shareholding %*	*No. of Shares held*	*Approx. shareholding %*
Wong Pak Ming *(Note 1)*	233,065,048	40.46	233,065,048	31.03	233,065,048	30.35	233,065,048	28.22	233,065,048	25.17
Zhang Xun *(Note 2)*	60,060,000	10.43	60,060,000	8.00	60,060,000	7.82	60,060,000	7.27	60,060,000	6.49
Mr. Cheng Keung Fai	–	–	87,500,000	11.65	96,000,000	12.50	125,000,000	15.13	175,000,000	18.90
Ms. Lam Suet Chung	–	–	87,500,000	11.65	96,000,000	12.50	125,000,000	15.13	175,000,000	18.90
Sub-total of the Vendors	–	–	175,000,000	23.30	192,000,000	25.00	250,000,000	30.26 *(Noted 3)*	350,000,000	37.80 *(Noted 3)*
Public	282,874,952	49.11	282,874,952	37.67	282,874,952	36.83	282,874,952	34.25	282,874,952	30.54
Total	576,000,000	100.00	751,000,000	100.00	768,000,000	100.00	826,000,000	100.00	926,000,000	100.00

Notes:

1. Mr. Wong Pak Ming is beneficially interested in 4,354,048 Shares. Mr. Wong Pak Ming is also the sole beneficial owners of the entire issue share capital of Idea Storm Holdings Limited which holds 155,000,000 Shares and Capeland Holding Limited which holds 73,300,000 Shares. Accordingly Mr. Wong Pak Ming is deemed to be interested in 233,065,048 Shares. Ms. Zee Ven Chu Lydia being the spouse of Mr. Wong Pak Ming is beneficially interested in 411,000 Shares and is also deemed to be interested in 233,065,048 Shares.

2. Mr. Zhang Xun is interested in a hotel operation in PRC in which the Group is interested in 37.5%.

3. Pursuant to the Sale and Purchase Agreement (as amended by the Supplemental Agreement), the Vendors have undertaken to the Purchaser and the Company that the Vendors will not hold more than 25.0% in the share capital of the Company at any time and the Company has entered into the Supplemental Agreement to undertake that it will not issue further Conversion Shares to the Vendors if upon conversion the Vendors will hold more than 25% of the entire share capital of the Company in effect. The shareholding of the Vendors immediately after issue of the Consideration Shares and issue of the Conversion Shares is for illustration purposes only.

The Vendors will become new substantial Shareholders (as defined under the Listing Rules) as a result of the issue of Consideration Shares upon the Completion. Neither the Vendors have any present intention nor does the Agreement confer any right to the Vendors to nominate any representative to the Board as a result of the Acquisition. The Acquisition will not result in a change in control of the Company.

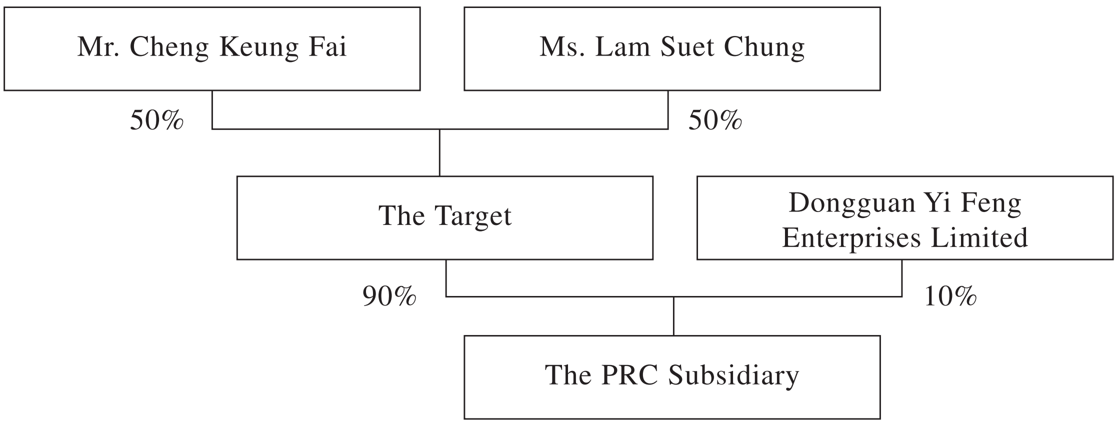
INFORMATION ON THE TARGET GROUP

The Target was incorporated on 31 May 1994 and is principally engaged in investment holding. As at the Latest Practicable Date, the Target held 90% equity interest in the PRC Subsidiary which was incorporated on 16 January 1997 and is principally engaged in development, construction, management and leasing of the Property. The other shareholder with 10% equity interest in the PRC Subsidiary is Dongguan Yi Feng Enterprise Limited# (東莞市易豐實業發展有限公司), which is an Independent Third Party.

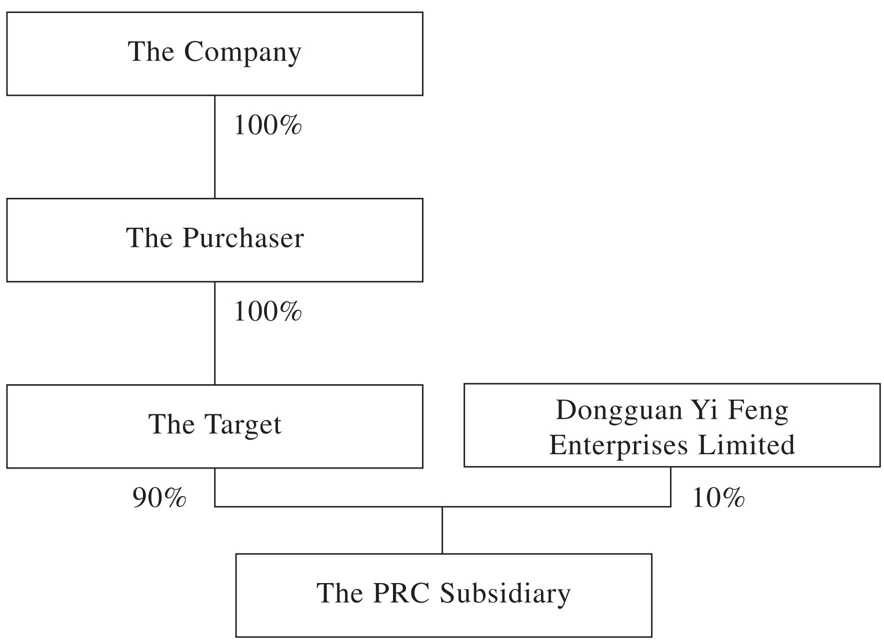
In 1997, each of Chengdu Wengyi Property Limited# (成都弘易地產有限責任公司) and the Target was interested in as to 75% and 25% equity interest in the PRC Subsidiary respectively and Chengdu Wengyi Property Limited# (成都弘易地產有限責任公司) transferred its entire shareholding in the PRC Subsidiary to Sichuan Huanghe in 1999. In 1999, each of Sichuan Huanghe and the Target was interested in as to 75% and 25% equity interest in the PRC Subsidiary respectively. In 2004, Sichuan Huanghe sold 75% of equity interest in the PRC Subsidiary to Dongguan Yi Feng Enterprise Limited# (東莞市易豐實業發展有限公司). Subsequently in 2007, Dongguan Yi Feng Enterprise Limited# (東莞市易豐實業發展有限公司) sold 65% equity interest in the PRC Subsidiary to the Target. As at the Latest Practicable Date, each of the Target and Dongguan Yi Feng Enterprise Limited# (東莞市易豐實業發展有限公司) are interested in as to 90% and 10% equity interest in the PRC Subsidiary respectively.

Set out below are the shareholding structures of the Target immediately before and after the Completion:

Before the Completion:



After the Completion:



As at the Latest Practicable Date, the PRC Subsidiary is a party to both Civil Litigations and Other Litigation. In the Civil Litigations, Renmin Plaza 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against the PRC Subsidiary and Huanghe Commercial City. The Civil Litigations were resulted from that the PRC Subsidiary entered into a charge of the Property in favour of Renmin Plaza to counter-guarantee Renmin Plaza's guaranteed obligations towards two PRC banks in relation to indebtedness incurred by Huanghe Commercial City (an allegedly joint venture established by Remin Plaza and Sichuan Huanghe and an Independent Third Party) 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 amounted 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 is 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 can enforce the judgment by order to sell the Property. As confirmed by the Vendors, although the PRC Subsidiary plans to take legal actions against Huanghe Commercial City, the PRC Subsidiary, according to the judgment by the PRC court, will only have the right to take legal action once they have paid all the damages and discharged all counter-guarantee. Huanghe Commercial City still exists as at the Latest Practicable Date.

Chengdu Songde Investment Limited# (成都崇德投資有限公司) instituted a civil action namely 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 Property 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 amounted to RMB 1,380,000 (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. The PRC Subsidiary is still in the course of seeking legal advice in order to appeal against the judgment.

In 1997, 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 Property for a term of 15 years. In view the breach of such joint venture agreement by the 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 against Renmin Plaza and Huanghe Commercial City seeking a declaration that the joint-venture agreement between Sichuan Huanghe and Renmin Plaza is 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 Property to Sichuan Huanghe. As informed by the Vendors, the legal representative of Sichuan Huanghe advised that Sichuan Huanghe has a strong merit in the above action. In light of the (2007) 川民初字第55號, the PRC court has ordered to stay the execution of judgment under the Civil Litigations pending for the judgment of the (2007) 川民初字第55號.

With reference to the PRC legal opinion prepared by Sichuan Junhe Law Firm dated 10 March 2008, the maximum legal exposure was 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).

As at the Latest Practicable Date, the PRC Subsidiary is due to Guangdong Huanghe the sum of approximately RMB67,688,917 (equivalent to approximately HK$72,363,838). It is one of the conditions precedent that the Vendors have to procure Guangdong Huanghe to waive all the liabilities (including all the interested accrued, if any) owed by the PRC Subsidiary. Accordingly, such debt will be waived upon Completion.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Company has used its best effort to ensure the completeness of the litigations faced by the Target by conducting due diligence on the Target Group since 22 November 2007, including but not limit to retaining both Hong Kong legal adviser and PRC legal adviser to peruse all the legal documents of the Target and the PRC subsidiary respectively, retaining auditors to peruse the financial information of the Target Group, and conducting site visit by the Company and engaging property valuer to perform valuation on the Property. As confirmed by the PRC legal adviser, in light of the fact that judgments have been made in respect of the Civil Litigations and the Other Litigation, 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 shall be borne by the PRC Subsidiary. As the PRC Subsidiary will become a non wholly-owned subsidiary of the Company upon the Completion, the Company has to bear 90% of the then total liabilities if the PRC Subsidiary was unable to settle such amount. As at the Latest Practicable Date, there was no further update on the Civil Litigations and Other Litigations save as disclosed.

Set out below is a summary chart illustrating details of finalized legal damages regarding the Civil Litigations and Other Litigation:

	Date of judgement made by the PRC courts	Finalized 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 Property:

The Property, a five stories shopping arcade located at No.19 Yung Ning Lu, Jin Niu Qu, Chengdu, Sichuan, the PRC# (中國四川省成都市金牛區永陵路19號), which is legally and beneficially owned by the PRC Subsidiary. With reference to the PRC legal opinion prepared by Sichuan Junhe Law Firm, the sole registered owner of the Property is the PRC Subsidiary. The valuation of the Property is expected to be not less than RMB400,000,000 (equivalent to HK$427,625,917). As at the Latest Practicable Date, basement of the Property is used as car parking area. Part of the first floor, the fourth and fifth floors of the Property are leased out for commercial use. Regarding, part of the first floor, second to third floors of the Property of approximately 18,000 square metres are occupied by Huanghe Commercial City pursuant to a licence, which was agreed by the PRC Subsidiary for a term of 15 years granted by Sichuan Huanghe, which is not the registered owner, under a joint venture agreement dated 6 April 1997 entered into between Sichuan Huanghe and Renmin Plaza and the license should expire in 2012. As at the Latest Practicable Date, the Property is subject to three charges. However, the PRC Subsidiary remains to have the legal rights to the proper title of the Property.

The rental income for part of the first floor, second to third floors of the Property is to be received by the PRC Subsidiary. Yet due to the existing three charges of a total gross floor area of approximately 26,042 square metres in total sum of RMB135,700,000 subject to Renmin Plaza as to RMB124,700,000 and a PRC bank as to RMB8,000,000 and RMB3,000,000 respectively over the Property resulted from the Civil Litigations and the Other Litigation, the PRC Subsidiary has not received the rental income from part of the first floor, second to third floors of the Property.

Set out below is a summary of key financial data of Target based on the audited consolidated accounts of Target for the three years ended 31 December 2005, 2006 and 2007 which has been prepared in accordance with the Hong Kong Financial Reporting Standards:

		For the year ended 31 December	
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
	(audited)	(audited)	(audited)
Profit/(Loss) before tax for the period	(522,768)	(7,406,915)	133,196,166
Profit/(Loss) after tax for the period	(522,768)	(7,406,915)	133,196,166

		As at 31 December	
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
	(audited)	(audited)	(audited)
Net assets value	48,428,700	42,999,327	194,581,207

The leap in the net profit for the 2007 was mainly attributable to the increase in the fair value of the Property in the amount of approximately HK$102 million and the increase of approximately HK$58 million in respect of excess of fair value of net assets acquired over costs arising from acquisition of further 65% of equity interest in the PRC Subsidiary in 2007. Among other reasons, the significant increase in net assets of the Target from approximately HK$43 million in 2006 to approximately HK$195 million in 2007 (including minority interest of approximately HK$23 Million) was mainly due to the acquisition of a further 65% equity interest in the PRC Subsidiary in 2007 while the Target Group's shareholding in 2006 was only 25%.

Upon the Completion, the Directors do not expect that there will be any material change to operation and quality of services provided by the PRC Subsidiary and the Directors have no current intention to materially change the existing management team thereof except for the changes to the compositions of the board of directors of the Target Group to obtain board control. The Board considers that with the continuation of service of the existing management team of the Target Group, which has sufficient knowledge and experience in the management and business of the Target Group, coupling with a number of executive Directors, who also have sufficient knowledge and experience in the property management and leasing, the Group is well equipped to carry on the business of the Target Group.

Board representation of the Target Group

Upon the Completion, representatives will be appointed by the Company to form a majority of each of the board of directors of the members of the Target Group.

REASONS FOR THE PROPOSED ACQUISITION

The Group is principally engaged in films production business. During the recent years, the Group has experienced fierce competition from other market competitors, among other things, local and overseas films production companies and the DVD and VCD distributors and retailers. The difficult market conditions in the local and overseas market have caused the Group to take a fresh look at its core business. In this regard, the Group has been actively exploring new business opportunities with a view to diversifying its existing business. The Directors has no current intention to discontinue with the existing business of the Group.

The Directors are fully aware of the litigations of the PRC Subsidiary. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the maximum potential exposure resulting from the Civil Litigations and Other Litigation is approximately 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 legal costs of approximately RMB709,256 (equivalent to approximately HK$758,241). The Directors confirmed that the PRC Subsidiary, upon the Completion, will be responsible to pay for all the damages from the Civil Litigations and the Other Litigation. In any event the PRC Subsidiary is unable to repay the damages from the Civil Litigations and the Other Litigation, the Company will bear 90% of the said damages, i.e. approximately HK$117,089,475 plus 90% of the interests accrued from the respective dates of damages awarded, the execution fees and the legal cost. The Directors also noted that the Consideration plus the total damages from the Civil Litigations and the Other Litigation amounting to approximately HK$357,089,475 is still less than 90% of the equity interest of the Property, i.e. approximately HK$384,863,325.

In addition, pursuant to the Sale and Purchase Agreement (as amended by the Supplemental Agreement), the Directors are of the view that sufficient protection terms to the Shareholders and the Company are incorporated, including but not limited to (1) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser, including but not limit to (i) whether the maximum potential exposure to be borne by the Company, which should be RMB122,630,000 (equivalent to approximately HK$131,099,416) plus the interests accrued from the respective dates of the damages awarded, and the legal costs of approximately RMB709,256 (equivalent to approximately HK$758,241); (ii) the PRC Subsidiary is the registered owner of the entire Property in relation to the transactions contemplated under the Agreement; (2) the prohibition of the Vendors to convert whole or any part of the HK$40,000,000

Convertible Bonds prior to the final judgment of the Other Litigations has been made by the relevant court in the PRC; and (3) the determination of the Consideration by discounting the potential liability to be incurred by the PRC Subsidiary thereunder the Civil Litigations and the Other Litigation from the value of the Property. The Directors believe that the above measures have provided sufficient and effective protection to the Company and the Shareholders against the Civil Litigations and the Other Litigation of the PRC Subsidiary.

The Directors consider that the Acquisition represents a good opportunity for the Group to tap into the growing PRC property market and also allow it to diversify its existing businesses. The Directors have also taken into account of the stable income stream generated by the Property, which the revenue amounted to RMB251,114.48 (equivalent to approximately HK$268,457.6), RMB657,487.4 (equivalent to approximately HK$702,896.6) and RMB631,524.46 (equivalent to approximately HK$675,140.6) for the three years ended 31 December 2004, 2005 and 2006 respectively. In addition, the Directors are of the view that (i) the growth of the property market in the PRC market is much more robust in the future; and (ii) there are approximately 4,780 square meters unoccupied space for rental purpose as at the Latest Practicable Date, and there may be more space for rental purpose after the clearance of the litigations in relation to the Property. The Board is of the view that the terms and conditions of the Sale and Purchase Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS

1. Net asset

The unaudited consolidated net assets of the Group as at 30 June 2007, as extracted from the interim report 2007 of the Company, was approximately HK$89,891,000.

As set out in the Appendix III to this circular, assuming the Completion had taken place, the pro forma net assets of the Enlarged Group would have been approximately HK$191,641,000. Therefore, the Acquisition will improve the Group's net assets position.

2. Working capital

The unaudited net current assets of the Group as at 30 June 2007, as extracted from the interim report 2007 of the Company, was approximately HK$64,348,000.

As set out in the Appendix III to this circular, assuming the Completion had taken place, the pro forma net current liabilities of the Enlarged Group would have been approximately HK$194,583,000. Therefore, the Acquisition will weaken the Group's working capital position.

3. Earnings

The audited net profit of the Group as at 31 December 2006, as extracted from the annual report 2006 of the Company, was approximately HK$1,673,000.

As set out in the Appendix III to this circular, assuming the Completion had taken place, the pro forma net loss attributable to the Shareholders of the Enlarged Group would have been approximately HK$670,000. Therefore, the Acquisition will weaken the Group's earnings.

RISK FACTORS

Possible risk factors which may be faced by the Company are as follows:

1. Investments in new business

The Acquisition constitutes an investment in the new business sector. The new business, coupled with the regulatory environment, may pose significant challenges to the Company's administrative, financial and operational resources. Since the Company does not have significant experience in the new business, it may not be in a position to assure the timing and amount of any return or benefits that may be received from the new business.

2. Changes in policies and regulations

The new business is subject to extensive governmental regulations, policies and controls. There can be no assurance that the relevant government will not change such laws and regulations or impose additional or more stringent laws or regulations. Failure to comply with the relevant laws and regulations in the property sector may adversely affect the Company.

3. PRC Country risk

The Company is entering a new business in the PRC. There can be a risk relating to the likelihood that changes in the business environment will occur that reduce the profitability of doing business in the PRC. The change of political and economic conditions in the PRC may adversely affect the Company.

4. Legal title on the Property

As at the Latest Practicable Date, the Property is subject to three charges. There can be a risk relating to the likelihood that the (2007) 川民初字第55號 turn out against the interest of the Target which may affect the profitability of the Target Group and the Company upon the Completion.

5. Outstanding litigation cases

The PRC Subsidiary is involved in the Civil Litigation and the Other Litigation. There can be risk in prolonged period in concluding the litigations cases or potential damages arising from the litigations cases, which may harm the receipt of rental income from part of the first, second to third floors of the Property, as well as the daily operation or financial position of the Target Group which may ultimately adversely affect the financial position of the Company upon the Completion.

6. Investment in PRC property market

The Company is investing in the PRC property market, the prospects of the new business is heavily dependent on the continued growth and performance of property sector in PRC. Accordingly, any adverse or unfavourable change in the general property market in the PRC, particularly in the supply and demand or any sudden crash in property prices, may have a material adverse effect on the property business which the Company will be involved upon the Completion.

LISTING RULES REQUIREMENTS

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

SGM

The SGM will be held at Rooms 1801-2, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong on Friday, 28 March 2008 at 2:30 p.m., for the purpose of considering, and if thought fit, approving the Sale and Purchase Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder, the issue of the Consideration Shares, the issue of the Convertible Bonds and the issue of the Conversion Shares upon conversion of the Convertible Bonds

A notice convening the SGM is set out on pages VI-1 to VI-2 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Tricor Standard Limited Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM if you so wish.

To the best knowledge of the Directors, none of the Vendors and their associates holds any Shares as at the Latest Practicable Date.

DILUTIVE EFFECT OF THE CONVERTIBLE BONDS ON SHAREHOLDERS

In view of the potential dilution effect on existing Shareholders on exercise of conversion rights attached to the Convertible Bonds, so far as long as any of the Convertible Bonds are outstanding, the Company will keep the Shareholders informed of the level of dilution and details of the conversion as follows:

(i) the Company will make a monthly announcement (the "Monthly Announcement") on the website of the Stock Exchange. Such Monthly Announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:

1. whether there is any conversion of the Convertible Bonds during the relevant month. If there is a conversion, details thereof including the conversion date, number of Conversion Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;

2. the amount of outstanding Convertible Bonds after the conversion, if any;

3. the total number of Shares issued pursuant to other transactions during the relevant month, including the Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and

4. the total issued share capital of the Company as at the commencement and the last day of the relevant months.

(ii) in addition to the Monthly Announcement, if the cumulative amount of the Conversion Shares issued pursuant to the conversion of the Convertible Bonds reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (i) or any subsequent announcement made by the Company in respect in respect of the Convertible Bonds (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be); and

(iii) if the Company forms the view that the issue of Conversion Shares will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, then the Company is obliged to make such disclosures regardless of the issue of any announcements in relation to the Convertible Bonds as mentioned in (i) and (ii) above.

PROCEDURE TO DEMAND A POLL AT GENERAL MEETING

For your further information as required by the Listing Rules, set forth below are the procedures for demanding a poll at general meeting of the Company. Pursuant to bye-law 66 of the Company's bye-laws (**the "Bye-Laws"**), every resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded:

(a) by the chairman of such meeting; or

(b) by at least three members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

(c) by a member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A poll which is duly demanded shall be then held in such manner prescribed by the Bye-Laws of the Company.

RECOMMENDATION

The Directors consider that the terms of the Sale and Purchase Agreement as amended by the Supplemental Agreement and the transaction contemplated thereunder are fair and reasonable to the Company and in the interests of the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions at the SGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Mandarin Entertainment (Holdings) Limited
Wong Pak Ming
Chairman

SUMMARY OF FINANCIAL INFORMATION OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2004, 2005 AND 2006 AND THE SIX-MONTH PERIOD ENDED 30 JUNE 2007

The following table summarises the financial results of the Group for the last three financial years ended 31 December 2004, 2005 and 2006 and the assets and liabilities of the Group as at 31 December 2004, 2005 and 2006, together with half year financial results of the Group for six-month period ended 30 June 2006 and 2007 and the assets and liabilities of the Group as at 30 June 2006 and 2007, extracted from the relevant published financial statements of the Company.

Consolidated Income Statement

	For the six-month period ended 30 June		For the year ended 31 December		
	2007	**2006**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	21,503	25,350	77,165	43.256	53,192
Cost of sales	(17,775)	(15,528)	(60,248)	(42,193)	(72,812)
Gross profit	3,728	9,822	16,917	1,063	(19,620)
Other income	1,472	1,362	7,945	2,743	2,227
Administrative expenses	(9,758)	(11,196)	(22,984)	(22,952)	(23,744)
Finance costs	(399)	(132)	(1,088)	(804)	(751)
Share of results of jointly controlled entities	5	518	(6)	87	(362)
Gain on disposal of available-for-sale investments	2,173	4,309	–	–	–
Impairment loss recognised on loan to a jointly controlled entity	–	–	–	–	(10,927)
Amortisation on goodwill of investment in jointly controlled entity	–	–	–	–	(300)
Impairment on goodwill of investment in jointly controlled entity	–	–	–	–	(2,400)
Profit/(loss) before taxation	(2,779)	4,683	784	(19,863)	(55,877)
Income tax expenses	53	(131)	889	1,244	(466)
Profit/(loss) for the year	(2,726)	4,552	1,673	(18,619)	(56,343)
Attributable to:					
Equity shareholders of the Company	(2,726)	4,552	1,673	(18,619)	(56,269)
Minority interests	–	–	–	–	(74)
Earning/(loss) per share	*HK cents*	*HK cents*	*HK cents*	*HK cents*	*HK cents*
– Basic	(0.82)	1.38	0.51	(5.64)	(17.05)
– Diluted	N/A	1.38	0.51	–	–

Consolidated Balance Sheet

	As at 30 June	As at 31 December		
	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets and Liabilities				
Non-Current Assets				
Property, plant and equipment	2,841	2,936	4,194	6,202
Prepaid lease payments	2,466	2,503	2,578	2,653
Investment securities	–	–	–	6,100
Available-for-sale investments	–	3,796	7,221	–
Interests in jointly controlled entities	20,825	20,820	19,871	16,284
Pledged bank deposits	–	–	1,005	–
	26,132	30,055	34,869	31,239
Current Assets				
Film rights	1,080	1,440	3,277	6,837
Film production in progress	84,419	38,646	51,058	29,029
Prepaid lease payments	75	75	75	75
Inventories	1,798	1,680	2,007	1,949
Trade and other receivables and deposits paid	22,371	15,600	14,426	27,827
Amount due from jointly controlled entity	2,362	602	172	–
Amount due from a related company	–	5,042	5,814	6,147
Amount due from a minority shareholder of a subsidiary	–	–	–	280
Tax recoverable	–	17	–	–
Pledged bank deposits	526	1,556	506	500
Bank balances and cash	29,447	15,172	10,410	9,646
	142,078	79,830	87,745	82,290
Current Liabilities				
Trade and other payables and deposits received	59,653	35,360	44,352	19,806
Bank and other borrowings – due within one year	17,680	5,362	10,501	16,294
Bank overdraft	–	–	–	1,483
Tax payable	305	–	66	919
Obligations under a finance lease – due within one year	92	92	–	–
	77,730	40,814	54,919	38,502
Net Current Assets	63,348	39,016	32,826	43,788
Total Assets Less Current Liabilities	90,480	69,071	69,695	75,027

	As at 30 June	As at 31 December		
	2007	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-Current Liabilities				
Bank borrowings – due after one year	255	13,627	14,644	4,080
Deferred taxation	96	471	677	887
Obligation under a finance lease – due after one year	238	284	–	–
	589	14,382	15,321	4,967
Net Assets	89,891	54,689	52,374	70,060
Capital and Reserves				
Share capital	36,000	33,000	33,000	33,000
Reserves	53,891	21,689	19,374	36,872
Total Equity	89,891	54,689	52,374	70,060

AUDITED CONSOLIDATION FINANCIAL INFORMATION OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2006

The following audited financial statements of the Group for the two years ended 31 December 2005 and 2006 with accompanying notes as extracted from the 2006 annual report of the Company.

Consolidated Income Statement

	NOTES	2006 HK$'000	2005 HK$'000
Revenue	6	77,165	43,256
Cost of sales		(60,248)	(42,193)
Gross profit		16,917	1,063
Other income		7,945	2,743
Administrative expenses		(22,984)	(22,952)
Share of (loss) profit of jointly controlled entities		(6)	87
Finance costs	8	(1,088)	(804)
Profit (loss) before taxation		784	(19,863)
Taxation	9	889	1,244
Profit (loss) for the year, attributable to equity holders of the Company	10	1,673	(18,619)
Dividends	12	–	–
Earnings (loss) per share	13		
Basic		0.51 HK cents	(5.64 HK cents)
Diluted		0.51 HK cents	–

Consolidated Balance Sheet

	NOTES	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	2,936	4,194
Prepaid lease payments	15	2,503	2,578
Available-for-sale investments	16	3,796	7,221
Interests in jointly controlled entities	17	20,820	19,871
Pledged bank deposits	18	–	1,005
		30,055	34,869
CURRENT ASSETS			
Film rights		1,440	3,277
Film production in progress		38,646	51,058
Prepaid lease payments	15	75	75
Inventories	19	1,680	2,007
Trade and other receivables and deposits paid	20	15,600	14,426
Amount due from a jointly controlled entity	21	602	172
Amount due from a related company	22	5,042	5,814
Tax recoverable		17	–
Pledged bank deposits	18	1,556	506
Bank balances and cash	23	15,172	10,410
		79,830	87,745
CURRENT LIABILITIES			
Trade and other payables and deposits received	24	35,360	44,352
Bank and other borrowings – due within one year	25	5,362	10,501
Tax payable		–	66
Obligations under a finance lease – due within one year	26	92	–
		40,814	54,919
NET CURRENT ASSETS		39,016	32,826
TOTAL ASSETS LESS CURRENT LIABILITIES		69,071	67,695

	NOTES	2006 HK$'000	2005 HK$'000
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	25	13,627	14,644
Deferred taxation	27	471	677
Obligations under a finance lease – due after one year	26	284	–
		14,382	15,321
NET ASSETS		54,689	52,374
CAPITAL AND RESERVES			
Share capital	28	33,000	33,000
Reserves		21,689	19,374
TOTAL EQUITY		54,689	52,374

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company								
	Share capital	Share premium	Investment revaluation reserve	Special reserve	Share options reserve	Accumu-lated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January, 2005	33,000	34,653	1,028	17,926	–	(15,707)	70,900	188	71,088
Gain on fair value change of available-for-sale investments recognised in equity	–	–	93	–	–	–	93	–	93
Loss for the year	–	–	–	–	–	(18,619)	(18,619)	–	(18,619)
Total recognised income and expense for the year	–	–	93	–	–	(18,619)	(18,526)	–	(18,526)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	(188)	(188)
At 31 December, 2005	33,000	34,653	1,121	17,926	–	(34,326)	52,374	–	52,374
Gain on fair value change of available-for-sale investments recognised in equity	–	–	1,074	–	–	–	1,074	–	1,074
Transferred to profit or loss on sale of available-for-sale investments	–	–	(955)	–	–	–	(955)	–	(955)
Profit for the year	–	–	–	–	–	1,673	1,673	–	1,673
Total recognised income and expense for the year	–	–	119	–	–	1,673	1,792	–	1,792
Recognition of equity-settled share-based payment expenses	–	–	–	–	523	–	523	–	523
At 31 December, 2006	33,000	34,653	1,240	17,926	523	(32,653)	54,689	–	54,689

The special reserve of the Group mainly represents the sum of the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the group reorganisation in 2001 of approximately HK$10,420,000 (2005: HK$10,420,000) and the consideration for the acquisition of additional interests in jointly controlled entities which became wholly owned subsidiaries by the substantial shareholder of the Company prior to the Group Reorganisation of HK$7,506,000 (2005: HK$7,506,000).

Consolidated Cash Flow Statement

	2006	**2005**
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit (loss) before taxation	784	(19,863)
Adjustments for:		
Interest income	(325)	(100)
Finance costs	1,088	804
Release of prepaid lease payments	75	75
Depreciation of property, plant and equipment	1,875	2,191
Impairment on trade and other receivables	2,716	3,713
Share of loss (profit) of jointly controlled entities	6	(87)
Impairment loss recognised in respect of film production in progress	2,621	7,795
Loss on disposal of property, plant and equipment	4	–
Gain on disposal of available-for-sale investments	(5,040)	–
Equity-settled share-based payment expenses	523	–
Operating cash flows before movements in working capital	4,327	(5,472)
Decrease (increase) in film rights and production in progress	11,628	(26,264)
Decrease (increase) in inventories	327	(58)
(Increase) decrease in trade and other receivables and deposits paid	(3,890)	9,688
Increase in amount due to a jointly controlled entity	(430)	(172)
Decrease in amount due from a related company	772	333
(Decrease) increase in trade and other payables and deposits received	(8,992)	24,546
Cash generated from operations	3,742	2,601
Hong Kong Profits Tax refunded	600	181
NET CASH FROM OPERATING ACTIVITIES	4,342	2,782

	2006	2005
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Proceeds from disposal of available-for-sale investments	10,699	–
Interest received	325	100
Proceeds from disposal of property, plant and equipment	30	–
Purchase of available-for-sale investments	(2,115)	–
Investment in a jointly controlled entity	(955)	(3,500)
Purchases of property, plant and equipment	(191)	(183)
Increase in pledged bank deposits	(45)	(1,011)
Repayment from a minority shareholder of a subsidiary	–	92
NET CASH FROM (USED IN) INVESTING ACTIVITIES	7,748	(4,502)
FINANCING ACTIVITIES		
Repayment of bank and other borrowings	(8,188)	(6,694)
Interest paid	(1,088)	(804)
Repayment of obligations under a finance lease	(84)	–
Bank and other borrowings raised	2,000	11,081
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(7,360)	3,583
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,730	1,863
CASH AND CASH EQUIVALENTS AT 1 JANUARY	10,026	8,163
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	14,756	10,026
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	15,172	10,410
Bank overdraft	(416)	(384)
	14,756	10,026

Notes to the Financial Statement

1. GENERAL

The Company was incorporated in Bermuda on 9 May, 2001 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding. The principal activities of its subsidiaries are shown in note 38.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(S)")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 December, 2005 or 1 January, 2006. The adoption of the new HKFRSs had no material effect on how the results and the financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment and interpretations issued but are not yet effective. The directors of the Company anticipate that the application of following standards, amendment and interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"[3]
HK(IFRIC) - INT 8	Scope of HKFRS 2[4]
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) - INT 11	HKFRS 2 - Group and Treasury Share Transactions[7]
HK(IFRIC) - INT 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January, 2007.
[2] Effective for annual periods beginning on or after 1 January, 2009.
[3] Effective for annual periods beginning on or after 1 March, 2006.
[4] Effective for annual periods beginning on or after 1 May, 2006.
[5] Effective for annual periods beginning on or after 1 June, 2006.
[6] Effective for annual periods beginning on or after 1 November, 2006.
[7] Effective for annual periods beginning on or after 1 March, 2007.
[8] Effective for annual periods beginning on or after 1 January, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entities are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the goods and services provided in the normal course of business, net of discounts and sales related taxes.

Income from the production and distribution of films is recognised when the production is completed, released and the amount can be measured reliably, which is generally when the cinema circuit confirms to the Group its share of box office receipts.

Income from the licensing of the distribution and broadcasting rights over films and television series is recognised when the Company's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon delivery of the film negatives to the customers.

Amounts received for pre-sales of the distribution and broadcasting rights over films and television series before completion of production are accounted for as receipts in advance and grouped under trade and other payables in the balance sheet.

Income from the provision of film processing services is recognised when the services are provided.

Advertising and promotional service income is recognised when the services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Buildings are stated in the consolidated balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Other property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Any revaluation increase arising on revaluation of leasehold land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sales or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, whether shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments, which represent up-front payments to acquire leasehold land interest, are stated at cost and released to the consolidated income statement over the period of the lease on a straight-line basis.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amounts, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as at revaluation increase.

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting period or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and deposits paid, amount due from a jointly controlled entity, amount due from a related company, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables and deposits received, obligation under a finance lease and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Film rights and production in progress

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

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

Retirement benefits costs

Payments to defined contribution retirement benefit plans and Mandatory Provident Fund Scheme are charged as expense when employees have rendered services entitling them to the contributions.

Foreign currencies

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other year and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

Estimated impairment on trade and other receivables, amount due from a jointly controlled entity and amount due from a related company

Management regularly reviews the recoverability and/or aging of trade receivables, amount due from a jointly controlled entity and amount due from a related company. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows, aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value.

Estimated impairment loss on film production in progress

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

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

5. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amount due from a jointly controlled entity, amount due from a related company, pledged bank deposits, bank balances, trade and other payables and bank and other borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group is exposed to fair value and cash flow interest rate risk through short term bank deposits and fixed and variable interest rates borrowings as disclosed in note 23 and 25, respectively. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Price risk

The Group is exposed to equity security price risk through its available-for-sale investments. The Group currently does not have a price risk hedging policy. However, management monitors price fluctuation exposure and will consider hedging significant price fluctuation exposure should the need arises.

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the funds generated from its operations. The Directors have given careful consideration on the measures currently undertaken by the Group in respect of the Group's liquidity position. During the year, the Group has continued to tighten cost controls over operating costs to improve the cash flows, profitability and operations of the Group. The directors believe that the Group will have sufficient working capital for its future operational requirements.

Credit risk

As at 31 December, 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counter parties or debtors in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet.

The Group's concentration of credit risk by geographical locations is mainly concentrated in Hong Kong, which accounted for approximately 56% (2005: 52%) of the trade receivables for the year ended 31 December, 2006.

The largest customer accounted for approximately 3% (2005: 10%) of the trade receivables and the five largest customers in aggregate accounted for approximately 52% (2005: 75%) of the trade receivables for the year ended 31 December, 2006.

In addition, there is a concentrations of credit risk in the amount due from a related company.

In order to minimise the credit risk, the management of the Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debtors and the amount due from a related company at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. REVENUE

	2006	**2005**
	HK$'000	*HK$'000*
An analysis of revenue is as follows:		
Film distribution and licensing income	47,603	17,838
Film processing income	22,438	18,117
Advertising and promotional service income	7,124	7,301
	77,165	43,256

7. SEGMENT INFORMATION

Business Segments

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

Segment information about these businesses is presented below.

2006

	Film distribution and licensing	Film processing	Advertising and promotional services	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External revenue	47,603	22,438	7,124	–	77,165
Inter segment revenue	3,720	52	3,830	(7,602)	–
Total revenue	51,323	22,490	10,954	(7,602)	77,165
RESULT					
Segment result	11,712	5,609	(404)	–	16,917
Other income					7,945
Unallocated corporate expenses					(22,984)
Finance costs					(1,088)
Share of loss of jointly controlled entities					(6)
Profit before taxation					784
Taxation					889
Profit for the year					1,673

Inter segment revenue is charged at prevailing market rate.

2006

BALANCE SHEET

	Film distribution and licensing	Film processing	Advertising and promotional services	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	54,421	11,026	1,875	–	67,322
Interests in jointly controlled entities					20,820
Unallocated corporate assets					21,743
Consolidated total assets					109,885
LIABILITIES					
Segment liabilities	29,943	4,114	1,069	–	35,126
Unallocated corporate liabilities					20,070
Consolidated total liabilities					55,196
OTHER INFORMATION					
Capital expenditure	474	53	124	–	651
Impairment on trade and other receivables	2,716	–	–	–	2,716
Release of prepaid lease payments	–	63	–	12	75
Depreciation of property, plant and equipment	209	1,575	76	15	1,875
Impairment loss recognised in respect of film production in progress	2,621	–	–	–	2,621

2005

	Film distribution and licensing	Film processing	Advertising and promotional services	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External revenue	18,117	17,838	7,301	–	43,256
Inter segment revenue	227	2,531	2,427	(5,185)	–
Total revenue	18,344	20,369	9,728	(5,185)	43,256
RESULT					
Segment result	(2,904)	2,815	1,152	–	1,063
Other income					2,743
Unallocated corporate expenses					(22,952)
Finance costs					(804)
Share of profit of jointly controlled entities					87
Loss before taxation					(19,863)
Taxation					1,244
Loss for the year					(18,619)

Inter segment revenue is charged at prevailing market rate.

2005

BALANCE SHEET

	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Advertising and promotional services *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
ASSETS					
Segment assets	71,823	9,011	1,538	–	82,372
Interests in jointly controlled entities					19,871
Unallocated corporate assets					20,371
Consolidated total assets					122,614
LIABILITIES					
Segment liabilities	40,733	2,514	883	–	44,130
Unallocated corporate liabilities					26,110
Consolidated total liabilities					70,240
OTHER INFORMATION					
Capital expenditure	20	124	39	–	183
Impairment on trade and other receivables	2,717	996	–	–	3,713
Release of prepaid lease payments	–	63	–	12	75
Depreciation of property, plant and equipment	192	1,894	84	21	2,191
Impairment loss recognised in respect of film production in progress	7,795	–	–	–	7,795

Geographical Segments

The Group's customers are located in Hong Kong, the People's Republic of China (the "PRC"), Taiwan, Malaysia, Europe and other parts of Asia. Film distribution and licensing business is carried out in Hong Kong and the PRC. The Group's advertising and promotional and film processing divisions are located in Hong Kong.

An analysis of the Group's revenue by geographical market, based on the origin of the services and an analysis of the carrying amount of segment assets and capital additions analysed by the geographical area in which the assets are located, is presented below.

2006

	Hong Kong	**The PRC**	**Japan**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	46,902	3,802	7,820	18,641	77,165

	Hong Kong	**The PRC**	**Japan**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount of segment assets	65,670	1,652	–	–	67,322
Additions to property, plant and equipment	651	–	–	–	651

2005

	Hong Kong	**The PRC**	**Japan**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	38,407	383	336	4,130	43,256

	Hong Kong	**The PRC**	**Japan**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount of segment assets	75,948	5,999	–	425	82,372
Additions to property, plant and equipment	183	–	–	–	183

8. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on:		
– bank and other loans wholly repayable within five years	1,071	804
– finance leases	17	–
	1,088	804

9. TAXATION

	2006	2005
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
– provision for current year	164	143
– overprovision in prior years	(847)	(1,177)
	(683)	(1,034)
Deferred tax credit *(note 27)*	(206)	(210)
Taxation attributable to the Company and its subsidiaries	(889)	(1,244)

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for both years.

No provision for tax in other jurisdictions for both years has been made in the consolidated financial statements as neither the Company nor any of its subsidiaries had any assessable profit subject to tax in other jurisdictions.

The taxation for the year can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit (loss) before taxation	784	(19,863)
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	137	(3,476)
Tax effect of expenses not deductible for tax purpose	989	2,098
Tax effect of income not taxable for tax purpose	(986)	(26)
Overprovision in prior years	(847)	(1,177)
Tax effect of tax losses not recognised	866	1,387
Utilisation of tax losses previously not recognised	(1,049)	(36)
Tax effect on share of loss (profit) of jointly controlled entities	1	(14)
Tax credit for the year	(889)	(1,244)

10. PROFIT (LOSS) FOR THE YEAR

	2006	2005
	HK$'000	*HK$'000*
Profit (loss) for the year has been arrived at after charging:		
Directors' emoluments *(note 11)*	4,050	3,408
Other staff costs	11,410	11,003
Retirement benefit scheme contributions, excluding directors	547	489
Share-based payment expenses, excluding directors	133	–
Total staff costs	16,140	14,900
Auditor's remuneration	1,085	1,005
Depreciation of property, plant and equipment		
– owned assets	1,790	2,191
– finance lease	85	–
Release of prepaid lease payments	75	75
Impairment on trade and other receivables	2,716	3,713
Impairment loss recognised in respect of film production in progress (included in cost of sales)	2,621	7,795
Cost of inventories recognised as expenses	46,815	27,092
Share of tax of jointly controlled entities (included in share of (loss) profit of jointly controlled entities)	50	43
Loss on disposal of property, plant and equipment	4	–
and after crediting:		
Interest income	325	100
Gain on disposal of available-for-sale investments	5,040	–
Net foreign exchange gain (loss)	43	(2)

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the seven (2005: eight) directors were as follows:

2006

	Wong Pak Ming	Wong Kit Fong	Wong Yee Kwan, Alvina	Lai Voon Wai	Wan Ngar Yin, David	Ko Tin Chow	Tang Kai-Kui, Terence	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	120	240	–	120	480
Other emoluments:								
Salaries and other benefits	1,788	478	374	–	–	480	–	3,120
Retirement benefit scheme contributions	12	12	12	–	–	24	–	60
Share-based payment expenses	65	65	65	–	65	65	65	390
Total emoluments	1,865	555	451	120	305	569	185	4,050

2005

	Wong Pak Ming	Wong Kit Fong	Wong Yee Kwan, Alvina	Lai Voon Wai	Wan Ngar Yin, David	Ko Tin Chow	Tang Kai-Kui, Terence	Woo, Alan*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	120	240	–	10	110	480
Other emoluments:									
Salaries and other benefits	1,788	526	536	–	–	40	–	–	2,890
Retirement benefit scheme contributions	12	12	12	–	–	2	–	–	38
Total emoluments	1,800	538	548	120	240	42	10	110	3,408

* Woo, Alan resigned on 1 December, 2005.

(b) Emoluments of highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2005: four) were directors of the Company, whose emoluments are included in the disclosure set out in note (a) above. The emoluments of the remaining two (2005: one) highest paid individuals were as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other benefits	876	908
Retirement benefit scheme contributions	24	34
	900	942

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

(c) During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments during the year.

12. DIVIDENDS

No dividends were paid or proposed during the year ended 31 December, 2006 and 2005, nor has any dividend been proposed since the balance sheet date.

13. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006	**2005**
	HK$'000	*HK$'000*
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	1,673	(18,619)

	Number of shares	
	2006	**2005**
Number of ordinary shares for the purposes of basic earnings (loss) per share	330,000,000	330,000,000
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	399,000	–
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	330,399,000	330,000,000

Diluted earnings per share is not presented for 2005 as the share options granted to directors and employees on 23 June, 2006 are anti dilutive in terms of HKAS 33 "Earnings per share".

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	**Furniture and fixtures**	**Leasehold improvements**	**Motor vehicles**	**Plant, machinery and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION						
At 1 January, 2005	1,614	5,389	3,068	525	20,684	31,280
Additions	–	102	–	–	81	183
Disposals	–	–	–	–	(80)	(80)
At 31 December, 2005	1,614	5,491	3,068	525	20,685	31,383
Additions	–	38	–	460	153	651
Disposals	–	–	–	(475)	–	(475)
At 31 December, 2006	1,614	5,529	3,068	510	20,838	31,559
Comprising:						
At cost	–	5,529	3,068	510	20,838	29,945
At valuation – 2005	1,614	–	–	–	–	1,614
	1,614	5,529	3,068	510	20,838	31,559
DEPRECIATION AND AMORTISATION						
At 1 January, 2005	441	4,550	2,309	444	17,334	25,078
Provided for the year	96	236	337	27	1,495	2,191
Eliminated on disposals	–	–	–	–	(80)	(80)
At 31 December, 2005	537	4,786	2,646	471	18,749	27,189
Provided for the year	96	270	208	85	1,216	1,875
Eliminated on disposals	–	–	–	(441)	–	(441)
At 31 December, 2006	633	5,056	2,854	115	19,965	28,623
CARRYING VALUES						
At 31 December, 2006	981	473	214	395	873	2,936
At 31 December, 2005	1,077	705	422	54	1,936	4,194

The above items of property, plant and equipment are depreciated and amortised on a straight-line basis at the following rates per annum:

Buildings	2.5%
Furniture and fixtures	20%
Leasehold improvements	20%
Motor vehicles	20% – 30%
Plant, machinery and equipment	20%

The Group's buildings were revalued at 31 December, 2005 by Messrs. RHL Appraisal Limited, on an open market value basis. Messrs. RHL Appraisal Limited are not connected with the Group. Messrs. RHL Appraisal Limited are members of the Institute of Valuers and have appropriate qualification and recent experiences in valuation of similar properties. The valuation conforms to International Valuation Standards and was arrived at by reference to market evidence of transaction prices for similar properties. The directors consider that the impact of the change in the market value is not significant and accordingly, no adjustment has been made to reflect the market value of the buildings at the balance sheet date in the consolidated financial statements.

The net book value of motor vehicles of HK$395,000 (2005: Nil) is in respect of asset held under a finance lease.

The buildings of the Group are situated in Hong Kong.

At 31 December, 2006, had all of the buildings of the Group been carried at historical cost less accumulated depreciation and amortisation and accumulated impairment losses, their carrying values would have been HK$981,000 (2005: HK$1,077,000).

15. PREPAID LEASE PAYMENTS

	2006	**2005**
	HK$'000	*HK$'000*
The Group's prepaid lease payments comprise medium-term leasehold land in Hong Kong	2,578	2,653
Analysed for reporting purpose as:		
Current assets	75	75
Non-current assets	2,503	2,578
	2,578	2,653

16. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments represent:

	2006	**2005**
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong	3,796	7,221

The equity securities are stated at fair value, which have been determined by reference to bid prices quoted in active markets.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006	2005
	HK$'000	*HK$'000*
Cost of unlisted investments in jointly controlled entities	24,456	23,501
Share of post-acquisition losses	(3,636)	(3,630)
	20,820	19,871
Loan to a jointly controlled entity	10,927	10,927
Impairment loss recognised on loan to a jointly controlled entity	(10,927)	(10,927)
	–	–

At 31 December, 2006, the Group had interests in the following jointly controlled entities:

Name of entity	Form of business structure	Place of incorporation/ operations	Proportion of nominal value of issued share capital/ registered capital held indirectly by the Company %	Nature of business
Prosper China Limited ("PCL")	Incorporated Islands ("BVI")/ Hong Kong	British Virgin	40	Investment holding
北京東方新青年文化發展有限公司	Incorporated	PRC/PRC *(Note)*	40	Provision of cultural education courses
浙江東方國際發展有限公司	Incorporated	PRC/PRC *(Note)*	37.5	Hotel operations
東方橫店影視後期製作有限公司(“橫店影視製作”)	Incorporated	PRC/PRC *(Note)*	49	Provision of film processing and post production services for films and television series but not yet commenced operation
Dong Tian Motion Picture Investment Limited ("Dong Tian")	Incorporated	British Virgin Island ("BVI")/ Hong Kong	40	Investment holding

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

During the year, the Group injected an amount of HK$955,000 as capital injection in Dong Tian.

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

	2006	2005
	HK$'000	*HK$'000*
Non-current assets	92,371	92,620
Current assets	125,216	61,454
Current liabilities	76,982	19,243
Non-current liabilities	100,000	96,154
Income	36,620	34,624
Expenses	37,455	34,819
Loss for the year	970	195

The Group has discontinued recognition of its share of losses of certain jointly controlled entities. The amounts of unrecognised share of those jointly controlled entities, both for the year and cumulatively, are as follows:

	2006	2005
	HK$'000	*HK$'000*
Unrecognised share of losses of jointly controlled entities for the year	(315)	(171)
Accumulated unrecognised share of losses of jointly controlled entities	(486)	(171)

18. PLEDGED BANK DEPOSITS

At 31 December, 2006, the amount of HK$1,556,000 (2005: HK$506,000) represents deposits pledged to banks to secure banking facilities granted to the Group. These deposits have been pledged to secure bank overdrafts and are therefore classified as current assets.

At 31 December, 2005, there were deposits amounting to HK$1,005,000 pledged to secure long-term borrowings and were therefore classified as non-current assets.

The deposits carry fixed interest rate ranging from 2.8% to 3.3% (2005: 2.75% to 3.03%) per annum. The pledged bank deposits will be released upon the termination of relevant banking facilities.

19. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Raw materials	1,672	1,898
Work in progress	8	109
	1,680	2,007

20. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 days to 120 days. Included in trade and other receivables and deposits paid are trade receivables of HK$6,296,000 (2005: HK$5,598,000) and their aged analysis is as follows:

	2006	2005
	HK$'000	*HK$'000*
0 – 90 days	3,982	3,690
91– 180 days	1,077	821
181 – 365 days	700	362
Over 1 year	537	725
	6,296	5,598

21. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount due from a jointly controlled entity is unsecured, non-interest bearing and repayable on demand.

22. AMOUNT DUE FROM A RELATED COMPANY

Details of the amount due from a related company are as follows:

	2006	2005
	HK$'000	*HK$'000*
廣州東影影視出品有限公司 ("Tung Ying") *(Note)*	5,042	5,814

Note: A brother of Mr. Wong Pak Ming has a beneficial interest in this company.

The amount is unsecured, non-interest bearing and repayable on demand.

23. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at 2% to 3% (2005: 2% to 3%) per annum and have original maturity of three months or less.

Included in the bank balances and cash as at 31 December, 2006, was an amount in Renminbi of RMB899,000 (2005: RMB154,000). Renminbi is not freely convertible into other currencies.

24. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

Included in trade and other payables are trade payables of HK$2,520,000 (2005: HK$2,204,000) and their aged analysis is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
0 - 90 days	1,941	1,690
91- 180 days	579	514
	2,520	2,204

25. BANK AND OTHER BORROWINGS

	2006	**2005**
	HK$'000	*HK$'000*
Bank loans	5,527	13,640
Bank overdraft	416	384
Other loan	13,046	11,121
	18,989	25,145
Secured	5,943	6,719
Unsecured	13,046	18,426
	18,989	25,145

The maturity of the bank and other borrowings is as follows:

On demand or within one year	5,362	10,501
More than one year, but not exceeding two years	13,421	14,064
More than two years, but not exceeding five years	206	580
	18,989	25,145
Less: Amount due within one year shown under current liabilities	(5,362)	(10,501)
Amount due after one year	13,627	14,644

Bank borrowings carry interest at rates from 3% to 9% (2005: 3% to 8%) per annum. Interest is repriced every month.

Included in the other loan at 31 December, 2006 is an amount in Renminbi of HK$2,885,000 (2005: HK$2,885,000). The loan is a fixed rate borrowing which carries interest ranging from 1% to 3% (2005: 1% to 3%) per annum.

26. OBLIGATIONS UNDER A FINANCE LEASE

It is the Group's policy to lease certain of its motor vehicle under finance leases. The lease term is five years. Interest rate underlying all obligations under a finance leases is fixed at contract date of 4%. This lease has no terms of renewal or purchase option and escalation clauses. No arrangement has been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under a finance lease				
Within one year	110	–	92	–
In more than one year but not more than two years	110	–	92	–
In more than two years but not more than three years	110	–	92	–
In more than three years but not more than four years	110	–	92	–
In more than four years but not more than five years	11	–	8	–
	451	–	376	–
Less: future finance charges	(75)	–	–	–
Present value of lease obligations	376	–	376	–
Less: Amount due for settlement with 12 months (shown under current liabilities)			(92)	–
Amount due for settlement after 12 months			284	–

27. DEFERRED TAXATION

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

	Accelerated tax depreciation
	HK$'000
At 1 January, 2005	887
Credit to consolidated income statement for the year	(210)
At 31 December, 2005	677
Credit to consolidated income statement for the year	(206)
At 31 December, 2006	471

At 31 December, 2006, the Group has unused tax losses of approximately HK$38,099,000 (2005: HK$39,145,000) available for offset against future profits. No deferred tax asset in respect of such losses has been recognised due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

28. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January, 2005, 31 December, 2005 and 31 December, 2006	1,000,000,000	100,000
Issued and fully paid:		
At 1 January, 2005, 31 December, 2005 and 31 December, 2006	330,000,000	33,000

29. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme was adopted pursuant to a resolution passed on 21 August, 2001 (the "Scheme") for the purpose of recognising the contribution of the senior management and full-time employees of the Group. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the issued share capital of the Company for the time being, without prior approval from the Company's shareholders.

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

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

	Date of grant	Vesting date	Exercisable period	Exercise price per share *HK$*	Outstanding as at 1.1.2006	Granted during the year	Outstanding as at 31.12.2006
Directors	23.6.2006	24.12.2006	24.12.2006 to 20.8.2011	0.938	–	1,968,000	1,968,000
Employees	23.6.2006	24.12.2006	24.12.2006 to 20.8.2011	0.938	–	656,000	656,000
					–	2,624,000	2,624,000

The closing price of the shares of the Company on 23 June, 2006 was HK$0.93 per share.

No share option were cancelled or lapsed during the year.

During the year ended 31 December, 2006, options were granted on 23 June. The estimated fair values of the options granted for the year is HK$523,000.

These fair values were calculated using the Black-Scholes Option Pricing (the "Model"). The inputs into the Model were as follows:

Closing share price at the date of grant	HK$0.93
Exercise price	HK$0.938
Expected volatility	23.28%
Expected life	3 years
Risk-free rate	4.7%
Expected dividend yield	N/A
Fair value per share option	HK$0.2

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years. The expected life used in the Model has been adjusted, based on the management's best estimate, for the efforts of non transferability, exercise restrictions and behavioral considerations.

There is no consideration received during the year for taking up the options granted.

The Group recognised the total expense of HK$523,000 for the year ended 31 December, 2006 (2005: Nil) in relation to share options granted the Company.

The fair values were calculated by Greater China Appraisal Limited, an independent third party. The Model is one of the commonly used models to estimate the fair value of the options. The value of an option varies with different variables of certain subjective assumptions. Any changes in the variables so adopted may materially affect the estimation of the fair value of an option.

30. OPERATING LEASE COMMITMENTS

Minimum lease payments under operating leases during the year:

	2006	**2005**
	HK$'000	*HK$'000*
Premises	1,357	1,295

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	214	1,152
In the second year inclusive	–	214
	214	1,366

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of one to two years with rental fixed throughout the rental period.

31. CAPITAL COMMITMENTS

At 31 December, 2006, the Group had capital commitment of HK$20,058,000 (2005: HK$20,058,000) which is contracted for the investment in a joint venture in the PRC.

32. OTHER COMMITMENTS

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

	2006	**2005**
	HK$'000	*HK$'000*
Production of a film	157	–
Artists' fees	16,783	3,578
	16,940	3,578

33. BANKING FACILITIES AND PLEDGE OF ASSETS

At 31 December, 2006, the Group's banking facilities are secured by the following:

(1) the unlimited corporate guarantee given by the Company;

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

(3) the legal charge over the copyright of one film with a carrying value of HK$4,200,000, included in film production in progress at 31 December, 2006 (2005: HK$33,175,000);

(4) the assignment of income receivables to be derived from the licensing of the film "Dragon Tiger Gate" in all territories throughout the world;

(5) certain of its prepaid lease payments and buildings with a carrying value of HK$3,559,000 (2005: HK$3,730,000 together with plant and machinery of HK$1,292,000); and

(6) bank deposits as set out in note 18.

34. MAJOR NON-CASH TRANSACTION AS

During the year, the Group entered into a finance lease arrangement in respect of the asset with a total capital value at the inception of the lease of HK$460,000.

35. RETIREMENT BENEFITS PLANS

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December, 2000 are required to join the MPF Scheme.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary.

For members of the MPF Scheme, the Group contributes the lower of HK$1,000 or 5% of relevant payroll costs to the scheme, this contribution is matched by the employee.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

36. CONTINGENT LIABILITIES

In April 2006, 上海華芮文化傳播有限公司 ("Shanghai City Glory"), one of the investors of "Seven Swords", initiated legal proceedings against Mandarin Films Distribution Co., Ltd. ("Mandarin Films Distribution"), an indirect wholly owned subsidiary of the Company in respect of claim for payment of income amounting to approximately US$732,036 (equivalent to HK$5,680,233) arising from the filming of "Seven Swords".

Mandarin Films Distribution has vigorously defended the claims and the proceedings are still ongoing. The directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group as the profit to be shared by Shanghai City Glory has been properly accounted for in accordance with the cooperation agreement entered on 25 June, 2004 and the supplementary agreement dated 4 March, 2005.

37. RELATED PARTY DISCLOSURES

(i) Related party transactions

During year, the Group entered into the following significant transactions with related parties:

Nature of transactions	*Notes*	**2006** *HK$'000*	**2005** *HK$'000*
Agency fees paid	(a)	874	100
Management fee income	(b)	–	150
Consultancy service fee paid	(c)	–	100

Notes:

(a) The agency fees are charged by Tung Ying for the distribution income generated by Tung Ying on behalf of the Group, in which it acted as an agent to generate that income.

(b) The management fee income was charged to PCL, a jointly controlled entity.

(c) The consultancy service fee was paid to a brother of Mr. Wong Pak Ming.

(ii) Compensation of key management personnel

The remuneration of the key management personnel during the year was as follows:

	2006 *HK$'000*	**2005** *HK$'000*
Short term benefits	3,600	3,370
Other long term benefits	450	38
	4,050	3,408

The remuneration of directors and other key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

(iii) Related party balances

Details of the balances with a jointly controlled entity, a related company and a loan from Mr. Zhang Xun, a substantial shareholder of the Company, as at the respective balance sheet dates are set out in the consolidated balance sheet and their respective notes.

38. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 31 December, 2006 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by Company %	Principal activities
Chili Advertising & Promotions Limited	Hong Kong	HK$10,000 ordinary shares	100	Provision of advertising and promotional services
Grimston Limited	BVI/ Hong Kong	US$10,000 ordinary shares	100	Investment holding
Mandarin Films Distribution Company Limited	Hong Kong	HK$20 ordinary shares HK$10,000,000 non-voting deferred shares *(note)*	100	Distribution of films produced or purchased by the Group
Mandarin Films Distribution Co., Ltd.	BVI	US$10,000 ordinary shares	100	Distribution of films produced or purchased by the Group
Mandarin Films Limited	Hong Kong	HK$100 ordinary shares	100	Production and distribution of films
Mandarin Laboratory Limited	Hong Kong	HK$10,000 ordinary shares	100	Distribution of films produced by third parties
Mandarin Laboratory (International) Limited	Hong Kong	HK$1,000,000 ordinary shares	100	Film processing and storage of films
Mandarin Motion Picture Limited	Hong Kong	HK$500,000 ordinary shares	100	Production of films
Walsbo Limited	Hong Kong	HK$2 ordinary shares HK$9,800 non-voting deferred shares *(note)*	100	Investment holding

Note: The deferred shares practically carry no rights to dividends or to receive notice to attend or vote at any general meeting of the Company or to participate in any distribution on winding up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

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

39. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31 December, 2006 is as follows:

	2006	2005
	HK$'000	*HK$'000*
ASSETS		
Investment in subsidiaries	6,172	6,172
Amounts due from subsidiaries	39,651	40,778
Prepayment	145	145
Bank balances and cash	66	56
	46,034	47,151
LIABILITY		
Accrued charge	408	359
	45,626	46,792
CAPITAL AND RESERVES		
Share capital	33,000	33,000
Reserves *(note)*	12,626	13,792
	45,626	46,792

Note:

Reserves

	Share premium	Contributed surplus	Share options reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January, 2005	34,653	44,072	–	(48,618)	30,107
Loss for the year	–	–	–	(16,315)	(16,315)
At 31 December, 2005	34,653	44,072	–	(64,933)	13,792
Loss for the year	–	–	–	(1,689)	(1,689)
Recognition of equity–settled share-based payment expenses	–	–	523	–	523
At 31 December, 2006	34,653	44,072	523	(66,622)	12,626

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

UNAUDITED INTERIM REPORT OF THE COMPANY FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2007

The following unaudited financial statement of the Group for the six-month period ended 30 June 2006 and 2007 as extracted from the 2007 interim report of the Company.

Condensed Consolidated Income Statement
For the six months ended 30 June, 2007

		Six months ended 30 June,	
		2007	**2006**
	NOTES	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited)
Revenue		21,503	25,350
Cost of sales		(17,775)	(15,528)
Gross profit		3,728	9,822
Other income		1,472	1,362
Gain on disposal of available-for-sale investments		2,173	4,309
Administrative expenses		(9,758)	(11,196)
Finance costs		(399)	(132)
Share of results of jointly controlled entities		5	518
(Loss) profit before taxation	4	(2,779)	4,683
Income tax expense	5	53	(131)
(Loss) profit for the period, attributable to equity holders of the Company		(2,726)	4,552
(LOSS) EARNINGS PER SHARE	7		
Basic		(0.82) cents	1.38 cents
Diluted		N/A	1.38 cents

Condensed Consolidated Balance Sheet

At 30 June, 2007

	NOTES	30.6.2007 HK$'000 (unaudited)	31.12.2006 HK$'000 (unaudited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		2,841	2,936
Prepaid lease payments		2,466	2,503
Available-for-sale investments		–	3,796
Interests in jointly controlled entities	8	20,825	20,820
		26,132	30,055
Current assets			
Film rights		1,080	1,440
Film production in progress		84,419	38,646
Prepaid lease payments		75	75
Inventories		1,798	1,680
Trade and other receivables and deposits paid	9	22,371	15,600
Amount due from a jointly controlled entity		2,362	602
Amount due from a related company	10	–	5,042
Tax recoverable		–	17
Pledged bank deposits		526	1,556
Bank balances and cash		29,447	15,172
		142,078	79,830
Current liabilities			
Trade and other payables and deposits received	11	59,653	35,360
Tax liabilities		305	–
Bank and other borrowings – due within one year	13	17,680	5,362
Obligations under a finance lease – due within one year		92	92
		77,730	40,814
Net current assets		64,348	39,016
Total assets less current liabilities		90,480	69,071

	NOTES	30.6.2007 HK$'000 (unaudited)	31.12.2006 HK$'000 (unaudited)
Non-current liabilities			
Bank and other borrowings – due after one year	13	255	13,627
Deferred taxation		96	471
Obligations under a finance lease – due after one year		238	284
		589	14,382
NET ASSETS		89,891	54,689
CAPITAL AND RESERVES			
Share capital	14	36,000	33,000
Reserves		53,891	21,689
TOTAL EQUITY		89,891	54,689

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June, 2007

	Attributable to equity holders of the Company						
	Share capital	Share premium	Investments revaluation reserve	Special reserve	Share options reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January, 2006	33,000	34,653	1,121	17,926	–	(34,326)	52,374
Gain on fair value change of available-for-sale investments recognised directly in equity	–	–	2,169	–	–	–	2,169
Transferred to profit or loss on sale of available-for-sale investments	–	–	(795)	–	–	–	(795)
Profit for the period	–	–	–	–	–	4,552	4,552
Total recognised income and expenses for the period	–	–	1,374	–	–	4,552	5,926
At 30 June, 2006	33,000	34,653	2,495	17,926	–	(29,774)	58,300
Loss on fair value change of available-for-sale investments recognised directly in equity	–	–	(1,095)	–	–	–	(1,095)
Transferred to profit or loss on sale of available-for-sale investments	–	–	(160)	–	–	–	(160)
Profit for the period	–	–	–	–	–	(2,879)	(2,879)
Total recognised expenses for the period	–	–	(1,255)	–	–	(2,879)	(4,134)
Recognition of equity-settled share-based payment expenses	–	–	–	–	523	–	523
At 31 December, 2006	33,000	34,653	1,240	17,926	523	(32,653)	54,689

	Attributable to equity holders of the Company						
	Share capital	**Share premium**	**Investments revaluation reserve**	**Special reserve**	**Share options reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Transferred to profit or loss on sale of available-for-sale investments	–	–	(1,240)	–	–	–	(1,240)
Loss for the period	–	–	–	–	–	(2,726)	(2,726)
Total recognised expenses for the period	–	–	(1,240)	–	–	(2,726)	(3,966)
Recognition of equity-settled share-based payment expenses	–	–	–	–	384	–	384
Issue of shares	3,000	36,900	–	–	–	–	39,900
Transaction costs attributable to issue of shares	–	(1,116)	–	–	–	–	(1,116)
At 30 June, 2007	36,000	70,437	–	17,926	907	(35,379)	89,891

The special reserve of the Group mainly represents the sum of the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the Group Reorganisation in 2001 of approximately HK$10,420,000 (31.12.2006: HK$10,420,000) and the consideration for the acquisition of additional interests in jointly controlled entities which became wholly owned subsidiaries by the substantial shareholder of the Company prior to the Group Reorganisation of HK$7,506,000 (31.12.2006: HK$7,506,000).

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June, 2007

	Six months ended 30 June,	
	2007	**2006**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash (used in) from operating activities	(26,466)	3,134
Net cash from investing activities		
Proceeds from disposal of available-for-sale investments	4,729	8,822
(Advance to) repayment from a jointly controlled entity	(1,760)	104
Cash paid for the acquisition of available-for-sale investments	–	(2,114)
Capital contributions to a jointly controlled entity	–	(505)
Other investing cash flows	487	107
	3,456	6,414
Net cash from (used in) financing activities		
Proceeds from issue of shares	39,900	–
Expenses on issue of shares	(1,116)	–
Other financing cash flows	(1,882)	(2,814)
	36,902	(2,814)
Net increase in cash and cash equivalents	13,892	6,734
Cash and cash equivalents at 1 January	14,756	10,026
Cash and cash equivalents at 30 June	28,648	16,760

Analysis of the balances of cash and cash equivalents

Cash and cash equivalents, being		
Bank balances and cash	29,447	17,840
Bank overdrafts	(799)	(1,080)
	28,648	16,760

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June, 2007

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for properties and certain financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December, 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations issued by the HKICPA (hereinafter collectively referred to as the "new HKFRSs"), which are either effective for accounting periods beginning on or after 1 January, 2007.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies[2]
HK(IFRIC) – Int 8	Scope of HKFRS 2[3]
HK(IFRIC) – Int 9	Reassessment of embedded derivatives[4]
HK(IFRIC) – Int 10	Interim financial reporting and impairment[5]

1 Effective for annual periods beginning on or after 1 January, 2007
2 Effective for annual periods beginning on or after 1 March, 2006
3 Effective for annual periods beginning on or after 1 May, 2006
4 Effective for annual periods beginning on or after 1 June, 2006
5 Effective for annual periods beginning on or after 1 November, 2006

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied all the other new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of the other new HKFRSs will have no material impact on the results and financial position of the Group.

3. SEGMENTAL INFORMATION

Business segments

The Group is currently organised into three operating divisions – film distribution and licensing, film processing and advertising and promotional services. These divisions are the basis on which the Group reports its primary segment information. Segmental information about these businesses is presented below.

For the six months ended 30 June, 2007

	Film distribution and licensing	**Film processing**	**Advertising and promotional services**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External revenue	6,561	12,734	2,208	–	21,503
Inter segment revenue	–	1,544	2,126	(3,670)	–
Total revenue	6,561	14,278	4,334	(3,670)	21,503
SEGMENT RESULT	(1,952)	(1,022)	(2,227)	–	(5,201)
Other income			1,472		
Gain on disposal of available-for-sale investments			2,173		
Unallocated corporate expenses			(829)		
Finance costs			(399)		
Share of results of jointly controlled entities			5		
Loss before taxation			(2,779)		
Income tax expense			53		
Loss for the period			(2,726)		

For the six months ended 30 June, 2006

	Film distribution and licensing *HK$'000*	Film processing *HK$'000*	Advertising and promotional services *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
REVENUE					
External revenue	11,097	11,075	3,178	–	25,350
Inter segment revenue	76	186	1,662	(1,924)	–
Total revenue	11,173	11,261	4,840	(1,924)	25,350
SEGMENT RESULT	(652)	227	(333)	–	(758)
Other income					1,362
Gain on disposal of available-for-sale investments					4,309
Unallocated corporate expenses					(616)
Finance costs					(132)
Share of results of jointly controlled entities					518
Profit before taxation					4,683
Income tax expense					(131)
Profit for the period					4,552

4. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June, 2007 *HK$'000*	2006 *HK$'000*
(Loss) profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	812	1,014
Amortisation of prepaid lease payments	37	37
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	–	255
Impairment loss recognised in respect of film production in progress	–	1,319
Impairment on trade and other receivables	–	1,358
and after crediting:		
Interest income	170	157
Gain on disposal of property, plant and equipment	4	–

5. INCOME TAX EXPENSE

	Six months ended 30 June, 2007 *HK$'000*	2006 *HK$'000*
The (credit) charge comprises:		
Hong Kong Profits Tax	322	583
Deferred tax credit	(375)	(452)
	(53)	131

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended 30 June, 2007 and 2006.

6. DIVIDENDS

No dividends were paid or proposed during the period.

7. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share for the period is based on the following data:

	Six months ended 30 June, 2007 *HK$'000*	2006 *HK$'000*
(Loss) earnings attributable to equity holders of the Company for the purposes of basic and diluted (loss) earnings per share	(2,726)	4,552

	Six months ended 30 June, 2007 *Number of shares*	2006 *Number of shares*
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	334,475,138	330,000,000
Effect of dilutive potential ordinary shares:		
Share options	–	2,658
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	334,475,138	330,002,658

No diluted loss per share for the six months ended 30 June, 2007 was presented as the exercise of the share options would result in a decrease in loss per share for the period.

8. INTERESTS IN JOINTLY CONTROLLED ENTITIES

At 30 June, 2007, the Group had interests in the following jointly controlled entities:

Name of entity	Place of incorporation/ operations	Proportion of nominal value of issued share capital/ registered capital held indirectly by the Company %	Nature of business
Prosper China Limited	British Virgin Islands ("BVI")/Hong Kong	40	Investment holding
北京東方新青年文化發展有限公司	The People's Republic of China ("PRC")/PRC	40	Provision of cultural education courses
浙江東方國際發展有限公司	PRC/PRC	37.5	Hotel operations
東方橫店影視後期製作有限公司	PRC/PRC	49	Provision of film processing and post production services for films and television series but not yet commenced operation
Dong Tian Motion Picture Investment Limited	BVI/PRC	50	Investment holding

9. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 days to 120 days. Included in trade and other receivables and deposits paid are trade receivables of HK$4,479,000 (31.12.2006: HK$6,296,000) and their aged analysis is as follows:

	30.6.2007 *HK$'000*	**31.12.2006** *HK$'000*
0 – 90 days	2,609	3,982
91- 180 days	1,516	1,077
181 – 365 days	354	700
Over 1 year	–	537
	4,479	6,296

10. AMOUNT DUE FROM A RELATED COMPANY

The related company, 廣州東影影視出品有限公司 ("Tung Ying") is beneficially owned by a brother of Mr. Wong Pak Ming, a director of the Company. The amount was unsecured, non-interest bearing and was repaid during the period.

11. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

Included in trade and other payables are trade payables of HK3,912,000 (31.12.2006: HK$2,520,000) and their aged analysis is as follows:

	30.6.2007	**31.12.2006**
	HK$'000	*HK$'000*
0 – 90 days	3,900	1,941
91- 180 days	12	579
	3,912	2,520

12. PLEDGE OF ASSETS

At the balance sheet date, the Group's bank facilities are secured by the following:

(1) an unlimited corporate guarantee given by the Company;

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

(3) the legal charge over the copyright of a film with carrying value of HK$7,640,000, included in film production in progress, at 30 June, 2007 (31.12.2006: HK$4,200,000);

(4) the assignment of income receivables to be derived from the licensing of the film in all territories throughout the world;

(5) certain of the Group's prepaid lease payments and buildings with a carrying value of HK$3,473,000 (31.12.2006: HK$3,559,000); and

(6) bank deposits with a carrying value of HK$526,000 (31.12.2006: HK$1,556,000).

13. BANK AND OTHER BORROWINGS

During the period, the Group obtained bank loan amounting to HK$1,750,000 and repaid bank loans amounting to HK$3,603,000. The loans bear interest at 3% to 9% (31.12.2006: 3% to 9%) per annum and are repayable in one to five years.

14. SHARE CAPITAL

Ordinary shares of HK$0.1 each

	Number of shares	Share capital *HK$'000*
Authorised:		
At 1 January, 2006, 31 December, 2006 and 30 June, 2007	1,000,000,000	100,000
Issued and fully paid:		
At 1 January, 2006 and 1 January, 2007	330,000,000	33,000
Issue of shares *(note)*	30,000,000	3,000
At 30 June, 2007	360,000,000	36,000

Note: On 29 May, 2007, the Company entered into a placing agreement with a placing agent for placement of 30,000,000 new shares on a best-effort basis at the price of HK$1.33 per share to independent third parties.

15. CAPITAL COMMITMENT

At 30 June, 2007, the Group had commitments of HK$20,058,000 (31.12.2006: HK$20,058,000) which is contracted for the investment in a joint venture in the PRC.

16. CONTINGENT LIABILITIES

At 30 June, 2007, the Group had the following litigation or claims pending or threatened against the Group:

In April 2006, 上海華芮文化傳播有限公司 ("Shanghai City Glory"), one of the investors of "Seven Swords", initiated legal proceedings regarding a joint venture agreement against Mandarin Films Distribution Co., Ltd. ("Mandarin Film Distribution"), a wholly owned subsidiary of the Company in respect of claim for payment of investment proceeds amounting to approximately US$732,036 (equivalent to HK$5,680,233) arising from the filming of "Seven Swords". Upon mediation from the officers of the Shanghai No. 2 Intermediate People's Court (上海市第二中級人民法院), Shanghai City Glory and Mandarin Film Distribution entered into a settlement agreement on 2 August, 2007, pursuant to which, Shanghai City Glory withdrew its claim against Mandarin Film Distribution after Mandarin Film Distribution paying a sum of RMB3,777,002 into the court account by the end of August 2007, and both parties will continue to perform their obligations pursuant to the joint venture agreement and Shanghai City Glory retains its rights against Mandarin Film Distribution pursuant to agreement(s) that the parties entered into.

17. RELATED PARTY TRANSACTIONS

During the period ended 30 June, 2007, the Group entered into the following material transactions with related parties:

(a) Agency fee amounting to HK$537,000 (six months ended 30 June, 2006: HK$29,000) was paid to Tung Ying for the distribution income generated by Tung Ying on behalf of the Group, in which it acted as an agent to generate that income.

(b) Consultancy service fee of HK$10,000 (six months ended 30 June, 2006: HK$10,000) was paid to a brother of Mr. Wong Pak Ming.

(c) Compensation of key management personnel

The remuneration of the directors during the period was the short-term benefits and share-based payments approximately of HK$2,171,000 (six months ended 30 June, 2006: HK$1,870,000). It is determined by reference to market terms, individual responsibilities and performance.

18. EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the Company had completed the Open Offer by issuing 180,000,000 shares ("Open Share") at HK$0.5 per Offer Share on the basis of one Offer Share for every two existing shares. Details are set out in the prospectus issued by the Company on 24 August, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2005

Business Review and Outlook

For the year ended 31 December 2005, the Group recorded a revenue of HK$43.3 million. Film distribution and licensing, film processing and advertising and promotional services contributed to 41.9%, 41.2% and 16.9% respectively of the Group's revenue. The decrease in revenue compared with the prior year is mainly due to the general market slump in Hong Kong's film industry.

The Group, reported a loss of HK$18.6 million compared to a loss of HK$56.3 million last year. Loss per share is 5.64 HK$ cents, calculated on the 330,000,000 shares in issue in the 2005 compared with loss of 17.05 HK$ cents per share of the prior year.

Liquidity and Financial Resources

As at 31 December, 2005, the Group gross assets stood at HK$122.6 million. The net tangible assets of the Group is HK$52.4 million or 15.87 HK$ cents per share. The cash and cash equivalent is HK$10.0 million.

Borrowings and Banking Facilities

As at 31 December, 2005, the Group had outstanding short-term bank borrowings of approximately HK$10.5 million (represented by current portion of property mortgage loan). The main purpose of the bank loan is to finance the daily operation of the Group.

As at 31 December, 2005, the aggregate banking facilities of the Group was approximately HK$28.15 million. The utilization rate of banking facilities was about 49.8%. These banking facilities were secured by certain land and buildings of the Group.

The bank borrowings are made in Hong Kong Dollars.

As at 31 December, 2005, the gearing ratio of the Group, calculated at total borrowings divided by shareholders' funds, was 48.0%.

Net Current Assets and Working Capital

As at 31 December, 2005 the Group's total current assets and current liabilities were approximately HK$87.7 million and HK$54.9 million respectively. The Group services its debts primarily through cash generated from its operations. After considering the financial resources available to the Group including internally generated funds, the available unutilized banking facilities in 2005, the Directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure and debt repayment requirement.

Investment

During the year ended 31 December 2005, the Group has held equity investments in HK stock market. The Group held available-for-sale investments with market value of approximately HK$7,221,000 as at 31 December 2005.

Staff Cost, Director Bonuses and Share Option Scheme

Staff cost for the year ended 31 December, 2005 was $14.9 million representing an increase of 1.8%. The Group had a workforce of about 80 staff at the end 2005. 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 of the Company 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.

Future Plan

In the coming year the Group will still continue to focus on the business opportunities in the PRC market. Following the establishment of 東方橫唐影視後期製作有限公司 last year, which is a sino-foreign joint venture in the PRC, this will create even more room for development for the Group's film processing business in PRC.

In addition, with the new opportunities provided by the implementation of CEPA and the continuing expansion and increasing variety of the film and television markets in Mainland China, the Group would stand to benefit from even more business opportunities in the near future.

For the year ended 31 December 2006

Business Review and Outlook

For the year ended 31 December 2006, the Group recorded a revenue of HK$77.2 million. Film distribution and licensing, film processing and advertising and promotional services contributed to 61.7%, 29.1% and 9.2% respectively of the Group's revenue. The increase in revenue compared with the prior year is mainly due to the increase in film distribution and licensing revenue of the Group resulting from the successful execution of the CEPA (Closer Economic Partnership Arrangement) Model by the Group.

During the period, the Group has disposed of 15,976,000 shares in Jade Dynasty Group Limited, whose shares are listed on the Stock Exchange of Hong Kong and were held by the Group as available-for-sale investments as at 31 December, 2005, for an aggregate consideration of approximately HK$10.7 million resulting in a profit of approximately HK$5.04 million.

The Group reported a profit of HK$1.7 million compared to a loss of HK$18.6 million last year. Earnings per share is 0.51 HK cents, calculated on the 330,000,000 shares in issue in 2006 compared with loss of 5.64 HK cents per share of the prior year.

Liquidity and Financial Resources

As at 31 December, 2006, the Group's gross assets stood at HK$109.9 million. The net tangible assets of the Group is HK$54.7 million or 16.57 HK cents per share. The cash and cash equivalents is HK$16.7 million.

Borrowings and Banking Facilities

As at 31 December, 2006, the Group had outstanding short-term bank borrowings of approximately HK$5.4 million. The main purpose of the bank loan is to finance the daily operation of the Group.

As at 31 December, 2006, the aggregate banking facilities of the Group was approximately HK$17.15 million. The utilization rate of banking facilities was about 34.99%. These banking facilities were secured by certain land and buildings of the Group.

The bank borrowings are made in Hong Kong Dollars.

As at 31 December, 2006, the gearing ratio of the Group, calculated at total borrowings divided by shareholders' funds, was 34.7%.

Net Current Assets and Working Capital

As at 31 December, 2006 the Group's total current assets and current liabilities were approximately HK$79.8 million and HK$40.8 million respectively. The Group services its debts primarily through cash generated from its operations. After considering the financial resources available to the Group including internally generated funds, the available unutilized banking facilities in 2006, the Directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure and debt repayment requirement.

Investment

For the year ended 31 December 2006, the Group has held equity investments in HK stock market. The Group held available-for-sale investments with market value of approximately HK$3,796,000 as at 31 December 2006. The Group made an announcement on 14 September 2006 in relation to a disposal of part of the available-for-sale investments for approximately HK$10,699,440, resulting a profit of approximately HK$5,040,387. During the year ended 31 December 2006, the Group has received of aggregate dividend of HKD53,026.23.

Staff Cost, Director Bonuses and Share Option Scheme

Staff cost for the year ended 31 December, 2006 was HK$16.1 million representing an increase of 8.3%. The Group had a workforce of about 76 staff at the end 2006. 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 of the Company 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, 2006, options were granted on 23 June. Details of the share options granted under the scheme are set out in note 29 to the consolidated financial statements.

Future Plan

In the coming year the Group will still continue to focus on the business opportunities in the PRC market. In addition, with the new opportunities provided by the implementation of CEPA and the continuing expansion and increasing variety of the film and television markets in Mainland China, the Group would stand to benefit from even more business opportunities in the near future.

For the six-month period ended 30 June 2007

Business Review and Prospect

The unaudited consolidated turnover and loss attributable to equity holders of the company in the first half of year amounted to HK$21.5 million and HK$2.7 million respectively.

For the six-month period ended 30 June 2007, the Group recorded a decrease in turnover by approximately 15% to approximately HK$21.5 million. Such decrease was mainly due to the decrease in film distribution and licensing revenue of the Group in the first half of the year. The Group believes that, with the filming income generated from the movies namely ‘Wonder Woman’, ‘Dancing Lion’ and ‘Flash Point’ in the second half of the year, the revenue of the Group will increase accordingly.

For the six-month period ended 30 June 2007, the Company has disposed of 5,581,575 shares in Jade Dynasty Group Limited (“Jade Dynasty”), whose shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and were held by the Group as available-for-sale investments as at 15 May 2007, for an aggregate consideration of approximately HK$4.7 million resulting in a profit of approximately HK$2.17 million. After the Disposal, the Group does not have any shareholding in Jade Dynasty.

In the first half of the year 2007, losses of HK$1.9 million, HK$1.0 million and HK$2.2 million were recorded in the Group’s film distribution and licensing business, film processing business and advertising business respectively and we believe the market condition will improve in the second half of the year.

Liquidity and financial resources

As at 30 June, 2007, the Group retained total cash and bank balances of HK$29.9 million, most of which were in Hong Kong dollars – the exposure of foreign exchange fluctuation has been minimal. Therefore, the use of financial instruments for hedging purpose was not considered necessary. On the same date, the Group had bank borrowings of HK$4.9 million. Part of the loans were secured by leasehold land and buildings in Hong Kong held by one of the Group's subsidiary with an aggregate carrying value of HK$3.5 million. Interest rates on these bank borrowings were at prevailing bank lending rates.

As at the period ended 30 June 2007, the Group had bank borrowings of HK$4.6 million which were repayable within one year. On 30 June 2007, the current ratio and the gearing ratio of the Group were 1.8 times and 20% respectively (31 December, 2006: 1.9 times and 35%).

The Directors are in the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure.

Contingent Liabilities

In April 2006, 上海華芮文化傳播有限公司 ("Shanghai City Glory"), one of the investors of "Seven Swords", initiated legal proceedings regarding a joint venture agreement against Mandarin Films Distribution Co., Ltd. ("Mandarin Film Distribution"), a wholly owned subsidiary of the Company in respect of claim for payment of investment proceeds amounting to approximately US$732,036 (equivalent to HK$5,680,233) arising from the filming of "Seven Swords". Upon mediation from the officers of the Shanghai No. 2 Intermediate People's Court (上海市第二中級人民法院), Shanghai City Glory and Mandarin Film Distribution entered into a settlement agreement on 2 August 2007, pursuant to which, Shanghai City Glory withdrew its claim against Mandarin Film Distribution after Mandarin Film Distribution paying a sum of RMB3,777,001.89 into the court account by the end of August 2007, and both parties will continue to perform their obligations pursuant to the joint venture agreement and Shanghai City Glory retains its rights against Mandarin Film Distribution pursuant to agreement(s) that the parties entered into.

Employee and remuneration policies

As at 30 June, 2007, the Group employed 79 staff members, including approximately 52 staff in the processing and development department. The staff costs was approximately HKD7,856,773 for the six-month period ended 30 June 2007.

Apart from basic salaries, discretionary bonus and contribution to the mandatory provident fund for staff in Hong Kong, share options may also be granted to staff with reference to the individual's performance.

Purchase, Redemption and Sale of Shares

During the six-month period ended 30 June, 2007, the Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries purchased, or sold any of the Company's shares.

Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June, 2007.

INDEBTEDNESS, LIQUIDITY AND FINANCIAL RESOURCES

At the close of the businesses on 31 January 2008, being the Latest Practicable Date for the purpose of the indebtedness statement prior to the printing of this circular, the Group and the Enlarged Group had the following indebtedness:

	The Group	The Enlarged Group
	HK$000	*HK$000*
Bank borrowings#		
– current portion	3,460	3,460
– non-current portion	2,830	2,830
Other borrowings##		
– current portion	15,410	15,410
– non-current portion	319	319
Amount due to a shareholder of the Target Group ###	–	31,766
Amount due to a related company of the Target Group###	–	72,364
Provision for loss on guarantee*	–	131,099
Obligation under finance lease####		
– current portion	101	101
– non-current portion	195	195
Total outstanding borrowings	22,315	257,544

* details set out in pages 21-23 to this circular

\# As at 31 January, 2008, the Enlarged Group's bank borrowings comprise a term loan and a mortgage loan. The term loan is secured by legal charge over the copyright of a film with a carrying value of HK$7,640,000, the assignment of income receivable derived from the licensing of the film in all territories throughout the world, personal guarantee given by a director of the Company and corporate guarantee given by the Company. The mortgage loan is secured by the Group's investment property with a carrying value of HK$4,560,750 and corporate guarantee given by the Company.

\## secured by corporate guarantee given by the Company

\### unsecured and unguaranteed

\#### secured

Contingent liabilities

Save that the PRC Subsidiary had various outstanding legal actions as at 31 January, 2008, brief particulars of which are set out in pages 21-23 to this circular, the Enlarged Group had no other material contingent liabilities as at the Latest Practicable Date.

Commitments/capital commitments

As at 31 January, 2008, the Enlarged Group had operating lease commitments of approximately HK$4,758,000 (of which approximately HK$3,095,000 is repayable within one year and approximately HK$1,663,000 is repayable in the second to fifth years, inclusive) in respect of rental premises under operating lease commitment, which were not provided for by the Enlarged Group's pro forma financial information.

Disclaimer

Save as disclosed herein, the Group and the Enlarged Group had no outstanding debt securities, bank overdrafts, liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits and guarantees as at 31 January, 2008.

WORKING CAPITAL

After taking into account the available internal resources and credit facilities granted by banks and other financial institutions available of the Enlarged Group, and in the absence of unforeseen circumstances, the Directors are of the 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.

MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, being the date of which the latest audited financial statements of the Group were made up.

BUSINESS PROSPECTS

Trend of business of the Group

For the year ended 31 December 2006, the Group recorded a revenue of HK$77.2 million. Film distribution and licensing, film processing and advertising and promotional services contributed to 61.7%, 29.1% and 9.2% respectively of the Group's revenue. The increase in revenue compared with 2006 is mainly due to the increase in film distribution and licensing revenue of the Group resulting from the successful execution of the Closer Economic Partnership Arrangement ("CEPA") Model by the Group.

For the six-month period ended 30 June 2007, the Group recorded losses of HK$1.9 million, HK$1.0 million and HK$2.2 million were recorded in the Group's film distribution and licensing business, film processing business and advertising business respectively and the Directors believe the market condition will improve in the second half of the year.

The Group will still continue to focus on the business opportunities in the PRC market. In addition, with the new opportunities provided by the implementation of CEPA and the continuing expansion and increasing variety of the film and television markets in PRC, the Group would stand to benefit from even more business opportunities in the near future.

Trading and financial prospects of the Enlarged Group

The Directors consider that the Company's growth momentum will be maintained by diversifying into the property development. In view of the continued economic growth and accelerated industrialization and urbanization in the PRC, the Directors expect a stable revenue source from the newly acquired business. In view of the prospects relating to property sector generally and the PRC specifically, the Company believes that property investment project will be a successful strategy for the Company's business.

A. ACCOUNTANTS' REPORT

The following is the 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).

Robert Chui & Co.
崔志仁會計師行

12 March, 2008

The Board of Directors
Mandarin Entertainment (Holdings) Limited
Suite 1511
No. 9 Queen's Road Central
Hong Kong

Dear Sirs,

We set out below our report on the consolidated financial information (the "Financial Information") of Profit Source International Limited (the "Target") and its subsidiary (hereafter collectively referred to as the "Target Group") for each of the years ended 31 December, 2005, 2006 and 2007 (the "Relevant Periods"), prepared for inclusion in the circular of Mandarin Entertainment (Holdings) Limited (the "Company") dated 12 March, 2008 (the "Circular") in connection with the proposed acquisition of the entire equity interest of the Target by Sino Step INC., ("Sino Step"), an indirectly wholly-owned subsidiary of the Company (the "Acquisition").

The Target was incorporated in Hong Kong on 31 May, 1994 with limited liability and acts as an investment holding company. In 1997, the Target invested in 25% equity interest in 成都中發黃河實業有限公司 Chengdu Zhongfa Real Estate Development Co. Ltd.#, a joint venture enterprise established in the People's Republic of China ("PRC") (the "PRC Subsidiary") in 1997. In October, 2007, The Target acquired a further 65% equity interest in the PRC Subsidiary and the PRC Subsidiary become a 90% subsidiary of the Target.

All companies of Target Group have adopted 31 December as their financial year end date.

The statutory financial statements of the Target for each of the years ended 31 December, 2005, 2006 and 2007 were audited by us. The statutory financial statements of the PRC Subsidiary for the year ended 31 December, 2007 were audited by 四川良建會計師事務所有限責任公司. The statutory financial statements of the PRC Subsidiary for the years ended 31 December, 2006 and 2005 were audited by 四川光華會計師事務所有限責任公司, both are certified public accountants registered in the PRC.

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

For the purpose of this report, the directors of the Target have prepared the consolidated financial statements of the Target Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Directors' responsibility

The directors of the Target are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the financial information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

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 Group and the Target as at 31 December, 2005, 2006 and 2007 and of the consolidated results and cash flows of the Target Group for each of the Relevant Periods.

B. FINANCIAL INFORMATION

Consolidated income statements

		Year ended 31 December		
		2007	**2006**	**2005**
	Note	*HK$*	*HK$*	*HK$*
TURNOVER	3	215,237	–	–
Other income	3	1,314,792	–	–
Administrative and other operating expenses		(313,810)	(32,000)	(32,000)
OPERATING PROFIT/(LOSS)	4a	1,216,219	(32,000)	(32,000)
Finance costs		–	–	–
Share of loss of an associate		(21,350,030)	(7,374,915)	(490,768)
Excess of fair value of net assets acquired over cost arising from acquisition of a subsidiary		58,489,570	–	–
Provision for loss on guarantee		(7,077,209)	–	–
Increase in fair value of investment property		101,917,616	–	–
PROFIT/(LOSS) BEFORE TAX		133,196,166	(7,406,915)	(522,768)
Income tax	5	–	–	–
PROFIT/(LOSS) FOR THE YEAR		133,196,166	(7,406,915)	(522,768)
Attributable to:				
Equity holders of the Target		123,582,304	(7,406,915)	(522,768)
Minority interests		9,613,862	–	–
		133,196,166	(7,406,915)	(522,768)

Consolidated balance sheets

		As at 31 December		
		2007	**2006**	**2005**
	Note	*HK$*	*HK$*	*HK$*
NON-CURRENT ASSETS				
Plant and equipment	6	11,380	–	–
Interest in an associate	7	–	51,349,025	56,746,398
Investment property	9	427,625,917	–	–
		427,637,297	51,349,025	56,746,398
CURRENT ASSETS				
Amount due from a related company	11	1,086,879	–	–
Deposits and prepayments		641,987	–	–
Financial assets at fair value through profit and loss	10	604,598	–	–
Cash and cash equivalents		529,354	–	–
		2,862,818	–	–
CURRENT LIABILITIES				
Amount due to a shareholder	11	31,766,294	8,229,698	8,227,698
Amount due to a related company	11	72,363,838	–	–
Provision for loss on guarantee	12	131,099,416	–	–
Other payables and deposits received		395,099	–	–
Accruals		294,261	120,000	90,000
		235,918,908	8,349,698	8,317,698
NET CURRENT LIABILITIES		(233,056,090)	(8,349,698)	(8,317,698)
TOTAL ASSETS LESS CURRENT LIABILITIES		194,581,207	42,999,327	48,428,700
NET ASSETS		194,581,207	42,999,327	48,428,700
EQUITY				
Share capital	13	2	2	2
Reserves		171,926,456	42,999,325	48,428,698
Attributable to Target's equity holders		171,926,458	42,999,327	48,428,700
Minority interests		22,654,749	–	–
		194,581,207	42,999,327	48,428,700

Consolidated statements of changes in equity

Years ended 31 December 2005, 2006 and 2007

	Equity attributable to equity holders of the Target					
	Share capital	**Exchange reserve**	**Retained profits**	**Total**	**Minority interests**	**Total equity**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Balance at 1 January, 2005	2	–	47,661,547	47,661,549	–	47,661,549
Exchange difference arising on translation of foreign operation	–	1,289,919	–	1,289,919	–	1,289,919
Loss for the year	–	–	(522,768)	(522,768)	–	(522,768)
Balance at 1 December, 2005 and 1 January, 2006	2	1,289,919	47,138,779	48,428,700	–	48,428,700
Exchange difference arising on translation of foreign operation	–	1,977,542	–	1,977,542	–	1,977,542
Loss for the year	–	–	(7,406,915)	(7,406,915)	–	(7,406,915)
Balance at 31 December, 2006 and 1 January, 2007	2	3,267,461	39,731,864	42,999,327	–	42,999,327
Exchange difference arising on translation of foreign operation	–	5,344,827	–	5,344,827	–	5,344,827
On acquisition of subsidiary	–	–	–	–	13,040,887	13,040,887
Profit for the year	–	–	123,582,304	123,582,304	9,613,862	133,196,166
Balance at 31 December, 2007	2	8,612,288	163,314,168	171,926,458	22,654,749	194,581,207

Consolidated cash flow statements

		Year ended 31 December		
		2007	**2006**	**2005**
	Note	*HK$*	*HK$*	*HK$*
CASH FLOW FROM OPERATING ACTIVITES				
Profit/(loss) before tax		133,196,166	(7,406,915)	(522,768)
Adjustment for:				
Interest income		(249)	–	–
Share of loss of an associate		21,350,030	7,374,915	490,768
Excess of fair value of net assets acquired over cost arising from acquisition of a subsidiary		(58,489,570)	–	–
Increase in fair value of investment property		(101,917,616)	–	–
Operating loss before working capital changes		(5,861,239)	(32,000)	(32,000)
Increase in deposits and prepayments		(57,275)	–	–
Decrease in amount due from a related company		649,753	–	–
Decrease in amount due to a related company		(1,302,869)	–	–
Increase in other payable and deposits received		106,906	–	–
Increase in accruals		68,258	30,000	30,000
Increase in provision for loss on guarantee		7,077,209	–	–
Cash generated from/(used in) operations		680,743	(2,000)	(2,000)
Interest income		249	–	–
Net cash from/(used in) operating activities		680,992	(2,000)	(2,000)
CASH FLOW FROM INVESTING ACTIVITES				
Acquisition of financial assets at fair value through profit and loss		(346,957)	–	–
Acquisition of subsidiary, net of cash acquired	14	(23,347,530)	–	–
Net cash (used in) investing activities		(23,694,487)	–	–
CASH FLOW FROM FINANCING ACTIVITIES				
Increase in amount due to a shareholder		23,536,596	2,000	2,000
Net cash from financing activities		23,536,596	2,000	2,000
INCREASE IN CASH AND CASH EQUIVALENTS		523,101	–	–
Exchange differences		6,253	–	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		–	–	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		529,354	–	–
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		529,354	–	–

Balance sheets

		As at 31 December		
		2007	**2006**	**2005**
	Note	*HK$*	*HK$*	*HK$*
NON-CURRENT ASSETS				
Interest in an associate	7	–	8,219,700	8,219,700
Investment in a subsidiary	8	31,754,296	–	–
		31,754,296	8,219,700	8,219,700
CURRENT LIABILITIES				
Amount due to a shareholder	11	31,766,294	8,229,698	8,227,698
Accruals		200,000	120,000	90,000
		31,966,294	8,349,698	8,317,698
TOTAL ASSETS LESS CURRENT LIABILITIES		(211,998)	(129,998)	(97,998)
		(211,998)	(129,998)	(97,998)
SHARE CAPITAL		2	2	2
ACCUMULATED LOSSES		(212,000)	(130,000)	(98,000)
		(211,998)	(129,998)	(97,998)

1a). CORPORATE INFORMATION

The Target is a limited liability company incorporated in Hong Kong. Its registered office is located at Flat B, 30/F, Block 2, Park Towers, No. 1 King's Road, North Point, Hong Kong.

The principal activity of the Target is investment holding. The principal activity of its subsidiary is set out in note 8 to the financial statements

1b). FUNDAMENTAL ACCOUNTING CONCEPT

The financial statements have been prepared under the going concern concept because the shareholders have agreed to provide adequate funds and/or arrange adequate financing for the Target to meet its liabilities as and when they fall due and to subordinate the repayment of all sum due to them to all other creditors, both present and future.

2a). ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Target Group has applied, for the first time, a number of new standard amendments and interpretations issued by the HKICPA, which are effective for annual periods beginning on or after 1 January, 2007. The adoption of these new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

New HKFRSs issued but not yet effective are not early adopted. The directors of the Target Group anticipate that the adoption of these new HKFRSs will have no material impact on the financial statements of the Target Group.

2b). PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except that investment in investment property and financial assets at fair value through profit and loss are stated at fair value.

Basis of consolidation

The consolidated financial statements included the results of the Target and its subsidiary for the year. The results of subsidiary acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter-company transactions and balances within the Target Group are eliminated on consolidation.

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

Any excess of the Target's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognized immediately in the income statement.

Subsidiary

Subsidiary is an entity over which the Target Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of all voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group controls another entity.

Subsidiary is fully consolidated from the date on which control is transferred to the Target Group. It is de-consolidated from the date that control ceases.

Associate

An associate is an entity in which the Target Group has a long term interest of not less than 20% but not more than 50% of its issued equity capital and has a significant influence over the financial and operating policy decisions of that entity.

The Target Group's share of the post-acquisition results of associate is included in the consolidated income statement. The Target Group's investment in associate is stated in the consolidated balance sheet at the Target Group's share of net assets under the equity method of accounting. The results of the associate is included in the Target's income statement to the extent of dividend received and receivable.

Investment property

Investment property is land and building which is owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise. An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset 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 plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rate used for this purpose is as follows:

Furniture and fixtures	20%

The gain or loss on disposal or retirement of a plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Financial assets

The Target Group's policies for investments in debt and equity securities, other than investments in associate and subsidiary are as follows:

i) Financial assets at fair value through profit or loss

Investments in securities held for trading are included in the category "financial assets at fair value through profit or loss". Gains or losses on investments in securities held for trading are recognized in the income statement.

ii) Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using effective interest method. Gains or losses are recognized in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

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

iii) Group companies

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

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

b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

c) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes profit and loss items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Employee benefits

Pension scheme

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

Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Target Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Target Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

A contingent asset is not recognized but is disclosed in the financial statements when an inflow of economic benefits is probable.

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.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Operating lease

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

Revenue recognition

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

i) Rental income is recognized on a straight-line basis over the lease terms;

ii) Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable; and

iii) Other income is recognized on accrual basis.

2c). FINANCIAL RISK MANAGEMENT

Financial risk factors

The Target Group's activities expose it to a variety of financial risks: market risk (mainly currency risk), credit risk and liquidity risk. The Target Group's overall risks management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Group's financial performance.

Risk management is carried out by the Board of Directors who provides guidance for overall risk management.

i) Foreign exchange risk

The Target Group operates in PRC and is exposed to foreign exchange risk arising from currency exposures in Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. The Target Group has not entered into any arrangement to hedge its exposure of foreign exchange risk.

ii) Credit risk

The Target Group has no significant concentration of credit risk.

iii) Liquidity risk

The Target Group ensure that it maintains sufficient cash and funding from shareholders to meet its liquidity requirements.

2d). CAPITAL MANAGEMENT

Capital comprises of share capital and reserves stated on the balance sheet. The Target Group'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 shareholders.

The Target Group manages capital by regularly monitoring its current and expected liquidity requirements rather than using debt/equity ratio analyses.

The share capital of the Target is HK$2 only. Instead of increasing its share capital, the Target Group's operation is mainly sourced from amount due to a shareholder of HK$31,766,294 which is interest free and has no fixed repayment term. In addition, the shareholders have agreed to provide adequate funds and/or arrange adequate financing for the Target Group to meet its liabilities as and when they fall due and to subordinate the repayment of all sum due to them to all other creditors, both present and future.

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

2e). CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under certain circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of investment property

The investment property of the Target Group was stated at fair value in accordance with the accounting policy. The fair value of the investment property is determined by independent professional valuer and the fair value of investment property is set out in note 9 to the financial statements. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

In making the judgment, reasonable consideration has been given to the underlying assumptions that are mainly based on market conditions existing at the balance sheet date. These estimates are regularly compared to actual market data and actual transactions in the market.

2f). SEGMENTAL INFORMATION

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

3. TURNOVER

Turnover represents the following:

	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Rental income	215,237	–	–

Other income for the year is as follows:

	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Interest income	249	–	–
Gain on financial assets at fair value through profit and loss	278,631	–	–
Sundry income	1,035,912	–	–
	1,314,792	–	–

4a). OPERATING PROFIT/(LOSS)

	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Operating profit/(loss) is stated after charging:			
Directors' remuneration			
– fees	–	–	–
– other remuneration	–	–	–
Auditor's remuneration	80,000	30,000	30,000
Depreciation	5,346	–	–
Staff costs, excluding directors' remuneration	28,246	–	–

4b). FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the five highest paid employees are as follows:

	2007	2006	2005
	HK$	*HK$*	*HK$*
Salaries and benefits in kind	10,852	–	–

5. INCOME TAX

	2007	2006	2005
	HK$	*HK$*	*HK$*
Current tax	–	–	–
Deferred tax	–	–	–
	–	–	–

No provision for Hong Kong profits tax has been made in the financial statements as the Target had no estimated assessable profits for the year (2006 and 2005: Nil).

No provision for PRC enterprise tax has been made in the financial statements as the subsidiary operating in the PRC had no assessable profit for the year (2006 and 2005: Nil).

No deferred tax has been provided as there were no material temporary differences as at the balance sheet date.

Reconciliation between tax expense and accounting profit/(loss) at applicable tax rate is as follows:

	2007	2006	2005
	HK$	*HK$*	*HK$*
Profit/(loss) before tax	133,196,166	(7,406,915)	(522,768)
Calculated at the tax rate of 17.5%	23,309,329	(1,296,210)	(91,484)
Tax effect of items not subject to tax deduction	5,029,683	1,296,210	91,484
Tax effect of items not subject to tax	(28,339,012)	–	–
Income tax expense	–	–	–

6. PLANT AND EQUIPMENT

	Furniture and fixtures
	HK$
Cost:	
Addition	16,357
Exchange difference	547
At 31 December, 2007	16,904
Accumulated depreciation:	
Charge for the year	5,346
Exchange difference	178
At 31 December, 2007	5,524
Net book value:	
At 31 December, 2007	11,380
At 31 December, 2006	–
At 31 December, 2005	–

7. INTEREST IN AN ASSOCIATE

	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Share of net assets of associate	–	51,349,205	56,746,398

	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Unlisted investment, at cost	–	8,219,700	8,219,700

Particulars of the associate as at the balance sheet date are as follows:

Name	**Place of incorporation and operation**	**Registered and fully paid capital**	**Percentage of equity interest attributable to the Target**		**Principal activity**
			2007	**2006 & 2005**	
Chengdu Zhongfa Real Estate Development Co. Ltd. # (成都中發黃河實業有限公司)	PRC	RMB35,000,000	90%*	25%	Property leasing

* Subsidiary of the Company effective from 25 October, 2007.
\# English translation of company name is for identification purpose only

Summary financial information of the associate are as follows:

	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Assets	–	305,389,766	293,898,020
Liabilities	–	99,993,666	66,912,430
Revenue	–	597,874	600,087
Profit/(loss)	–	(29,499,658)	(1,963,072)

8. INVESTMENT IN A SUBSIDIARY

	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Unlisted investment, at cost	31,754,296	–	–

Particulars of the subsidiary as at the balance sheet date are as follows:

Name	Place of incorporation and operation	Registered and fully paid capital	Percentage of equity interest attributable to the Target		Principal activity
			2007	2006 & 2005	
Chengdu Zhongfa Real Estate Development Co. Ltd. # (成都中發黃河實業有限公司)	PRC	RMB35,000,000	90%*	25%	Property leasing

* Subsidiary of the Target effective from 25 October, 2007.
\# English translation of company name is for identification purpose only

9. INVESTMENT PROPERTY

	HK$
At valuation:	
At 1 January, 2007	–
Addition through acquisition of the PRC Subsidiary	315,173,833
Exchange difference	10,534,468
Increase in fair value recognized in income statement	101,917,616
At 31 December, 2007	427,625,917

The Target Group's investment property including both land and building elements are situated in PRC held under medium-term leases. The investment property was fair valued at 31 December, 2007 in existing state on an open market value basis by RHL Appraisal Limited, an independent firm of valuers not connected with the Target Group. RHL Appraisal Limited is member of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Valuation Standards on Properties published by the Hong Kong Institute of Surveyors, was arrived at by considering the capitalized income to be derived from the property or, where appropriate, by reference to market evidence of transaction prices for similar properties.

As at 31 December, 2007, majority part of the investment property had been pledged to third parties. Details of the pledges are set out in note 16 to the financial statements.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2007	2006	2005
	HK$	*HK$*	*HK$*
Equity investments listed in PRC at fair value	604,598	–	–

11. RELATED PARTY TRANSACTIONS

As at the balance sheet date, the Target Group had the following balances with related parties:

Name of related party	Relationship	2007	2006	2005
		HK$	*HK$*	*HK$*
Amount due from:				
Sichuan Huanghe Commercial Limited # (四川黃河商業有限責任公司)	Common control	1,086,879	–	–
Amount due to:				
Cheng Keung Fai	Shareholder of the Target	31,766,294	8,229,698	8,227,698
Guangdong Huanghe Enterprise Group Limited # (廣東黃河實業集團有限公司)	Common control	72,363,838	–	–

These amounts are un-secured, interest free and have no fixed repayment terms.

English translation of company name is for identification purpose only

12. PROVISION FOR LOSS ON GUARANTEE

As at 31 December, 2007, judgments issued by the Court in PRC have been received against the PRC Subsidiary in the total amount of HK$131,099,416 (RMB122,630,000) in respect of guarantee granted by the PRC Subsidiary to third parties in respect of liabilities owed by a related company. The judgments entitled the third parties to demand repayment and to enforce the sale of the charged portion of the investment property for repayment purpose.

The PRC Subsidiary has lodged appeals in respect of all judgments and the PRC Subsidiary has merit to seek indemnity from a related company. Full amount of these judgments have been provided in the financial statements pending the outcome of the appeals.

13. SHARE CAPITAL

	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Authorized:			
10,000 ordinary shares of HK$1each	10,000	10,000	10,000
Issued and fully paid:			
2 ordinary shares of HK$1each	2	2	2

14. ACQUISITION OF SUBSIDIARY, NET OF CASH ACQUIRED

In October, 2007, the Target acquired a further 65% equity interest in the PRC Subsidiary, making up a total equity interest holding of 90%. This transaction has been accounted for by the purchase method.

The net assets acquired, being the fair value in the transaction, and excess of fair value over cost arising from acquisition of subsidiary, are as follows:

	Carrying amount	**Fair value adjustment**	**Fair value of the acquiree**
	HK$	*HK$*	*HK$*
Investment property	63,772,873	141,090,118	204,862,991
Plant and equipment	7,158	–	7,158
Financial assets at fair value through profit and loss	162,049	–	162,049
Amounts due from related companies	1,092,301	–	1,092,301
Deposits and prepayments	367,771	–	367,771
Cash and cash equivalents	121,594	–	121,594
Amounts due to related companies	(46,334,656)	–	(46,334,656)
Other payables and deposits received	(181,266)	–	(181,266)
Accruals	(66,675)	–	(66,675)
Provision for loss on guarantee	–	(78,007,101)	(78,007,101)
Fair value of net assets acquired	18,941,149	63,083,017	82,024,166
Cash consideration paid			23,534,596
Excess of fair value of net assets acquired over cost arising from acquisition of subsidiary			58,489,570

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

	HK$
Cash consideration paid	23,534,596
Cash and cash equivalents acquired	(187,066)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	23,347,530

15. OPERATING LEASE ARRANGEMENT

The Target Group as lessor

At the balance sheet date, the Target Group's total future minimum lease payments receivable under non-cancellable operating leases of rental of investment property in PRC are as follows:

	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
Future minimum lease payments receivable:			
Within 1 year	1,345,418	–	–
In 2 to 5 years	1,336,331	–	–
Over 5 years	–	–	–
	2,681,749	–	–

16. CONTINGENT LIABILITIES

	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
The Target Group's contingent liabilities arising from pledge of investment property to third parties - (a)	12,497,367	–	–
The Target Group's share of contingent liabilities of an associate - (b)	–	25,982,341	32,302,305
Total contingent liabilities	12,497,367	25,982,341	32,302,305

(a) As at 31 December, 2007, majority part of the investment property of the Target Group had been pledged to third parties for banking facilities to the extent of HK$143,596,783 (RMB134,320,000) granted to related companies.

In relation to these banking facilities, several judgments in the total amount of HK$131,099,416 (RMB122,630,000) have been issued by the Court in PRC during the period up to 31 December, 2007 and provision for loss on guarantee of the same amount had been recognized in the consolidated financial statements in this respect. Accordingly, the Target Group had contingent liabilities in the amount of HK$12,497,367 (RMB11,690,000) as at 31 December, 2007.

(b) As at 31st December, 2006 and 2005, majority part of the investment property of the associate of the Target Group had been pledged to third parties for banking facilities to the extent of HK$135,828,675 (RMB136,300,000) and HK$131,140,296 (RMB136,500,000), respectively, granted to related companies.

In relation to these banking facilities, three judgments in the total amount of HK$31,899,309 (RMB32,010,000) have been issued by the Court in PRC during the period up to 31 December, 2006 and provision for loss on guarantee of the same amount had been recognized in the financial statements of the associate in this respect. Accordingly, the Target Group had 25% share of contingent liabilities in the amount of HK$25,982,341 (RMB26,072,500) as at 31 December, 2006.

In relation to these banking facilities, one judgment in the amount of HK$1,931,077 (RMB2,010,000) has been issued by the Court in PRC during the year ended 31 December, 2005 and provision for loss on guarantee of the same amount had been recognized in the financial statements of the associate in this respect. Accordingly, the Target Group had 25% share of contingent liabilities in the amount of HK$32,302,305 (RMB33,622,500) as at 31 December, 2005.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Target Group in respect of any period subsequent to 31 December 2007.

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

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Financial summary

Set out below is a summary of the key financial data of the Target Group, which are extracted from the accountant's report on the Target Group contained in this appendix to the Circular.

	Years ended 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
	(audited)	(audited)	(audited)
Turnover	215,237	–	–
Operating profit/(loss)	1,216,219	(32,000)	(32,000)
Share of loss of an associate	(21,350,030)	(7,374,915)	(490,768)
Excess of fair value of net assets acquired over cost arising from acquisition of a subsidiary	58,489,570	–	–
Provision for loss on guarantee	(7,077,209)	–	–
Increase in fair value of investment property	101,917,616	–	–
Profit/(loss) before tax	133,196,166	(7,406,915)	(522,768)
Profit/(loss) for the year attributable to:			
Equity holders of the Target	123,582,304	(7,406,915)	(522,768)
Minority interests	9,613,862	–	–
	133,196,166	(7,406,915)	(522,768)

	As at 31 December		
	2007	**2006**	**2005**
	HK$	*HK$*	*HK$*
	(audited)	(audited)	(audited)
Non-current assets	427,637,297	51,349,025	56,746,398
Current assets	2,862,818	–	–
Current liabilities	235,918,908	8,349,698	8,317,698
Net current liabilities	(233,056,090)	(8,349,698)	(8,317,698)
Net assets	194,581,207	42,999,327	48,428,700

Financial and business performance

For the years ended 31 December, 2005 and 2006

There was no turnover for the Target Group in respect of the years 31 December, 2005 and 2006. During the years, the major operating cost included auditor's remuneration only. The Target's only investment was 25% equity interest in 成都中發黃河實業有限公司 Chengdu Zhongfa Real Estate Development Co. Ltd.[#] (the "PRC Subsidiary"). The Target Group accounted for the 25% share of loss of the PRC Subsidiary of approximately HK$491,000 and HK$7,375,000, respectively for the year ended 31 December, 2005 and 2006. As a result, the net loss of the Target Group amounted to approximately HK$523,000 for the year ended 31 December, 2005 and approximately HK$7,407,000 for the year ended 31 December, 2006.

For the year ended 31 December, 2007

The Target Group's 25% share of loss of the PRC Subsidiary for the period up to October, 2007 of approximately HK$21,350,000 represented an increase of 189% as compared to last year. In October, 2007, the Target Group acquired a further 65% equity interest in the PRC Subsidiary and the PRC Subsidiary becomes a 90% subsidiary of the Target Group. As a result of this acquisition, the Target Group accounted for a gain of approximately HK$58,490,000 in respect of excess of fair value of net assets acquired over cost paid in acquisition of the PRC Subsidiary.

Turnover of the Target Group amounted to approximately HK$215,000 which represents net rental income generated from leasing of property in PRC for the period from October to December, 2007 as a result of the consolidation of the operating results of the PRC Subsidiary. During the year, the major operating cost included salaries and allowances and PRC property tax. Subsequent to October, 2007, court judgments were received by the PRC Subsidiary from the Court in PRC in respect of guarantee given to third parties for liabilities owed by a related company. In this connection, the Target Group made a provision for loss on guarantee of approximately HK$7,077,000 in this respect. There was an increase in fair value of approximately HK$101,918,000 as a result of revaluation of investment property as at 31 December, 2007. Accordingly, the net profit increased significantly to approximately HK$133,196,000.

Financial resources and liquidity

For the years ended 31 December 2005 and 2006

As at 31 December, 2005 and 2006, the Target Group had no current assets. As at 31 December 2005 and 2006, the total current liabilities of the Target Group mainly comprised amount due to a shareholder of approximately HK$8.2 million.

The audited consolidated net assets of the Target Group as at 31 December 2005 and 2006 amounted to approximately HK$48 million and HK$43 million, respectively.

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

For the years ended 31 December, 2007

As at 31 December, 2007, the current assets of the Target Group amounted to approximately HK$2.9 million which mainly comprised amount due from a related company of approximately HK$1.1 million, deposits and prepayments of approximately HK$0.6 million, financial assets at fair value through profit and loss of approximately HK$0.6 million and cash and bank balances of approximately HK$0.5 million.

As at 31 December, 2007, the total current liabilities of the Target Group amounted to approximately HK$236 million which comprised amount due to a shareholder of approximately HK$32 million, amount due to a related company of approximately HK$72 million, provision for loss on guarantee of approximately HK$131 million, other payables and deposits received of approximately HK$0.4 million and accruals approximately of HK$0.3 million.

The audited consolidated net assets of the Target Group as at 31 December, 2007 amounted to approximately HK$195 million.

The amount due to a shareholder of approximately HK$32 million and the amount due to a related company of approximately HK$72 million as at 31 December, 2007 were un-secured, interest free and had no fixed repayment terms.

Cash and cash equivalents

As at 31 December, 2007, cash and cash equivalents of the Target Group amounted to approximately HK$0.5 million which comprised cash and bank balances. The Target Group had no cash and cash equivalents as at 31 December, 2006 and 2005.

Number of employee and remuneration polices

As at 31 December, 2007, the Target Group had about 15 employees and the total salaries and allowances for the period from October to December, 2007 amounted to approximately HK$28,000. The Target Group had no employee as at 31 December, 2006 and 2005.

Board representation of the Target Group

Upon Completion of the Acquisition, representatives will be appointed by the Company to the board of the Target Group.

Segmental information

No further information for the business or geographical segment analysis of the Target Group has been presented as the Target Group is solely engaged in property leasing business in PRC .

Capital structure

The Target was incorporated in Hong Kong on 31 May, 1994 with an authorized capital of HK$10,000. As at 31 December, 2005, 2006 and 2007, the issued share capital amounted to HK$2. The issued capital have been fully paid up as at the Latest Practicable Date. Its PRC subsidiary was incorporated in the PRC on 16 January, 1997 with a registered capital of RMB35 million (equivalent to approximate HK$37.42 million). The registered capital have been fully paid up as at the Latest Practicable Date.

Foreign currency risk

The Target Group solely operates in the PRC with all transactions settled in RMB. Therefore, it is exposed to risk resulting from changes in foreign currency exchange rate in RMB against Hong Kong Dollars.

Gearing ratio and contingent liabilities

As at 31 December, 2005, 2006 and 2007, the Target Group did not have any long-term liabilities and thus no gearing ratio was determined.

As at 31 December, 2005 and 2006, the Target Group had share of contingent liabilities of its PRC Subsidiary totalling approximately HK$32,302,000 (RMB33,623,000) and HK$25,982,000 (RMB26,073,000), respectively in respect of pledge of investment property of the PRC Subsidiary to third parties.

As at 31 December, 2007, the Target Group had contingent liabilities totalling approximately HK$143,597,000 (RMB134,320,000) in respect of pledge of its investment property to third parties of which provision for loss on guarantee had been made to the extent of approximately HK$131,099,000 (RMB122,630,000) and the un-provided portion of contingent liabilities amounted to approximately HK$12,498,000 (RMB11,690,000).

Details of material acquisition of a subsidiary

There was no material acquisition during the years ended 31 December, 2005 and 2006.

In October, 2007, the Target acquired a further 65% equity interest of the PRC Subsidiary.

Charge of group assets

As at 31 December 2005 and 2006, there was no charge of assets of the Target Group.

Majority part of investment property of the Target Group had been pledged to third parties for banking facilities to the extent of approximately HK$143,597,000 (RMB134,320,000) granted to related companies as at 31 December, 2007.

Significant investment held

As at 31 December 2005, and 2006, the sole investment of the Target is 25% equity interest in the PRC Subsidiary.

As at 31 December, 2007, the sole investment of the Target is 90% equity interest in the PRC Subsidiary.

The major investment of the PRC Subsidiary is 100% interest in Minzu Plaza (民族廣場), a five stories shopping arcade in PRC.

Existing business of the Target Group

The Directors of the Target Group do not expect that there will any material change in the operation status of the Target Group after the Completion.

The Directors have no current intention to materially change the existing management team of the Target Group upon the Completion.

Robert Chui & Co.
崔志仁會計師行

The Board of Directors
Mandarin Entertainment (Holdings) Limited
Suite 1511
No. 9 Queen's Road Central
Hong Kong

12 March, 2008

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Mandarin Entertainment (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Profit Source International Limited (the "Target") and its subsidiary (the "Target Group") (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 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 12 March, 2008 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages III-3 to III-4 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 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 whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the 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 31 December, 2006 or any future date; or
- the financial results and cash flows of the Enlarged Group for year ended 31 December, 2006 or any future period.

Opinion

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- 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

A. INTRODUCTION

The following are for illustrative purposes only, the unaudited pro forma consolidated balance sheet, unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement of the Enlarged Group (collectively referred to as the "Unaudited Pro Forma Financial Information") which have been prepared based on the audited consolidated balance sheet of the Group as at 31 December, 2006, the audited consolidated income statement and consolidated cash flow statement of the Group for year ended 31 December, 2006 (collectively referred to as the "Unadjusted Financial Information") after making pro forma adjustments as set out below.

The pro forma unconsolidated balance sheet of the Enlarged Group has been prepared to illustrate the effects of the Acquisition, as if the Acquisition had taken place on 31 December, 2006. The consolidated income statement and consolidated cash flow statement of the Enlarged Group have been prepared to illustrate the effects of the Acquisition, as if the Acquisition had taken place at the beginning of the year ended 31 December, 2006. In the preparation of the Unaudited Pro Forma Financial Information of the Target Group, it is assumed that the acquisition of the remaining 65% equity interest in 成都中發黃河實業有限公司 Chengdu Zhongfa Real Estate Development Co. Ltd.# (the "PRC Subsidiary") by the Target was completed on 31 December, 2006, being accounted for as a 90% subsidiary of the Target for the pro forma consolidated balance sheet and at the beginning of the year ended 31 December, 2006 for the pro forma consolidated income statement and consolidated cash flow statement. The Unaudited Pro Forma Financial Information has been prepared in a manner consistent with the accounting policies adopted by the Group.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the actual financial position and financial results of the Enlarged Group that would have been attained had the Acquisition been completed on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position or results of operation.

English translation of company name is for identification purpose only

Notes:

(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 Group. Under the purchase method, the identifiable assets, liabilities and contingent liabilities of the Target Group will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion. Excess of the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the Target Group over the purchase price to be incurred by the Group is recognized as reserve in the unaudited pro forma consolidated balance sheet as if the Acquisition had taken place on 31 December, 2006.

The total consideration for the Sale Shares and the Sale loan is HK$240,000,000 which will be settled in the following manner:

(a) cash of HK$30,000,000 which shall be payable by the Purchaser to the Vendors within seven days after the date of the Sale and Purchase Agreement;

(b) cash of HK$40,000,000 which shall be payable by the Purchaser to the Vendors on Completion;

(c) cash of HK$30,000,000 (included in trade payable) which shall be payable by the Purchaser to the Vendors within 12 months after Completion;

(d) HK$70,000,000 by the allotment of 175,000,000 Consideration Shares of the Company at HK$0.4 per Consideration Share on Completion; and

(e) HK$70,000,000 Convertible Bonds to be issued by the Company to the Vendors on Completion.

(2) The pro forma adjustment of HK$70,000,000 represents the payment of the cash deposits as described in note 1(a) and 1(b) above.

(3) The pro forma adjustment of approximately HK$17,500,000 represents the combined effect of the elimination of share capital of the Target Group of HK$2 on consolidation, and the allotment of 175,000,000 Consideration Shares at HK$0.1 per share by the Company as described in note 1(d) above.

(4) The pro forma adjustment of approximately HK$82,365,000 represents the share premium arising from the allotment of the Consideration Shares amounting to HK$52,500,000, equity component of Convertible Bonds amounting to approximately HK$12,914,000 (note 5), the elimination of the pre-acquisition reserves of the Target Group on consolidation of approximately HK$171,926,000 and approximately HK$24,147,000 in respect of the excess of the Group's interest in the net fair value of the Target Group's identifiable assets, liabilities and contingent liabilities of approximately HK$268,820,000 (including Sale Loan of HK$31,766,000) over cost of acquisition of approximately HK$244,673,000 (including acquisition consideration of HK$240,000,000 plus direct legal and professional costs of approximately HK$4,763,000). The excess is computed based on the fair value of the identifiable net assets of the Target Group at 31 December, 2007.

Net assets value of the Target Group at 31 December, 2007 was approximately HK$171,926,000, excluding minority interest. For the purpose of pro forma information, the Group's interest in the net fair value of the Target Group's identifiable assets, liabilities and contingent liabilities of approximately HK$268,820,000 is calculated by adjusting the waiver of shareholder's loan of approximately HK$31,766,000 and 90% share of the waiver of amount due to a related company (at subsidiary level) of approximately HK$72,364,000 on Completion (i.e. HK$268,820,000 = HK$171,926,000 + HK$31,766,000 + 90% of HK$72,364,000).

(5) The Convertible Bonds are to be issued as described in note 1(e) above. Under Hong Kong Accounting Standard 32 and 39, the liability and equity component of convertible bonds 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$57,086,000, calculated at the market rate of interest of 6% per annum, with the balance of HK$12,914,000 accounted for as a component of equity.

(6) The pro forma adjustment of approximately HK$72,364,000 represents the amount waived by a related company of the Target Group on the Completion Date in respect of amount due by the PRC Subsidiary to that related company. The pro forma adjustment of approximately HK$7,236,000 represents 10% share by a minority shareholder of the PRC Subsidiary in this respect.

(7) The pro forma adjustment of approximately HK$4,673,000 represents the estimated legal and professional costs for the Acquisition.

(8) The pro forma adjustment represents the cash deposits of HK$70,000,000 in acquiring the entire equity interest of the Target Group. This pro forma adjustment will not have continuing cash flow effect to the Enlarged Group.

(9) These adjustments represent pre-acquisition results and cash flows of the PRC Subsidiary. For the purpose of the Unaudited Pro Forma Financial Information, the acquisition of the further 65% in the equity interest in the PRC Subsidiary was completed at the beginning of 31 December, 2006.

(10) As the Target had already acquired the further 65% equity interest of the PRC Subsidiary when The Group acquired the entire interest of the Target, these items no longer appears separately and are included as reserve of the Target Group.

(11) The pro forma adjustment represents the yearly imputed interest expenses of the Convertible Bonds. These interest expenses should have a continuing effect on the financial statements of the Group in subsequent years.

(12) The adjustment represents reclassification of bank overdraft.

B. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

	The Group as at 31 December 2006	The Target Group as at 31 December 2007	Pro forma Adjustments		Unaudited Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	2,936	11			2,947
Investment property	–	427,626			427,626
Prepaid lease payments	2,503	–			2,503
Available-for-sale investments	3,796	–			3,796
Interests in jointly controlled entities	20,820	–			20,820
	30,055	427,637			457,692
CURRENT ASSETS					
Film rights	1,440	–			1,440
Film production in progress	38,646	–			38,646
Prepaid lease payments	75	–			75
Inventories	1,680	–			1,680
Trade and other receivables and deposits paid	15,600	642			16,242
Amount due from a jointly controlled entity	602	–			602
Amounts due from related companies	5,042	1,087			6,129
Tax recoverable	17	–			17
Financial assets at fair value through profit and loss	–	605			605
Pledged bank deposits	1,556	–			1,556
Bank and cash balances	15,172	529	(70,000)	(2)	
			54,299	(12)	–
	79,830	2,863			66,992
CURRENT LIABILITIES					
Bank overdraft	–	–	54,299	(12)	54,299
Trade and other payables and deposits received	35,360	690	30,000	(1)	
			4,673	(7)	70,723
Amount due to a shareholder	–	31,766	(31,766)	(4)	–
Amount due to a related company	–	72,364	(72,364)	(6)	–
Provision for loss on guarantee	–	131,099			131,099
Bank and other borrowings – due within one year	5,362	–			5,362
Obligations under finance lease – due within one year	92	–			92
	40,814	235,919			261,575

	The Group as at 31 December 2006	The Target Group as at 31 December 2007	Pro forma Adjustments		Unaudited Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
NET CURRENT ASSETS/ (LIABILITIES)	39,016	(233,056)			(194,583)
TOTAL ASSETS LESS CURRENT LIABILITIES	69,071	194,581			263,109
NON-CURRENT LIABILITIES					
Bank and other borrowings – due after one year	13,627	–			13,627
Deferred taxation	471	–			471
Obligations under finance lease – due after one year	284	–			284
Convertible bonds	–	–	57,086	(5)	57,086
	14,382	–			71,468
NET ASSETS	54,689	194,581			191,641
CAPITAL AND RESERVES					
Share capital	33,000	–	17,500	(3)	50,500
Reserves	21,689	171,926	(82,365)	(4)	111,250
Attributable to the Company's equity holders	54,689	171,926			161,750
Minority interests	–	22,655	7,236	(6)	29,891
TOTAL EQUITY	54,689	194,581			191,641

C. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

	The Group Year ended 31 December 2006	The Target Group Year ended 31 December 2007	Pro forma Adjustments		Unaudited Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Revenue	77,165	215	1,002	(9)	78,382
Cost of sales	(60,248)	–			(60,248)
Gross profit	16,917	215			18,134
Other income	7,945	1,315	(443)	(9)	8,817
Administrative expenses	(22,984)	(314)	(693)	(9)	(23,991)
Finance costs	(1,088)	–	(3,425)	(11)	(4,513)
Excess of fair value of net assets acquired over cost arising from acquisition of a subsidiary	–	58,489	(58,489)	(10)	–
Provision for loss on guarantee	–	(7,077)	7,077	(10)	–
Increase in fair value of investment property	–	101,918	(101,918)	(10)	–
Share of results of an associate	–	(21,350)	21,350	(10)	–
Share of results of jointly controlled entities	(6)	–			(6)
(Loss) profit before taxation	784	133,196			(1,559)
Income tax expense	889	–			889
(Loss) profit for the year	1,673	133,196			(670)
Attributable to:					
Equity holders of the Company	1,673	123,582	(126,033)	(9)&(10)	(778)
Minority interests	-	9,614	(9,506)	(9)&(10)	108
	1,673	133,196			(670)

D. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

	The Group Year ended 31 December 2006	The Target Group Year ended 31 December 2007	Pro forma Adjustments		Unaudited Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
OPERATING ACTIVITIES					
Profit (loss) before taxation	784	133,196	(135,539)	(10)	(1,559)
Adjustments for:					
Interest income	(325)	–			(325)
Finance costs	1,088	–	3,425	(11)	4,513
Release of prepaid lease payments	75	–			75
Depreciation of property, plant and equipment	1,875	–			1,875
Impairment on trade and other receivables	2,716	–			2,716
Share of loss of jointly controlled entities and associate	6	21,350	(21,350)	(10)	6
Impairment loss recognized in respect of film production in progress	2,621	–			2,621
Loss on disposal of property, plant and equipment	4	–			4
Gain on disposal of available-for-sale investments	(5,040)	–			(5,040)
Gain on disposal of financial assets at fair value through profit and loss	–	–	(279)	(9)	(279)
Equity-settled share-based payment expenses	523	–			523
Excess of fair value of net assets acquired over cost arising from acquisition of a subsidiary	–	(58,489)	58,489	(10)	–
Increase in fair value of investment property	–	(101,918)	101,918	(10)	–
Operating cash flows before movements in working capital	4,327	(5,861)			5,130
Decrease in film rights and production in progress	11,628	–			11,628
Decrease in inventory	327	–			327
(Increase) in trade and other receivables and deposits paid	(3,890)	(57)	67	(9)	(3,880)
Increase in amount due from a related company	–	650	(650)	(9)	–
Increase in amount due to a jointly controlled entity	(430)	–			(430)
Decrease in amount due to a related company	772	(1,303)	1,303	(9)	772
(Decrease) increase in trade and other payables and deposits received	(8,992)	174	(285)	(9)	(9,103)
Increase in provision for loss on guarantee	–	7,077	(7,077)	(10)	–
Cash generated from operations	3,742	680			4,444
Hong Kong Profits Tax refunded	600	–			600
NET CASH FROM OPERATING ACTIVITIES	4,342	680			5,044

	The Group Year ended 31 December 2006	The Target Group Year ended 31 December 2007	Pro forma Adjustments		Unaudited Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
INVESTING ACTIVITIES					
Proceeds from disposal of available-for-sale investments	10,699	–			10,699
Interest received	325	–			325
Proceed from disposal of property, plant and equipment	30	–			30
Purchase of available-for-sale investments	(2,115)	–			(2,115)
Purchase of financial assets at fair value through profit and loss	–	(347)	21	(9)	(326)
Investment in a jointly controlled entity	(955)	–			(955)
Acquisition of a subsidiary, net of cash acquired	–	(23,347)	23,347	(10)	–
Purchase of property, plant and equipment	(191)	–	(9)	(9)	(200)
Increase in pledged bank deposits	(45)	–			(45)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	7,748	(23,694)			7,413
FINANCING ACTIVITIES					
Repayment of bank and other borrowings	(8,188)	–			(8,188)
Interest paid	(1,088)	–			(1,088)
Repayment of obligations under finance lease	(84)	–			(84)
Increase in amount due to a shareholder	–	23,537	(23,537)	(10)	–
Bank and other borrowings raised	2,000	–			2,000
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(7,360)	23,537			(7,360)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,730	523			5,097
EXCHANGE DIFFERENCE	–	6	5	(9)	11
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,026	–	(69,849)	(8)	(59,823)
CASH AND CASH EQUIVALENTS AT END OF YEAR	14,756	529			(54,715)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Bank balances and cash	15,172	529	(70,000)	(8)	(54,299)
Bank overdraft	(416)	–			(416)
	14,756	529			(54,715)

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from RHL Appraisal Ltd., an independent valuer, in connection with its valuation of the property interests to be acquired by Mandarin Entertainment (Holdings) Limited as at 31st December 2007.

12 March 2008

The Board of Directors
Mandarin Entertainment (Holdings) Limited
Suite 1511
No.9 Queen's Road Central
Hong Kong

Dear Sirs,

INSTRUCTIONS

In accordance with your instructions to value the property interests held by Chengdu Zhongfa Real Estate Development Co.,Ltd (成都中發黃河實業有限公司) which **Mandarin Entertainment (Holdings) Limited** (referred to as the "Company") and its subsidiaries (hereinafter together referred to as the "Group") propose to acquire, 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 31st December 2007 (referred to as the "valuation date").

This letter which forms part of our valuation report explains the basis and methodology of valuation, clarifying assumption, valuation considerations, title investigation and limiting conditions of this valuation.

BASIS OF VALUATION

Our valuation of the property interests represents 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".

METHODOLOGY OF VALUATION

In valuing the property interests of a completed real estate development to be acquired by the Group, direct comparison method is adopted where comparison based on prices realized on actual sales of comparable properties are made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantage of each property in order to arrive at a fair comparison of market values. For the purpose of our valuation of completed real estate developments, we assumed the Completed Construction Works Certified Report or Certificate of Completion or documents certifying the completion of the building(s) thereof is (are) issued for by the relevant local authority. For those portion of the Property subject to tenancies as at the valuation date, we have also adopted the investment method on the basis of capitalization of the net rental incomes with due allowance for reversionary income potential. The direct comparison method is also adopted in estimating the values of their reversionary interest (if any).

VALUATION ASSUMPTIONS

We have assumed that the property interests to be acquired is held under Land Use Rights Grant Contracts and the owner has free and uninterrupted rights to use the property interests for the whole of the unexpired term subject to payment of annual ground rent/land use fees, and all outstanding land premium/purchase consideration and any substantial sum of taxes or expenses (if any). Our valuation has been made on the assumption that the owner sells the property interest in the open market in their existing states without the benefit of a deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which could serve to affect the values of the property interests. No allowance has been made in our valuation report for any outstanding or additional land premium, charges, mortgages, comprehensive infrastructure provision fee, resettlement compensation or amounts owing on the property interests nor for expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

VALUATION CONSIDERATIONS

In valuing the property interest, 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 1st January 2005.

TITLE INVESTIGATION

We have been shown copies of various title documents relating to the property interests in the PRC. We have relied considerably on the advice given by the Company's PRC legal adviser, Sichuan Junhe Law Firm (四川君合律師事務所) concerning Chengdu Zhongfa Real Estate Development Co.,Ltd (成都中發黃河實業有限公司)'s titles to the property interests. All legal documents supplied by the Group have been used for reference only. No responsibility regarding legal title to the property interests is assumed in this valuation report.

LIMITING CONDITIONS

We have relied to a considerable extent on information given by the Group, in particular, but not limited to, the sales records, tenure, planning approvals, statutory notices, easements, particulars of occupancy, site and floor areas and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the property interests but have assumed that the site areas shown on the documents are correct. All documents have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken. No tests were carried out on any of the services.

We have inspected the exterior and, where possible, the interior of the property interests. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property interests are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material factors have 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. Liability in connection with this valuation report is limited to the Group to whom this report is addressed and for the purpose for which it is carried out only. We will accept no liability to any other parties or any other purposes.

EXCHANGE RATE

Unless otherwise stated, all monetary sums stated in this report are in Renminbi ("RMB"). Our valuation certificate is attached.

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

Serena S. W. Lau
FHKIS AAPI RPS(GP)
Managing Director

Ian K. F. Ng
MBA BSc(EstMan) BSc MHKIS MRICS RPS(GP)
Senior Manager

Ms. Serena S. W. Lau is a Registered Professional Surveyor with over 16 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is 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. Ian K. F. Ng is a Registered Professional Surveyor with over 5 years' experience in valuation of properties in HKSAR, Macau SAR and mainland China. Mr. Ng is a Professional Member of The Hong Kong Institute of Surveyors as well as the Royal Institution of Chartered Surveyors.

VALUATION CERTIFICATE

Property interests to be acquired by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31st December 2007
Mingzu Plaza No.19 Yongling Road Jinniu District Chengdu City Sichuan Province The PRC (the "Property")	The Property comprises a commercial building with a total gross floor area of approximately 30,741.82 sq.m. including 110 carparking spaces. The Property was completed in about 1999. The land use rights of the Property were granted for a term expiring on 28th September 2027 for commercial uses.	As advised by the Group, portions of the Property with a total lettable area of approximately 4,740 sq.m. have been leased to various tenants with latest term expiring in June 2020 for retailing and other commercial uses. The remaining portion of the property is either vacant or owner occupied. (Please also see notes 3-6)	RMB400,000,000.

Notes :

1. Pursuant to a State-owned Land Use Rights Certificate- Cheng Guo Yong (2004) Di No.927 issued by the People's Government of Chengdu City date 5th August 2004, the land use rights of the Property with a site area of approximately 9,246.17 sq.m. were granted to 成都中發黃河實業有限公司 for a term expiring on 28th September 2027 for commercial uses.

2. Pursuant to a Building Ownership Certificate-Rong Fang Quan Zheng Cheng Fang Jian Zheng Zi Di No.0659621 dated 15th October 2001 issued by the Chengdu Municipal Land and Housing Administrative Bureau, the building ownership rights of the Property with a total gross floor area of approximately 30,741.82 sq.m. were legally vested in 成都中發房地產開發有限公司 for commercial uses.

3. Pursuant to a Tenancy Agreement entered into between 成都中發房地產開發有限公司 and 四川麥當勞餐廳食品有限公司 dated 27th June 2000, a portion of level 1 of the Property was leased to 四川麥當勞餐廳食品有限公司 for a term of 20 years commencing on the date that the restaurant started operation at a monthly rent of 5.5% of the restaurant's sale amount, with an option to renew, inclusive of management fee but exclusive of other service charges. As advised by the Group, the total gross floor area of the leased space is approximately 420sq.m..

4. Pursuant to a Tenancy Agreement entered into between Chengdu 成都中發黃河實業有限公司 and 四川省銀億酒店管理有限公司 dated 17th April 2007, a portion of level 5 of the Property with a gross floor area of approximately 3,100 sq.m. was leased to 四川省銀億酒店管理有限公司 for a term of 3 years commencing on 17th April 2007 and expiring on 16th April 2010 at a monthly rent of RMB83,330 with an option to renew, exclusive of management fee and other service charges. As advised by the Group, the lease space is currently occupied for Sauna/entertainment uses.

5. Pursuant to a Tenancy Agreement entered into between 成都中發黃河實業有限公司 and Zeng Rong (曾蓉) dated 12th December 2007, a portion of level 1 of the Property with a gross floor area of approximately 220 sq.m., was leased to Zeng Rong as commercial uses for a term of 1 year commencing from 12th December 2007 and expiring on 13th December 2008 at a monthly rent of RMB 8,500 with an option to renew exclusive of management fee and other service charges.

6. Pursuant to a Tenancy Agreement entered into between 成都中發黃河實業有限公司 and Mao Ji Dong (毛繼東) dated 12th December 2007, a portion of level 4 of the Property with a gross floor area of approximately 1,000 sq.m., was leased to Mao Ji Dong as commercial uses for a term of 1 year commencing from 12th December 2007 and expiring on 11th December 2008 at a monthly rent of RMB 15,000 with an option to renew exclusive of management fee and other service charges.

7. Pursuant to a Business Licence registered no. Qi He Chuan Rong Zong Fu Zi Di No.002227 dated 20th November 2007, 成都中發黃河實業有限公司 has been incorporated with a registered capital of RMB35,000,000 for an operation period from 16th January 1997 to 15th January 2020.

8. Pursuant to a Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the People's Republic of China- Shang Wai Zi Ron He Zi Zi (1997) No.0001 成都中發黃河實業有限公司 has been approved to establish under the PRC law with a registered capital of RMB35,000,000.

9. Pursuant to an Approval Notification for Modification of Enterprise Name (企業名稱變更核准通知書)-Ming Cheng Bian He Wai Zi (2004) Di No.0100040603011 dated 3rd June 2004 issued by the Chengdu Administration for Industry and Commerce, 成都中發房地產開發有限公司 has changed its name to 成都中發黃河實業有限公司.

10. The major Certificates of the Property are summarized as follows:

i.	State-owned Land Use Rights Certificate	Yes
ii.	Building Ownership Certificate	Yes

11. We have been provided with a legal opinion regarding the Property interests by the Group's PRC legal adviser Sichuan Junhe Law Firm (四川君合律師事務所) date 10 March 2008, which contains, inter alia, the following:

    (i) 成都中發黃河實業有限公司 has been issued with a business licence and is legally established under the PRC law as a limited Company with a registered capital of RMB35,000,000 and started operation from 16th January 1997;

    (ii) 成都中發黃河實業有限公司 has settled all the land premium of the land portion of the property;

    (iii) 成都中發房地產開發有限公司 has changed its name to 成都中發黃河實業有限公司 on 3rd June 2004 and approved by the Administration for Industry and Commerce Bureau of Chengdu City, Sichuan Province (四川省成都市工商行政管理局) under the PRC's law. 成都中發黃河實業有限公司 legally owns the land use rights and building ownership rights of the Property and is entitled to freely use, lease, mortgage and transfer the land use rights and building ownership rights of the Property during the land use rights term;

    (iv) The State-owned Land Use Rights Certificate and Building Ownership Certificate owned by the 成都中發黃河實業有限公司 is valid and legally binding under the PRC law;

    (v) The Tenancy Agreements entered into between 成都中發黃河實業有限公司 and various parties including 四川麥當勞餐廳食品有限公司, 四川省銀億酒店管理有限公司, Zeng Rong (曾蓉) and Mao Ji Dong (毛繼東) are valid, legally binding and enforceable under the PRC law;

    (vi) The Property is subject to various Civil litigations, in which nine are in the enforcement phase and the remaining one related to the ownership of Level 1-3 business area of the Property is still in the process of hearing;

    (vii) Portion of the property with a total gross floor area of approximately 26,042 sq.m. is subject to three mortgages of a total sum of RMB135,700,000, in which one of RMB124,700,000 is in favour of 成都人民商場(集團)股份有限公司 while the remaining two of RMB8,000,000 and RMB3,000,000 respectively are in favour of 成都市商業銀行永陵路支行.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in the this circular received from RHL Appraisal Ltd., an independent property valuer, in connection with its valuation of the Properties held by the Group as at 31st December 2007.

The Board of Directors
Mandarin Entertainment (Holdings) Limited
Suite 1511
No.9 Queen's Road Central
Hong Kong

12 March 2008

Dear Sirs,

INSTRUCTIONS

In accordance with your instructions for us to value the property interests in Hong Kong (hereinafter referred to as the "Properties") held and contracted to be acquired by **Mandarin Entertainment (Holdings) Limited** (hereinafter referred to as the "Company") and/ or its subsidiaries (hereinafter together referred to as the "Group") for owner occupation; we confirm that we have carried out site inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as at 31st December 2007 (referred to as the "valuation date").

This letter, which forms part of our valuation report, explains the basis and methodology of valuation, clarifying assumption, valuation considerations, title investigation and limiting conditions of this valuation.

BASIS OF VALUATION

Our valuations of the Properties represent their market values 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".

PROPERTY INTERESTS CATEGORISATION

The property interest held by Group are categoried as follows:

Group I – Property interests held and occupied by the Group in Hong Kong

Group II – Property interests contracted to be acquired by the Group in Hong Kong

METHODOLOGY OF VALUATION

In valuing the properties in Group I, the direct comparison method is adopted where comparison based on prices realized on actual sales of comparable properties are made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market values. We have ascribed no commercial value to the property in Group II because the assignment is not yet completed.

VALUATION ASSUMPTIONS

As the Properties are held under long term Government Leases, we have assumed that the owner has free and uninterrupted rights to use the Properties for the whole of the unexpired term subject to payment of annual ground rent/land use fees, and all outstanding land premium / purchase consideration and any substantial sum of taxes or expenses (if any). We have valued the Properties on an open market basis assuming sale with vacant possession.

Our valuations have been made on the assumption that the owner sells the Properties in the open market in their existing states without the benefit of a deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which could serve to affect the values of the Properties.

No allowance has been made in our valuation report for any outstanding or additional land premium, charges, mortgages, comprehensive infrastructure provision fee, resettlement compensation or amounts owing on the Properties nor for expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

VALUATION CONSIDERATIONS

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 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 1st January 2005.

In valuing the properties in Hong Kong held under the Government Lease expiring before 30th June 1997, we have taken account of the stipulations contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the question of Hong Kong that such leases have been extended without premium until 30th June 2047 and that a rent of three per cent of the then rateable value is charged per annum from the date of extension.

TITLE INVESTIGATION

We have caused searches to be made at the appropriate Land Registry for the Properties. However, we have not verified ownership of the Properties or to verify the existence of any lease amendments which do not appear on the copies handed to us.

All legal documents supplied by the Group have been used for reference only. No responsibility regarding legal title to the Properties stated here are assumed in this valuation report.

LIMITING CONDITIONS

We have relied to a considerable extent on information given by the Group, in particular, but not limited to, the sales records, tenure, planning approvals, statutory notices, easements, tenancy details, particulars of occupancy, site and floor areas and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the Properties but have assumed that the site areas shown on the documents are correct. All documents have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the Properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material factors have 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.

EXCHANGE RATE

All monetary sums stated in this report are in Hong Kong Dollars (HK$).

Our valuations are summarised below and the valuation certificates are attached.

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

Serena S. W. Lau	**Ian K. F. Ng**
FHKIS AAPI RPS(GP)	MBA BSc(Est Man) BSc MHKIS MRICS RPS(GP)
Managing Director	*Senior Manager*

Ms. Serena S. W. Lau is a Registered Professional Surveyor with over 17 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is 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. Ian K. F. Ng, is a Registered Professional Surveyor with over 5 years' experience in valuation of properties in HKSAR, Macau SAR and mainland China. Mr. Ng is a member of the Hong Kong Institute of Surveyors as well as the Royal Institution of Chartered Surveyors.

VALUATION CERTIFICATE

Group I - Property Interests held by the Group for Owner Occupation in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31st December 2007
1.	Unit C on 6th Floor CNT Tower No.338 Hennessy Road Hong Kong 8/2017th shares of and in Marine Lot No.123 s.c s.s.1 and others	The property comprises an office unit on 6th Floor of a 28-storey office building plus 2 basement car park completed in about 1993. The gross floor area and the saleable area of the property are approximately 940 square feet 605 square feet respectively. The property is held under Government Lease for a lease term of 999 years commencing on 26th December 1860. The total Government rent for the whole lots is HK$132 per annum.	The property was vacant as at the valuation date.	HK$4,700,000.

Notes :

1. The registered owner of the property is Ease Brilliant Limited vide Memorial No.08010302580471 dated 5th December 2008.
2. The property is subject to a Deed of Mutual Covenant and Management Agreement vide Memorial No.UB5863819 on 18th November 1993.
3. The property is subject to a mortgage in favour of Chong Hing Bank Limited vide Memorial No.08010302580489 dated 5th December 2007.
4. As advised by the Group, Ease Brilliant Limited is 100% interest-owned by the Group.
5. The property is currently zoned for commercial/residential uses under Approved Wan Chai Outline Zoning Plan No.S/H5/25.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31st December 2007
2.	3rd Floor and Fresh Water Tank on Roof Cheung Fai Industrial Building No.133 Wai Yip Street Kowloon 2/28th shares of and in Kwun Tong Inland Lot No.417	The property comprises a workshop unit on 3rd floor together with a fresh water tank on roof of a 13-storey industrial building completed in about 1969. The saleable area of the property is approximately 12,570 square feet plus a water tank of approximately 540 square feet. The property is held under a Conditions of Sale No.7954 for a lease term of 21 years renewable for 14 years., commencing on 1st July 1962 and statutorily renewed until 30th June 2047. The current Government Rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property as at the valuation date was occupied by the Group for industrial use.	HK$13,800,000.

Notes :

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

2. The property is subject to a Deed of Mutual Covenant registered vide Memorial No.UB695099 dated 24th July 1969.

3. The property is subject to a Tripartite Legal Charge/Mortgage in favour of The National Commercial Bank Limited vide Memorial No.UB7856609 dated 31st July 1999.

4. As advised by the Group, Mandarin Laboratory (International) Limited is 100% interest-owned by the Group.

5. The property is currently zoned for Other Specified Uses (Business) under Draft Kwun Tong (South) Outline Zoning Plan No.S/K14S/15.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31st December 2007
3.	Workshop 4 on 2nd Floor Shiu Fat Industrial Building Nos.139 and 141 Wai Yip Street Kowloon 111/4800th shares of and in Kwun Tong Inland Lot No.420 and others	The property comprises an industrial unit on 2nd floor of a 15-storey industrial building completed in about 1988. The gross floor area and the saleable area of the property are approximately 3,148 square feet 2,579 square feet respectively. The property is held under a Conditions of Sale No.7941 for a lease term of 21 years renewable for 14 years commencing on 1st July 1962. The current Government Rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum..	The property as at the valuation date was occupied by the Group for industrial use.	HK$3,900,000.

Notes :

1. The registered owner of the property is Walsbo Limited vide Memorial No.UB8263770 dated 30th November 2000.

2. The property is subject to a Deed of Mutual Covenant vide Memorial No.UB3627048 dated 5th February 1988.

3. The property is subject to a Tripartite Legal Charge/Mortgage in favour of The National Commercial Bank Limited vide Memorial No.UB8263771 dated 30th November 2000.

4. As advised by the Group, Walsbo Limited is 100% interest-owned by the Group.

5. The property is currently zoned for Other Specified Uses (Business) under Draft Kwun Tong (South) Outline Zoning Plan No.S/K14S/15.

VALUATION CERTIFICATE

Group II - Property Interests to be acquired by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31st December 2007
4.	Unit B on 19th Floor CNT Tower No.338 Hennessy Road Hong Kong 8/2017th shares of and in Marine Lot No.123 s.c s.s.1 and others	The property comprises an office unit on 19th Floor of a 28-storey office building plus 2 basement car park completed in about 1993. The gross floor area and the saleable area of the property are approximately 956 square feet 614 square feet respectively. The property is held under Government Lease for a lease term of 999 years commencing on 26th December 1860. The total Government rent for the whole lots is HK$132 per annum.	The property was vacant as at the valuation date.	No Commercial Value (Please refer to Note 6)

Notes :

1. The registered owner of the property is Good Wealth Enterprise Limited vide Memorial No.07071002400226 dated 12th June 2007.

2. The property is subject to a Deed of Mutual Covenant and Management Agreement vide Memorial No.UB5863819 on 18th November 1993.

3. The property is subject to a Mortgage in favour of DBS Bank (Hong Kong) Limited vide Memorial No.07071002400234 dated 12th June 2007.

4. The property is subject to an Agreement of Sub-sale and Purchase in favour of Good Phase Limited vide Memorial No. 07113002590331 dated 14th November 2007 for a consideration of HK$4,732,200.

5. As advised by the Group, Good Phase Limited is 100% interest-owned by the Group.

6. We have ascribed no commercial value to the property because the property is in the conveyancing process.

7. The property is currently zoned for commercial / Residential use under Approved Wan Chai Outline Zoning Plan No.S/H5/25.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the circular and confirm, having made all enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular the omission of which would make any of their statements in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company (a) as at the Latest Practicable Date were, (b) immediately following the allotment and issue of the Consideration Shares and (as the case may be) the Conversion Shares upon full conversion of the Convertible Bonds (and assuming no other Shares being allotted and issued at all) will be, as follows:

(a) The authorised and issued and fully paid up share capital of the Company as at the Latest Practicable Date are as follows:

Number		Nominal amount *HK$*
Authorised:		
1,000,000,000	Shares	100,000,000
Issued and fully paid:		
576,000,000	Shares	57,600,000

(b) The authorised and issued and fully paid up share capital of the Company immediately upon issue of the Consideration Shares and the Conversion Shares will be as follows:

Authorised:		
1,000,000,000	Shares	100,000,000
Issued and fully paid:		
576,000,000	Shares	57,600,000
175,000,000	Consideration Shares to be allotted and issued	17,500,000
175,000,000	Consideration Shares to be allotted and issued pursuant to the Convertible Bond (subject to adjustment)	17,500,000
926,000,000	Shares	92,600,000

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Consideration Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made for which the record date falls on or after the date of such allotment and issue. The Conversion Shares to be allotted and issued will, when issued and fully paid, rank in all respects pari passu with all Shares in issue as at the date of allotment and issue of the respective Conversion Shares.

Save for the Convertible Bonds (the issue of which is subject to the approval of Shareholders at the SGM and the listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares and a share option scheme adopted on 21 August 2001), the Company did not have any other debt securities in issue, options, warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

3. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

(a) Save as disclosed below, as at the Latest Practicable Date, no other Director or chief executive of the Company was deemed or taken to have an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (1) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) recorded in the register required to be kept by the Company under Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the :Model Code for Securities Transactions by Directors of Listed Issuers:

(i) Directors' interests in Shares

Name of Director	Personal	Interests in Shares Corporate *(Note 1)*	Family *(Note 2)*	Total interests in Shares	Interests in underlying Shares subject to share options	Aggregate interests in Shares and underlying shares	Approximate percentage of total issued share capital
Mr. Wong Pak Ming ("Mr. Wong")	2,593,000	228,300,000	411,000	231,304,000	1,761,048	233,065,048	40.46%
Ms. Wong Kit Fong	3,225,000	–	–	3,225,000	1,761,048	4,986,048	0.86%
Ms. Wong Yee Kwan, Alvina	4,212,000	–	–	4,212,000	1,761,048	5,973,048	1.04%
Mr. Tang Kai Kui, Terence	–	–	–	–	3,156,048	3,156,048	0.55%

Notes:

(1) These Shares are held as to 45,000,000 Shares by Capeland Holdings Limited and as to 183,300,000 Shares by Idea Storm Holdings Limited, both of which are incorporated in the British Virgin Islands and are wholly-owned by Mr. Wong.

(2) These Shares are held by Mr. Wong's spouse in which Mr. Wong is also deemed to be interested.

(ii) Directors' interests in the share options of the Company

Name of Director	Number of share options held	Exercise period	Exercise price per share
Mr. Wong	366,048	24 December 2006 to 20 August 2011	HK$0.841
	1,395,000	11 November 2007 to 20 August 2011	HK$0.789
Ms. Wong Kit Fong	366,048	24 December 2006 to 20 August 2011	HK$0.841
	1,395,000	11 November 2007 to 20 August 2011	HK$0.789
Ms. Wong Yee Kwan, Alvina	366,048	24 December 2006 to 20 August 2011	HK$0.841
	1,395,000	11 November 2007 to 20 August 2011	HK$0.789
Mr. Tang Kai Kui, Terence	366,048	24 December 2006 to 20 August 2011	HK$0.841
	2,790,000	11 November 2007 to 20 August 2011	HK$0.789

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company and their respective associates held any interests or short positions in the shares, underlying shares and debentures of the Company or any of 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 which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or were required, pursuant to Part XV of the SFO or 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.

4. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, no person (other than a Director or chief executive of the Company whose interest is disclosed under paragraph (b) above) had or was deemed or taken to have an interest or short position in the Shares to underlying shares of the Company which would fail to be disclosed to the Company under the provisions of Division 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 general meetings of the Company, or were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name	Number of Shares held	Capacity Beneficial owner	Family interest	Interest on controlled corporation	Approximate percentage to the issue share capital
Wong Pak Ming *(note 1)*	233,065,048	4,354,048	411,000	228,300,000	40.46
Zhang Xun *(note 2)*	60,060,000	60,060,000			10.43
Cheng Keung Fai *(note 3)*	175,000,000	175,000,000			30.38
Lam Suet Chung *(noted 3)*	175,000,000	175,000,000			30.38

Notes:

1. Mr. Wong Pak Ming is beneficially interested in 4,354,048 Shares. Mr. Wong Pak Ming is also the sole beneficial owners of the entire issue share capital of Idea Storm Holdings Limited which holds 155,000,000 Shares and Capeland Holding Limited which holds 73,300,000 Shares. Accordingly Mr. Wong Pak Ming is deemed to be interested in 233,065,048 Shares. Ms. Zee Ven Chu Lydia being the spouse of Mr. Wong Pak Ming is beneficially interested in 411,000 Shares and is also deemed to be interested in 233,065,048 Shares.

2. Mr. Zhang is interested in a hotel operation in PRC in which the Group is interested in 37.5%.

3. Pursuant to the Sale and Purchase Agreement (as amended by the Supplemental Agreement), the Vendors have undertaken to the Purchaser and the Company that the Vendors, Cheng Keung Fai and Lam Suet Chung, will not hold more than 25.0% in the share capital of the Company at any time and the Company has entered into the Supplemental Agreement to undertake that it will not issue further Conversion Shares to the Vendors if upon conversion the Vendors will hold more than 25% of the entire share capital of the Company in effect. The shareholding of the Vendors immediately after issue of the Consideration Shares and issue of the Conversion Shares is for illustration purposes only.

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, there is no other person who had a direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

5. MATERIAL CONTRACTS

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

(a) contract notes entered into between Grimston Limited, a wholly owned subsidiary of the Company ("Grimston"), and securities brokerage firms for the disposal of 15,976.000 shares in Jade Dynasty Group Limited ("Jade Dynasty") at an aggregate consideration of approximately HK$10,699,440 during the period from 2 March 2006 to 8 September 2006;

(b) contract notes entered into Grimston and securities brokerage firms for the disposal of 5,581,575 shares in Jade Dynasty at an aggregate consideration of approximately HK$4,729,420 on 15 May 2007;

(c) a subscription agreement dated 29 May 2007 entered into between the Company and Capeland Holdings Limited, a company wholly and beneficially owned by Mr. Wong Pak Ming, in respect of the subscription of 30,000,000 Shares at HK$1.33 each;

(d) the underwriting agreement dated 19 July 2007 entered into between the Company, Mr. Wong Pak Ming and Orient Securities Limited in relation to the open offer of the Company;

(e) the placing agreement dated 17 September 2007 entered into between the Company and Orient Securities Limited as placing agent in relation to the placing of 36,000,000 existing shares of the Company at the placing price of HK$0.57 per share on the best efforts basis;

(f) the subscription agreement dated 17 September 2007 entered into between the Company and Capeland Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by Mr. Wong Pak Ming as subscriber in relation to the subscription of 36,000,000 shares of the Company at the subscription price of HK$0.57 per share;

(g) the property acquisition agreement dated 12 November 2007 entered into between GUH, Grand Unique Holdings Limited as vendor and Ease Brilliant Limited, an indirect wholly-owned subsidiary of the Company as purchaser;

(h) the property acquisition agreement dated 14 November 2007 entered into between Mr. Yuen Avent Gar Kit as vendor and Good Phase Limited, an indirect wholly-owned subsidiary of the Company as purchaser; and

(i) the counter-guarantee agreements dated 19 May 2006 and 28 June 2007 entered into by the PRC Subsidiary in relation to the charges of the Property.

6. LITIGATION

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

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with any member of the Enlarged Group which is not determinable by the Enlarged Group within one year without payment of compensation other than statutory compensation.

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

(a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

(b) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group since 31 December 2006, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Enlarged Group.

9. COMPETING INTERESTS

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

10. EXPERT AND CONSENT

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

Name	Qualification
Sichuan Junhe Law Firm	PRC legal adviser
RHL Appraisal Limited	Independent property valuer
Robert Chui & Co.	Certified Public Accountants

(b) None of Sichuan Junhe Law Firm, RHL Appraisal Limited and Robert Chui & Co. has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Each of Sichuan Junhe Law Firm, RHL Appraisal Limited and Robert Chui & Co. has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion or report in the form and context in which they are included.

(d) None of Sichuan Junhe Law Firm, RHL Appraisal Limited and Robert Chui & Co. had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

11. MISCELLANEOUS

(a) The registered office of the Company is located at Charendon House, 2 Church Street, Hamilton HM11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is at Suite 1511, No. 9 Queen's Road Central, Hong Kong.

(c) The Company Secretary of the Company is Mr. Li Chi Chung is a solicitor admitted in Hong Kong.

(d) The qualified accountant of the Company is Mr. Kam Leung Ming, who is a Certified Public Accountant in Hong Kong and a member of The Institute of Chartered Accountants In England and Wales.

(e) The branch share registrar and transfer office of the Company is Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

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

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company at Suite 1511, No.9 Queen's Road Central, Hong Kong, up to and including the date of the SGM:

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

(b) the consolidated audited annual reports of the Group for the two years ended 31 December 2005 and 2006 and the consolidated unaudited interim report of the Group for the six-month period ended 30 June 2007;

(c) the accountants' report prepared by Robert Chui & Co. on the Target Group, the text of which is set out in appendix II to this circular;

(d) the accountants' report prepared by Robert Chui & Co. in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in appendix III to this circular;

(e) the report and valuation certificate on property interest of the Group as at 31 December 2007 prepared by RHL Appraisal Limited, the text of which is set out in appendix IV to this circular;

(f) the letters of consent referred to under the paragraph headed "Experts and consent" in this appendix;

(g) a copy of the PRC legal opinion prepared by Sichuan Junhe Law Firm in relation to (i) the Target Group, including but not limited to the registered ownership of the Property and the maximum legal liabilities of the PRC Subsidiary; and (ii) the valuation report as set out in appendix IV to this circular;

(h) a copy of each of the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and

(i) a copy of each circular issued pursuant to the requirements set out in Chapter 14 and/or 14A which has been issued since 31 December 2006.

MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED

東 方 娛 樂 控 股 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 0009)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of Mandarin Entertainment (Holdings) Limited (the "**Company**") will be held on Friday, 28 March 2008 at 2:30 p.m. at Rooms 1801-2, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. "**THAT** the conditional sale and purchase agreement (the "**Agreement**") dated 25 January 2008 and the supplemental agreement (the "**Supplemental Agreement**") dated 5 February 2008 both entered into among Sino Step Inc. (the "**Purchaser**"), a wholly-owned subsidiary of the Company, as purchaser and Mr. Cheng Keung Fai and Ms. Lam Suet Chung (the "**Vendors**") as vendors in respect of (i) the sale and purchase of two (2) shares of HK$1.00 each (the "**Sale Shares**") in the share capital of Profit Source International Limited (the "**Target**"), representing its entire issued share capital as at the date of the Agreement and all obligations, liabilities and debts owing or incurred by the Target to the Vendors on completion of the Agreement for a total consideration of HK$240,000,000, a copy of the Agreement has been produced to the meeting marked "A" and signed for the purpose of identification by the chairman of the meeting,

   (a) the Agreement, the Supplemental Agreement and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

   (b) the allotment and issue of an aggregate of 175,000,000 new ordinary shares (the "**Consideration Shares**" and each a "**Consideration Share**") of HK$0.1 each in the share capital of the Company credited as fully paid at an issue price of HK$0.4 per Consideration Share to the Vendors pursuant to the Agreement be and is hereby approved;

   (c) the issue the convertible bonds (the "**Convertible Bonds**") in the principal amount of HK$70,000,000 to the Vendors and the allotment and issue of new ordinary shares (the "**Conversion Shares**") of HK$0.1 each in the share capital of the Company upon exercise of the conversion rights attached to the Convertible Bonds pursuant to the Agreement be and is hereby approved; and

* *For identification purpose only*

(d) any one or more directors of the Company (the "**Directors**") be and is/are hereby authorised to implement and take all steps and do all acts and things and execute all such documents (including under seal) which he/she/they consider necessary or expedient to give effect to the Agreement and the transactions contemplated thereunder including the allotment and issue of the Consideration Shares, the issue of the Convertible Bonds and the allotment and issue of Conversion Shares."

2. "**THAT** subject to the ordinary resolution no. 1 above being duly passed, the unconditional specific mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with the Consideration Shares be and is hereby approved".

3. "**THAT** subject to the ordinary resolution no. 1 above being duly passed, the unconditional specific mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with the Conversion Shares be and is hereby approved".

By order of the board of directors of
Mandarin Entertainment (Holdings) Limited
Wong Pak Ming
Chairman

Hong Kong, 12 March 2008

Registered Office:
Clarendon House
2, Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business:
Suite 1511
No 9 Queen's Road Central
Hong Kong

1. A member entitled to attend and vote at the meeting convened by the above notice may appoint one or more than one proxy to attend the meeting and vote on a poll instead of him. A proxy need not be a member of the Company.

2. A shareholder of the Company who has appointed more than one proxy shall only vote on a poll.

3. A form of proxy of the meeting is enclosed. If the appointer is a corporation, the form of proxy must be made under its common seal or, under the hand of an officer or attorney duly authorized on its behalf.

4. Where there are joint registered holders of any shares, any one of such persons may vote at the above meeting (or at any adjournment thereof), either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the above meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share alone be entitled to vote in respect thereof.

5. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.

6. To be valid, a form of proxy and the power of authority (if any) under which it is signed or a notarially certified copy of such power of authority must be deposited at the Company's branch share registrars in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or the adjourned meeting.